CHINA TIANRUI GROUP CEMENT COMPANY LIMITED

中國天瑞集團水泥有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1252

Interim Report 2018

Contents

Corporate Information

REGISTERED NAME OF THE COMPANY

China Tianrui Group Cement Company Limited

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited

STOCK CODE

01252

CHAIRMAN AND NON-EXECUTIVE DIRECTOR

Mr. Li Liufa ("Chairman Li")

EXECUTIVE DIRECTORS

Ms. Li Fengluan
Mr. Ding Jifeng
Mr. Xu Wuxue
Mr. Li Jiangming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Kong Xiangzhong
Mr. Wang Ping
Mr. Du Xiaotang

AUDIT COMMITTEE

Mr. Wang Ping *(Chairman)*
Mr. Kong Xiangzhong
Mr. Du Xiaotang

NOMINATION COMMITTEE

Mr. Kong Xiangzhong *(Chairman)*
Mr. Li Liufa
Mr. Wang Ping

REMUNERATION COMMITTEE

Mr. Du Xiaotang *(Chairman)*
Mr. Xu Wuxue
Mr. Kong Xiangzhong

PRINCIPAL BANKERS

Bank of China, Henan Branch
Industrial and Commercial Bank of China, Henan Branch
China Construction Bank, Henan Branch
Everbright Bank, Zhengzhou Branch
Huaxia Bank, Zhengzhou Branch
Bohai Bank
Shanghai Pudong Development Bank, Zhengzhou Branch

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Guangcheng Road East No. 63
Ruzhou City
Henan Province
PRC

Corporate Information

PLACE OF BUSINESS IN HONG KONG

Room 2005A, 20/F
Tower 2, Lippo Centre
89 Queensway
Admiralty, Hong Kong

COMPANY WEBSITE

http://www.trcement.com

JOINT COMPANY SECRETARIES

Mr. Li Jiangming
Ms. Ng Ching Mei

AUTHORIZED REPRESENTATIVES

Mr. Li Jiangming
Ms. Ng Ching Mei

CAYMAN ISLANDS SHARE REGISTRAR AND SHARE TRANSFER AGENT

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681, Grand Cayman
KY1-1111
Cayman Islands

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS

As to Hong Kong law

Sidley Austin
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Two International Finance Centre
Central
Hong Kong

As to PRC law

DeHeng Law Offices
12/F Tower B
Focus Place
19 Finance Street
Xicheng District
Beijing
PRC

HONG KONG SHARE REGISTRAR

Computershare Hong Kong
Investor Services Limited
Rooms 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

	For the six months ended 30 June 2018 RMB'000	2017 RMB'000	Percentage Change
Revenue	**4,306,626**	3,785,215	13.8%
Gross profit	**1,373,219**	1,173,977	17.0%
Profit	**565,286**	490,131	15.3%
Of which: Profit attributable to owners of the Company	**550,816**	489,474	12.5%
Basic earnings per share (RMB)	**0.19**	0.18	5.6%

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000	Percentage Change
Total assets	**23,765,031**	25,904,081	(8.3%)
Of which: Current assets	**9,173,267**	10,661,688	(14.0%)
Total liabilities	**13,263,974**	15,968,310	(16.9%)
Of which: Current liabilities	**9,846,336**	14,440,872	(31.8%)
Total equity	**10,501,057**	9,935,771	5.7%
Of which: Equity attributable to owners of the Company	**10,371,671**	9,820,855	5.6%

Management Discussion and Analysis

BUSINESS REVIEW

In the first half of 2018, the overall performance of the cement industry in China showed a trend of decreasing production volume with prices on a rise. China's cement production volume slightly decreased while the cement prices demonstrated a continuously upward trend. Due to the alternative production arrangements in the industry and the increasing effort in environmental protection monitoring, while the production volume and sales volume of the Group slightly dropped, the sales price increased significantly and the gross profit margin was also raised at the same time. A significant increase was recorded in the profits of the core business of the Group.

According to the statistics of National Bureau of Statistics, in the first half of 2018, China's cement production volume was 1 billion tons, representing a year-on-year decrease of 0.6%, among which:

— The cement production volume in the mid-southern region was 300 million tons, representing a year-on-year decrease of approximately 7.1%; among which the cement production volume in Henan province was 62.6 million tons, representing a year-on-year decrease of approximately 6.7%.

— The cement production volume in east China was 320 million tons, representing a year-on-year decrease of approximately 12.1%; among which the cement production volume in Anhui province was 58.0 million tons, representing a year-on-year decrease of approximately 1.3%.

  In comparison, in the first half of 2018, the Group sold approximately 10.3 million tons of cement in Henan and Anhui, representing a decrease of approximately 7.1% compared to the same period in 2017.

— The cement production volume in the northeastern region was 26.0 million tons, representing a year-on-year decrease of approximately 31.8%; among which the cement production volume in Liaoning province was 15.1 million tons, representing a year-on-year decrease of approximately 4.2%.

— The cement production volume in north China was 67.58 million tons, representing a year-on-year decrease of approximately 19.67%; among which the cement production volume in Tianjin was 2.63 million tons, representing a year-on-year increase of approximately 31.94%.

  In comparison, in the first half of 2018, the Group sold approximately 3.0 million tons of cement in Liaoning and Tianjin, representing an increase of approximately 4.5% compared to the same period in 2017.

In the first half of 2018, the Group sold approximately 0.4 million tons of clinker externally, a decrease of 0.4 million tons compared with 0.8 million tons in the same period of 2017. In the meantime, the clinker we produced was mainly used to meet the Group's internal needs of cement production.

In the first half of 2018, we recorded a revenue of RMB4,306.6 million, an increase of RMB521.4 million or 13.8% compared to the same period in 2017. We sold the cement products at an average price of RMB314.0 per ton, an increase of RMB56.1 per ton or 21.8% compared to the same period last year. Our gross profit margin increased from 31.0% of the same period in 2017 to 31.9% in 2018.

Business Environment

In the first half of 2018, the global political and economic environment was complex. Slowdown in growth, expected increase in inflation and tightened monetary policies were seen in major economies while trade protectionism was on the rise. In general, the Chinese economy was exposed to more unfavorable factors from the external environment.

In the first half of the year, the Chinese government responded to the complex environment by continuing to push forward the supply-side reform, deleveraging and the optimization and upgrade of the economic structure, as well as creating new momentum for economic growth. It also made gradual adjustments to adapt to the inevitable change of the Chinese economy from rapid growth to medium- to high-rate growth, taking advantage of the historic opportunities arising from the economic shift from scale expansion to quality and efficiency enhancement. In the first half of 2018, China maintained a stable growth with a gross domestic product ("GDP") growth rate of 6.8%, representing a slight decrease of 0.1 percentage point as compared with the corresponding period of last year. While industrial transformation and upgrade were accelerated, the contribution of consumption to economic growth was rising. New supply, new demand and new consumption increased significantly, and energy consumption per RMB10,000 of GDP was further reduced.

In the first half of 2018, as the effect of deleveraging was further demonstrated. China's investment in fixed assets (excluding rural households) grew by 6.0% year-on-year, representing a decrease of 1.2 percentage points as compared with the corresponding period of 2017. Investment in infrastructure (excluding electricity, heat, gas and water production and supply) increased by 7.3% year-on-year, representing a decrease of 13.8 percentage points as compared with the corresponding period of 2017. Sectors with less involvement from state-owned and state-controlled enterprises delivered relatively good performance, of which private investment in fixed assets grew by 8.4% year-on-year, representing an increase of 1.2 percentage points as compared with the corresponding period of 2017. China's investment in real estate development saw a year-on-year growth of 9.7%, representing an increase of 1.2 percentage points as compared with the corresponding period of last year. The economic growth momentum of the areas where the Group operates showed mixed performance as compared with the national average level, of which Henan Province and Liaoning Province, the Group's principal places of business, performed relatively well. As for the Group's non-principal places of business, Anhui Province achieved satisfactory results while Tianjin City delivered relatively poor performance. According to Henan Province Bureau of Statistics, the GDP growth rate of Henan Province was 7.8% in the first half of 2018, higher than the national average level by 1.0 percentage point; investment in fixed assets increased by 9.3%, higher than the national average level by 3.3 percentage points; investment in real estate development rose by 5.6%, lower than the national average level by 4.1 percentage points. According to Liaoning Province Bureau of Statistics, the GDP growth rate of Liaoning Province was 5.6% in the first half of 2018, lower than the national average level by 1.2 percentage points; investment in fixed assets increased by 12.1%, higher than the national average level by 6.1 percentage points; investment in real estate development rose by 15.5%, higher than the national average level by 5.8 percentage points. According to Anhui Province Bureau of Statistics, the GDP growth rate of Anhui Province was 8.3% in the first half of 2018, higher than the national average level by 1.5 percentage points; investment in fixed assets increased by 11.8%, higher than the national average level by 2.1 percentage points; investment in real estate development rose by 22.5%, higher than the national average level by 12.8 percentage points. According to Tianjin City Bureau of Statistics, the GDP growth rate of Tianjin City was 3.4% in the first half of 2018, lower than the national average level by 3.4 percentage points; investment in fixed assets decreased by 17.3%, lower than the national average level by 27 percentage points; investment in real estate development rose by 9.1%, lower than the national level by 0.6 percentage point.

In the first half of the year 2018, the Chinese government continued to consolidate the results of the battle for blue sky and firmly put forward the idea of "lucid waters and lush mountains are invaluable assets". While sparing no effort to eliminate backward production capacity and reduce wasted supply, it continued to implement the three sets of "ten measures" for the prevention and control of air, water and soil pollution. It strove to tackle air pollution by prompting the key industries to save energy and reduce emission. Meanwhile, it strengthened the prevention and control of water pollution at the main rivers and sea areas, as well as carrying out the major projects on ecological protection and restoration. Other measures include conducting centralized environmental protection monitoring, strictly handling non-compliant cases, enhancing accountability and raising pollutant emission standards. The stricter environmental protection policies and their tighter enforcement have set higher requirements for the cement industry, as well as providing opportunities for high-quality large cement enterprises to rise above the competition in a saturated market with similar products.

Cement Industry

In the first half of 2018, a sharp decline was seen in the growth rate of investment in infrastructure (excluding electricity, heat, gas and water production and supply industries) closely related to the demand for cement while the growth rate of investment in real estate development increased slightly, leading to a small decrease in the national demand for cement. However, the momentum in the second half of 2017 continued and cement prices remained high due to the significant results in supply-side control, the continuous reduction in new production capacity and the gradual decrease in cement production volume. At the same time, the costs of the industry increased to a certain extent due to the production-limiting factors such as environmental protection regulation, alternative production arrangements, energy conservation and emission reduction, as well as the price increase in coal and raw materials. In general, however, the overall profit of the industry increased sharply. According to the relevant data of the China Cement Association, in the first half of 2018, the cumulative cement production volume of China was 997 million tons, representing a year-on-year decrease of 0.64%. The average cement price of China reached RMB419 per ton (tax inclusive), which increased significantly year-on-year but remained stable as compared with the second half of 2017. Industry efficiency also saw a stable rapid growth, which is expected to reach a record high for the full year of 2018. In respect of production volume by region, the different regional characteristics remained unchanged as production volume was stable in the southern region and decreased in the northern region. The southwestern region recorded the fastest growth rate of 5.59% due to the great effort in poverty alleviation, which is followed by the mid-southern region with a growth rate of 1.34%. The northeastern, northwestern and northern regions showed relatively large decreases of 12.85%, 11.81% and 5.21%, respectively while the eastern region reported a slight decrease of 1.39% as affected by Jiangsu and Shandong. In particular, cement production volume of Henan Province, Liaoning Province, Anhui Province and Tianjin City amounted to approximately 63 million tons (a year-on-year decrease of approximately 6.73%), 15 million tons (a year-on-year increase of approximately 4.24%), 58 million tons (a year-on-year decrease of approximately 1.28%) and 3 million tons (a year-on-year increase of approximately 31.94%), respectively. In respect of inventory, the production-limiting measures, such as alternative production arrangements and environmental protection limitations, improved the overall demand and supply dynamics, resulting in a significantly lower inventory level as compared with last year. In respect of the control on new production capacity, according to the statistics of China Cement (中國水泥網), a total of four clinker production lines were newly put into operation in China in the first half of 2018, with total clinker production capacity remaining at 2 billion tons.

In the first half of 2018, the Chinese government continued to step up the effort to implement the environmental regulations and policies on ecological environmental protection, pollution prevention and control as well as energy conservation and emission reduction. Enormous pressure brought by "environmental protection monitoring" continued while the enforcement of laws on preventing and controlling water, soil, air and other major types of pollution was comprehensively carried out, which had a material impact on the main industrial enterprises. With the rapid increase in price of sandstone as a result of stringent environmental regulations, the Ministry of Industry and Information Technology and the Ministry of Environmental Protection of the PRC jointly issued the "Notice on the Implementation of Alternative Production Arrangements in F/W 2017–2018 for Certain Industries in the '2+26' Cities" (《關於「2+26」城市部分工業行業2017–2018年秋冬季開展錯峰生產的通知》), requiring the cement industry (including special cement but excluding grinding plants) to implement alternative production arrangements during the heat season in accordance with the relevant requirements of the "Notice on Further Promotion of Alternative Production Arrangements of Cement" (《關於進一步做好水泥錯峰生產的通知》) issued by the Ministry of Industry and Information Technology and the Ministry of Environmental Protection. Standardization Administration of the People's Republic of China eliminated composite Portland cement with strength grading of 32.5R (PC32.5R) by No. 3 Amendment. "Key points of National Standardization Working Plan of 2018" (《2018年全國標準化工作要點》) enhances the quality standard and level of traditional industry such as cement industry and promotes the resolution of excessive production capacity. Ministry of Industry and Information Technology issued and implemented the "Implementation Measures of Capacity Replacement in Steel and Iron, Cement and Glass Industry" (《關於鋼鐵水泥玻璃行業產能置換實施辦法的通知》) which states a more clear and strict restriction on capacity replacement. All of these have important impacts on the cement industry and the Group. It brings tremendous pressure and challenges and at the same time, promotes the elimination of backward production capacity and better and stronger large-scale cement enterprises.

FINANCIAL REVIEW

Revenue

For the first half of 2018, our total revenue was approximately RMB4,306.6 million, representing a year-on-year increase of RMB521.4 million or 13.8% over the same period of 2017. The cement segment recorded revenue of approximately RMB4,177.6 million in the Reporting Period, representing a year-on-year increase of RMB578.7 million or 16.1% over the same period of 2017. Sales revenue of our clinker products amounted to RMB129.0 million, representing a decrease of RMB57.3 million or 30.8% over the same period of 2017. In other words, 97.0% of our total revenue was generated from the sales of cement and 3.0% was from the sales of clinker. In the first half of 2017, the corresponding figures were 95.1% and 4.9%.

In the first half of 2018, we sold 13.3 million tonnes of cement, representing a decrease of 0.7 million tonnes over the same period of 2017 or a decrease of 4.7% year-on-year. The average selling price of cement increased by RMB56.1 per tonne from the same period of 2017, representing an increase of 21.8%. Furthermore, we sold 0.4 million tonnes of clinker in the first half of 2018, representing a decrease of 0.4 million tonnes over the same period of 2017 or a 46.8% decrease year-on-year. The decrease in sales volume of cement products was primarily due to the production limitation for environmental protection implemented in Henan Province where the Group operates and decrease in infrastructure and property investment.

In Henan and Anhui, we sold 10.3 million tonnes of cement, decreasing by 7.1% year-on-year. In Liaoning and Tianjin, we sold 3.0 million tonnes of cement, which was an increase of 4.5% year-on-year.

Cost of Sales

In the first half of 2018, we continued our efforts in reducing the impact of increasing price of rough coal on the unit production costs of cement and clinker by leveraging economies of scale and through centralized procurement. During the Reporting Period, our cost of sales was approximately RMB2,933.4 million, an increase of RMB322.2 million or 12.3% over the first half of 2017, mainly due to the increase in procurement price of rough coal and some of our raw materials.

Our cost of sales mainly consists of the costs of raw materials, coal and electricity. In the first half of 2018, our costs of raw materials, coal and electricity as a percentage of cost of sales were 35.6% (2017: 34.5%), 36.0% (2017: 35.8%) and 14.6% (2017: 16.3%), respectively. During the Reporting Period, our costs of raw materials, coal and electricity for the production of cement per tonne were RMB76.2 (2017: RMB61.1), RMB76.9 (2017: RMB63.5) and RMB31.1 (2017: RMB28.9) respectively, representing increases of RMB15.1, RMB13.4 and RMB2.3 respectively over the same period of 2017.

Gross Profit and Gross Profit Margin

Our gross profit was approximately RMB1,373.2 million in the first half of 2018, representing an increase of RMB199.2 million or 17.0% from approximately RMB1,174.0 million in the same period of last year. Our gross profit margin increased to 31.9% in the first half of 2018 from 31.0% in the same period of 2017. The primary reason for the increase of gross profit margin was that the increase of cement price was more substantial than the increase of costs for the year 2018.

Other Income

Other income was approximately RMB281.1 million in the first half of 2018, representing an increase of RMB74.6 million or 36.1% from approximately RMB206.5 million in the same period of 2017. The increase was primarily due to the increases in value-added tax refund income and interest income from bank deposits and the profit growth in the sales of limestone and aggregate businesses.

Selling and Distribution Expenses

Our selling and distribution expenses were approximately RMB140.0 million in the first half of 2018, representing an decrease of RMB21.2 million or 13.2% from approximately RMB161.2 million in the first half of 2017. The decrease was primarily due to the decline in sales volume of sacked cement.

Administrative Expenses

Administrative expenses were approximately RMB162.1 million in the half year ended 30 June 2018, representing a increase of RMB11.8 million or 7.8% from approximately RMB150.3 million in the half year ended 30 June 2017. The increase in administrative expenses for the first half of this year compared to the same period last year was mainly due to the acquisition of two subsidiaries, namely Yongan Cement and Xindeng Cement in June 2017 and the inclusion of their financial statements in the scope of merger.

Finance Costs

Finance costs were approximately RMB571.7 million in the first half of 2018, representing an increase of RMB122.4 million or 27.2% from RMB449.3 million in the first half of 2017. The increase was attributable to the growth in interest rates for borrowings and bonds of the Company caused by the changes in the finance environment.

Profit before Tax

As a result of the foregoing, our profit before tax was approximately RMB749.3 million in the first half of 2018, representing an increase of approximately RMB124.7 million or approximately 20.0% from approximately RMB624.6 million in the first half of 2017.

Income Tax Expenses

Our income tax expenses were approximately RMB184.0 million in the first half of 2018, representing an increase of RMB49.5 million or 36.8% from approximately RMB134.5 million in the first half of 2017, which was mainly due to the increase in profit before tax.

Profit Attributable to Owners of the Company and Net Profit Margin

As a result of the foregoing, our profit attributable to owners of the Company in the first six months of 2018 was approximately RMB550.8 million, representing an increase of RMB61.3 million or 12.5% from approximately RMB489.5 million in the first six months of 2017. Net profit margin was 13.1% in the first six months of 2018, representing an increase of 0.2% from the same period of 2017.

FINANCIAL AND LIQUIDITY POSITION

Trade and Other Receivables

Trade and other receivables decreased from RMB3,642.9 million as at 31 December 2017 to RMB3,583.6 million as at 30 June 2018, mainly due to the decreases in bills receivables.

Inventories

Inventories increased from RMB949.3 million as at 31 December 2017 to RMB951.5 million as at 30 June 2018, and inventories in the first half of 2018 remained basically the same as compared with the corresponding period of the last year.

Cash and Cash Equivalents

Cash and bank balance increased from RMB830.7 million as at 31 December 2017 to RMB972.4 million as at 30 June 2018, primarily due to the increase in cash inflows from operations during the Reporting Period.

Trade and other payables

Trade and other payables decreased from RMB2,928.0 million as at 31 December 2017 to RMB2,133.4 million as at 30 June 2018, mainly due to the decrease in bills payables and other payables.

Borrowings

Total borrowings and bonds (including corporate bonds) of the Group was approximately RMB10,270.8 million as at 30 June 2018, a decrease of approximately RMB1,627.0 million from RMB11,897.7 million as at 31 December 2017. Borrowings due within one year and short-term bonds (including mid-term bonds due within one year) decreased from RMB10,750.8 million as at 31 December 2017 to RMB7,226.0 million as at 30 June 2018. Borrowings due after one year (including mid-term, long-term bonds and corporate bonds) increased from RMB1,146.9 million as at 31 December 2017 to RMB3,044.8 million as at 30 June 2018. There were debts at fixed interest rates of approximately RMB2,621.9 million to be due within one year.

The Group has been repaying the debts in accordance with the terms of the loan agreements. As at 30 June 2018, we had unutilized banking facilities of approximately RMB1,328.0 million.

Principal Sources of Liquidity

The Group's principal sources of liquidity have historically been cash generated from operations and borrowings or debts from banks and others. We have historically used cash from such sources for working capital, production facility expansions, other capital expenditures and debt service requirements. We anticipate these uses will continue to be our principal uses of cash in the future. We expect our cash flow will be sufficient to fund our ongoing business requirements. Meanwhile, we have decided to further broaden our financing channel to improve our capital structure.

GEARING RATIO, CURRENT RATIO, QUICK RATIO, DEBT EQUITY RATIO

As at 30 June 2018, our gearing ratio was 55.8%, representing a decrease of 5.8% from 61.6% as at 31 December 2017. As at 30 June 2018, our current ratio was 0.93, representing an increase of 26.2% from 0.74 as at 31 December 2017; our quick ratio was 0.84, representing an increase of 24.2% from 0.67 as at 31 December 2017; our debt equity ratio was 1.26, representing a decrease of 0.35 or 21.4% from 1.61 as at 31 December 2017.

Notes:

1. Gearing ratio = total liabilities/total assets x 100%
2. Current ratio = current assets/current liabilities
3. Quick ratio = (current assets − inventory)/current liabilities
4. Debt equity ratio = Total liabilities/equity interests, of which equity interests include minority interests or non-controlling interests

NET GEARING RATIO

As at 30 June 2018, our net gearing ratio was 58.8%, representing a decrease of 18.6 percentage points from 78.1% as at 31 December 2017. Net gearing ratio is calculated by dividing net debts by equity attributable to owners of the Company.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure during the first half of 2018 was approximately RMB56.4 million (for the first half of 2017: approximately RMB54.1 million) and capital commitment as at 30 June 2018 was approximately RMB462.0 million (as at 31 December 2017: approximately RMB470.7 million). Both capital expenditure and capital commitment were mainly related to the construction of production facilities for cement and aggregate businesses and the purchase of machinery, office equipment, investment in construction in progress and mining rights. The Group funded capital expenditure by cash generated from operations and bank and other borrowings.

PLEDGE OF ASSETS

As at 30 June 2018, the carrying amount of assets of the Group pledged to secure bank borrowings amounted to approximately RMB3,726.4 million (as at 31 December 2017: approximately RMB4,143.7 million).

CONTINGENT LIABILITIES

As at 30 June 2018, other than the contingent liabilities arising from the provision of mutual guarantees to related parties amounting to approximately RMB1,188.0 million (31 December 2017: RMB1,710.0 million) pursuant to the 2017 Framework Agreement as disclosed in the circular of the Company dated 19 July 2017, we did not have other contingent liabilities.

SIGNIFICANT INVESTMENTS, ACQUISITION OR DISPOSAL

For the six-month period ended 30 June 2018, the Group has not involved in any significant investment, acquisition or disposal.

MATERIAL LITIGATION

For the six-month period ended 30 June 2018, the Group was not involved in any material litigation or arbitration. To the best of the Directors' knowledge and belief, there was no outstanding or pending litigation or claim of material importance against the Group.

MARKET RISKS

Exchange Rate Risk

Certain bank balances, bonds and debts and debentures of the Group are denominated in Hong Kong Dollar ("HK$") or United States Dollar ("US$"), therefore exchange rate movement exposure is incurred. Currently, the Group does not have any foreign currency hedge strategy in relation to foreign currency exposure. However, the management will closely monitor exchange rate risk in HK$ and US$ and will consider to hedge material currency exposure if necessary.

Interest Rate Risk

We are exposed to interest rate risk resulting from our long-term and short-term borrowings. We review our borrowing profiles regularly to monitor our interest rate risk, and will consider hedging significant interest rate exposure when necessary. As our exposure to interest rate risk relates primarily to our interest-bearing bank loans, we keep our borrowings at variable rates and seek to minimize fair value interest rate risk, and to manage our interest rate risk exposure from all of our interest-bearing loans through the use of a mix of fixed and variable rates.

Liquidity Risk

We have established an appropriate liquidity risk management system of our short, medium and long-term funding and liquidity management requirements. We manage the liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in (both actual and forecast) cash flows. Our management also monitors the utilization of bank borrowings and ensures compliance with loan covenants.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group had 7,609 employees (as at 31 December 2017: 7,822). As at 30 June 2018, staff costs (including remuneration) was approximately RMB205.4 million (for the same period of 2017: approximately RMB187.0 million). The remuneration policies, bonus and training programs for employees of the Group were implemented on an ongoing basis according to the policies disclosed in the 2017 Annual Report of the Company and no change has been made during the six-month period ended 30 June 2018.

PROSPECTS

The cement industry still faces different challenges in 2018, which includes the continued implementation of measures, such as alternative production arrangements, environmental protection monitoring, production-limiting, suspension of production and kilns, etc. internally, together with the harsh external economic environment and the constant trade war between China and the United States, leading the growth of GDP to decrease 2.6 percentage points as compared to the same period last year. The Group will harness its own operation and management advantages, pay close attention to the market change and seize opportunities in order to strengthen our leading market position in Henan and Liaoning; meanwhile, we will refine our management, enhance production efficiency, carry out regional market integration and synergy to continuously maintain a certain competitiveness and leading position in Henan and Liaoning cement markets.

Disclosure of Interests

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of our Directors and chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of Director	Capacity/Nature of Interests	Total number of shares	Approximate percentage of shareholding (%)
Mr. Li Liufa[(1)]	Interest of corporation controlled by the director/ Long position	1,986,984,822[(2)]	67.62
Ms. Li Fengluan[(1)]	Interest of corporation controlled by the director/ Long position	1,986,984,822[(2)]	67.62

(1) Yu Kuo Company Limited ("Yu Kuo") is 51.25% owned by Holy Eagle Company Limited ("Holy Eagle") and 48.75% owned by Yu Qi Company Limited ("Yu Qi") by equity interests. Each of Holy Eagle and Yu Qi are wholly owned by Tianrui (International) Holding Company Limited ("Tianrui International"), which is wholly owned by Tianrui Group Company Limited ("Tianrui Group"). Tianrui Group is 70% owned by Mr. Li Liufa and 30% owned by Ms. Li Fengluan, the spouse of Mr. Li Liufa respectively. Mr. Li Liufa and Ms. Li Fengluan are deemed to be interested in the shares held by Yu Kuo.

(2) As at 30 June 2018, Yu Kuo pledged its 654,247,000 shares (approximately 22.27% of the issued share capital of the Company) held in the Company to financial institutions in order to secure loans.

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, to the best knowledge of the Directors and the senior management of the Company, the persons who had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of the SFO were as follows:

Name	Capacity/Nature of interests	Total number of shares	Approximate percentage of shareholding (%)
Yu Kuo	Beneficial owner/Long position[(1)]	1,986,984,822[(2)]	67.62
Tianrui Group	Interest of corporation controlled by the substantial shareholder/Long position[(1)]	1,986,984,822[(2)]	67.62
Tianrui International	Interest of corporation controlled by the substantial shareholder/Long position[(1)]	1,986,984,822[(2)]	67.62
Holy Eagle	Interest of corporation controlled by the substantial shareholder/Long position[(1)]	1,986,984,822[(2)]	67.62
Yu Qi	Interest of corporation controlled by the substantial shareholder/Long position[(1)]	1,986,984,822[(2)]	67.62
Mr. Li Liufa	Interest of corporation controlled by the director/Long position[(1)]	1,986,984,822[(2)]	67.62
Ms. Li Fengluan	Interest of corporation controlled by the director/Long position[(1)]	1,986,984,822[(2)]	67.62
The Export-Import Bank of China	Party with security interest over the shares/ Long position[(2)]	515,000,000	17.53
Ministry of Finance of the PRC	Interest of controlled corporation/ Long position[(2)]	515,000,000	17.53
PA Investment Funds SPC — PA Greater China Industrial Opportunities Fund Segregated Portfolio	Beneficial owner/Long position	237,600,000	8.09
Best Ego Limited	Party with security interest over the shares/ Long position	300,000,000	10.21
China Huarong Asset Management Co., Ltd.	Interest of controlled corporation/ Long position	420,747,000	14.32

Name	Capacity/Nature of interests	Total number of shares	Approximate percentage of shareholding (%)
China Huarong International Holdings Limited	Interest of controlled corporation/ Long position	300,000,000	10.21
Right Select International Limited	Interest of controlled corporation/ Long position	300,000,000	10.21
Haitong International Financial Solutions Limited	Party with security interest over the shares/ Long position	167,001,000	5.68
	Short position	1,000	0.00
Haitong International Holdings Limited	Interest of controlled corporation/ Long position	167,001,000	5.68
	Short position	1,000	0.00
Haitong International Securities Group Limited	Interest of controlled corporation/ Long position	167,001,000	5.68
	Short position	1,000	0.00
Haitong Securities Co., Limited	Interest of controlled corporation/ Long position	167,001,000	5.68
	Short position	1,000	0.00

(1) Yu Kuo is 51.25% and 48.75% owned by Holy Eagle and Yu Qi respectively by equity interests. Holy Eagle and Yu Qi are wholly owned by Tianrui International respectively, whereas Tianrui International is wholly owned by Tianrui Group. Tianrui Group is 70% and 30% owned by Mr. Li Liufa and Ms. Li Fengluan, the spouse of Mr. Li Liufa respectively. Mr. Li Liufa, Ms. Li Fengluan, Tianrui Group, Tianrui International, Holy Eagle and Yu Qi are respectively deemed to be interested in the shares held by Yu Kuo.

(2) As at 30 June 2018, Yu Kuo pledged its 654,247,000 shares (approximately 22.27% of the issued share capital of the Company) held in the Company to financial institutions in order to secure loans.

Saved as disclosed above, as at 30 June 2018, no other person had any interest or short position which shall be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2018 was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

During the period ended 30 June 2018, save as disclosed in the sections under "Directors' Interests in Competing Businesses" and "Continuing Connected Transactions and Connected Transactions", no contract of significance in relation to the Group's business to which the Company, or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly subsisted at the closing or any time during the period.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the period ended 30 June 2018, save as (1) disclosed by the prospectus regarding the indirect shareholding of Chairman Li at Ruiping Shilong Cement Company Limited ("Ruiping Shilong") for its engaging in the businesses of clinker production and sales in certain regions of Henan province; and (2) the indirect equity interests held by Chairman Li at China Shanshui Cement Group Limited ("Shanshui Cement"), which is listed on The Stock Exchange of Hong Kong Limited with the stock code as 691.HK and engages in the clinker and cement production in the PRC, none of the Directors or Controlling Shareholders (as defined in the Listing Rules) was interested in any business which competes or is likely to compete (directly or indirectly) with the business of the Group. The acquisitions of the equity interests at Shanshui Cement had been approved in accordance with the Amended Non-competition Deed (for details please refer to the circular dated 31 October 2014 and approved on the Company's extraordinary general meeting held on 17 November 2014).

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 12 December 2011 (the "Adoption Date"). The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other schemes adopted shall not exceed 3%, which is 72,027,000 shares ("Scheme Mandate Limit") of the issued shares of the Company (or its subsidiaries) as at the Listing Date, whereas it had not exceeded 3% of the issued shares of the Company on 30 June 2018. The purpose of such scheme is to provide person(s) and parties working for the interests of the Group with an opportunity to obtain an equity interest in our Company, thus linking their interests with the interests of our Group and thereby providing them with an incentive to work better for the interests of our Group. According to the Share Option Scheme, the Directors may at their absolute discretion invite all Directors, any employee (whether full-time or part-time), any consultant or adviser of or to our Company or our Group (whether on an employment or contractual or honorary basis and whether paid or unpaid), who, in the discretionary consideration by the Board, have contributed to our Company or our Group to participate in the Share Option Scheme of the ordinary shares of the Company. Offers of the grant of the Options shall be made to the Eligible Person by the Company in written form (as may be determined by the Board from time to time). The Eligible Person may accept the offer within 21 days from the date of offer (or such other period as may be determined by the Board). When the duplicate letter comprising acceptance of the Option is duly signed by the Eligible Person, it should be submitted together with the remittance of HK$1 in favor of our Company (as a consideration for the grant irrespective of the number of Shares in respect of which the Option is accepted) and hence the offer shall be deemed as accepted. The subscription price in respect of any particular Option (the "Subscription Price") shall be such price as the Board may at its absolute discretion determine at the time of the grant of the relevant Option, but in any case the Subscription Price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Date of Grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the Date of Grant; and (iii) the nominal value of a Share. The period within which the options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date the offer has been made to the grantees (the "Option Period"). All outstanding options shall lapse when the Option Period expires, the employment of the holder ceases or where the holder is no longer a member of the Group. Where there are options to be granted and yet to be exercised, the maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 30% (the "Overall Upper Limit of the Scheme") of the shares in issue from time to time. The total number of Shares issued and to be issued upon exercise of the Options, in any 12-month period, granted under the Share Option Scheme or any other share option schemes adopted by the Company to such Eligible Person must not exceed 1% of the Shares in issue at such time. In case of the further grant of the Option leading to the number of shares exceeding 1%, approvals from the shareholders must be obtained, whereas the relevant participants and their associates must be abstained from voting.

As at 30 June 2018, the Company had not been under any circumstances of granting any share options under the Share Option Scheme or 3% of the shares in issue of the total number of shares to be issued in the Scheme.

Corporate Governance and Other Important Information

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. The principle of the Company's corporate governance is to implement effective internal control measures and to increase the transparency of the Board and accountability to all shareholders.

For the period of six months ended 30 June 2018, the Company had been applying the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code to regulate its corporate governance practice. Other than those disclosed in this section, the Company had been in compliance with all code provisions set out in the Corporate Governance Code during the period of six months ended 30 June 2018.

Given the resignation of the chief executive officer of the Company on 1 December 2015, the Company has not yet appointed a new chief executive officer up to the moment. The Company will actively seek a new chief executive officer. In the meantime, the Board of the Company established an Executive Committee, which was composed of three executive Directors. The Executive Committee is in charge of the daily operation of the major businesses of the Group, the Executive Committee members do not include the chairman of the Board, and this will ensure that the authority is not to be concentrated in a person.

PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER

As disclosed in the announcement of the Company dated 22 January 2018, on 22 January 2018, Yu Kuo Company Limited, the controlling shareholder had pledged 42,247,000 shares in the share capital of the Company to a lender in order to secure a bank loan in an aggregate amount of US$30,000,000 (or equivalent amount in Hong Kong dollars). Yu Kuo has pledged an aggregate of 654,247,000 shares of the Company, represented approximately 22.27% of the issued share capital of the Company as at the date of the interim report.

COMPLIANCE WITH MODEL CODE BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Directors are reminded of their obligations under the Model Code on a regular basis. Having made specific enquiry with the Directors, all of them confirmed that they had complied with the required standards set out in the Model Code during the period of six months ended 30 June 2018.

INFORMATION RELATED TO CHANGES OF DIRECTORS

Pursuant to the Rule 13.51B of the Listing Rules, the information of the changes of Directors was set out as follows: Ms. Li Fengluan was appointed as an Executive Director of the Company with effect from 18 January 2018; Mr. Li Heping resigned as a non-executive Director of the Company with effect from 18 January 2018; Mr. Yang Yongzheng resigned as a non-executive Director of the Company with effect from 15 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the period of six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONTINUING CONNECTED TRANSACTIONS AND CONNECTED TRANSACTIONS

For the six months ended 30 June 2018 and as at the date of this report, the Group has entered into and been involved in the following connected transactions or continuing connected transactions (as defined under the Listing Rules).

(a) Purchase of Clinker and Sale of Limestone

Reference is made to the Company's announcement dated 18 December 2017 which contains details of the transactions disclosed herein. Unless stated otherwise, capitalized terms used in this paragraph (a) shall have the same meanings as those used in the announcement referred to above.

On 18 December 2017, Tianrui Cement Group Company Limited ("Tianrui Cement"), a wholly owned subsidiary of the Company, and Pingdingshan Ruiping Shilong Cement Company Limited ("Ruiping Shilong"), a company in which Mr. Li Liufa ("Chairman Li") controls more than 30% of the voting power at its general meetings' entered into the Clinker Supply Framework Agreement. The transactions under the Clinker Supply Framework Agreement constitute continuing connected transactions under the Listing Rules.

Pursuant to the Clinker Supply Framework Agreement, the aggregate annual caps of the transactions under the agreement are RMB300 million, RMB300 million and RMB300 million for each of the three years ending on 31 December 2017, 2018 and 2019 respectively.

For the six months ended 30 June 2018, Tianrui Cement purchased clinker from Ruiping Shilong with transaction value of approximately RMB157.2 million.

(b) Mutual Guarantees

Reference is made to the Company's announcement dated 11 May 2017 which contains details of the transactions disclosed herein. Unless stated otherwise, capitalized terms used in this paragraph (b) shall have the same meanings as those used in the announcement referred to above.

On 11 May 2017, the Company and Tianrui Group Company Limited ("Tianrui Group"), a company controlled by Chairman Li, entered into a framework agreement in relation to the provision of mutual guarantees (the "Framework Agreement"). The transactions under the Framework Agreement constitute continuing connected transactions under the Listing Rules.

During the period from 11 May 2017 to 31 December 2017 and for the years ended 31 December 2018 and 2019, the maximum daily balance of the Tianrui Group Guarantee (i.e the guarantees provided by Tianrui Group including its subsidiaries to the Company including its subsidiaries) are RMB7,000 million. During the period from 11 May 2017 to 31 December 2017 and for the years ended 31 December 2018 and 2019, the maximum daily balance of the Company Guarantee (i.e the guarantees provided by the Company including its subsidiaries to Tianrui Group including its subsidiaries) are RMB3,000 million.

As of 30 June 2018, according to the Framework Agreement and as approved by a special committee, the Company (including its subsidiaries) had currently accumulated guarantees of approximately RMB1,190 million as undertaken to Tianrui Group (including its subsidiaries), while Tianrui Group (including its subsidiaries) had currently accumulated guarantees of approximately RMB5,110 million as undertaken to the Company (including its subsidiaries).

(c) Deposit and financial services

Refence is made to the announcement of the Company dated 12 December 2017 regarding the details of the transaction mentioned in this paragraph. Unless otherwise stated, meaning of the terms used in paragraph (c) shall have the same meaning used in the announcement aforementioned.

On 6 October 2017, Tianrui Cement, a wholly owned subsidiary of the Company, and Tianrui Group Finance Company Limited ("Tianrui Finance", Chairman Li controls over 30% of voting rights at the general meeting of the company) entered into the Deposit and Financial Services Agreement. The transactions under the Deposit and Financial Services Agreement constitute continuing connected transactions under Hong Kong Listing Rules.

Pursuant to the Deposit and Financial Services Agreement: 1) the annual caps of the Tinrui Cement's deposits in Tianrui Finance were RMB700,000,000, RMB1,000,000,000 and RMB1,000,000,000 for the three years ended 31 December 2017, 2018 and 2019, respectively; 2) the annual caps of the credit services provided by Tianrui Finance to Tianrui Cement were RMB1,500,000,000, RMB2,000,000,000 and RMB2,500,000,000 for the three years ended 31 December 2017, 2018 and 2019, respectively; 3) Tianrui Finance would provide collection and payment services and other relevant clearing and settlement services for Tianrui Cement and its subsidiaries for free. Tianrui Finance shall ensure that its settlement services system operates safely which protects the security of funds and control the risk of assets and liabilities; 4) If Tianrui Finance provides any other financial services as approved by China Banking Regulatory Commission to Tianrui Cement and its subsidiaries, Tianrui Finance and Tianrui Cement will enter into a separate agreement, in accordance with the Financial Services Agreement and the requirements of the Listing Rules. The fees so charged shall not be higher than the rates for the same type of services of the same period offered by any financial institutions for the same type of services in PRC.

As of 30 June 2018, the amount of Tianrui Cement's deposits placed with Tianrui Finance was RMB57.5 million, while the balance of unsecured loans provided by Tianrui Finance to Tianrui Cement was RMB200 million.

INTERIM DIVIDEND

The Directors of the Company did not recommend the declaration of any interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

REVIEW OF FINANCIAL INFORMATION

The audit committee of the Board of the Company has discussed with the Company's management and reviewed the interim results of the Group for the six months ended 30 June 2018. The financial information in the consolidated financial statements of the interim results have not been audited or reviewed by the auditors of the Company.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	4, 5	**4,306,626**	3,785,215
Cost of sales		**(2,933,407)**	(2,611,238)
Gross profit		**1,373,219**	1,173,977
Other income	6	**281,097**	206,536
Other gains and losses	7	**(23,570)**	17,348
Selling and distribution expenses		**(139,965)**	(161,212)
Administrative expenses		**(162,073)**	(150,320)
Other expenses		**(7,728)**	(12,458)
Finance costs	8	**(571,667)**	(449,255)
Profit before tax		**749,313**	624,616
Income tax expense	9	**(184,027)**	(134,485)
Profit and total comprehensive income for the period	10	**565,286**	490,131
Profit and total comprehensive income for the period attributable to:			
Owners of the Company		**550,816**	489,474
Non-controlling interests		**14,470**	657
		565,286	490,131
Earnings per share			
Basic (RMB)	11	**0.19**	0.18

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**11,552,592**	11,959,295
Deposits and prepayments	14	**816,263**	1,017,138
Prepaid lease payments		**837,361**	872,780
Mining rights		**623,273**	628,845
Goodwill		**307,642**	307,642
Other intangible assets		**4,583**	4,989
Interest in an associate		**265,416**	262,419
Deferred tax assets		**184,634**	189,285
		14,591,764	15,242,393
CURRENT ASSETS			
Inventories		**951,508**	949,263
Trade and other receivables	15	**3,583,561**	3,642,912
Amounts due from an associate	17	**540,516**	625,992
Amounts due from the ultimate holding company		**—**	1,212,344
Pledged bank balances	16	**3,125,271**	3,400,433
Cash and bank balances	18	**972,411**	830,744
		9,173,267	10,661,688
CURRENT LIABILITIES			
Trade and other payables	19	**2,133,374**	2,927,998
Operating contract liabilities		**196,060**	320,718
Mid-term debentures — due within one year	21	**1,898,896**	2,369,828
Long-term corporate bonds — due within one year	22	**995,950**	2,998,515
Borrowings — due within one year	20	**4,331,184**	5,382,423
Current tax liabilities		**269,938**	418,130
Financial guarantee contracts		**20,934**	23,260
		9,846,336	14,440,872
NET CURRENT LIABILITIES		**(673,069)**	(3,779,184)
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,918,695**	11,463,209

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital	23	24,183	24,183
Share premium and reserves		10,347,488	9,796,672
Equity attributable to owners of the Company		10,371,671	9,820,855
Non-controlling interests		129,386	114,916
TOTAL EQUITY		10,501,057	9,935,771
NON-CURRENT LIABILITIES			
Borrowings — due after one year	20	977,160	1,074,662
Long-term corporate bonds	22	2,067,595	72,305
Deferred tax liabilities		191,554	195,346
Deferred income		161,840	166,132
Provision for environmental restoration		19,489	18,993
		3,417,638	1,527,438
		13,918,695	11,463,209

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Attributable to owners of the Company									
	Issued capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note i)	Statutory reserve fund RMB'000 (Note ii)	Other reserve RMB'000 (Note iii)	Revaluation reserve RMB'000 (Note iv)	Retained earnings RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2017	19,505	4,640	789,990	523,216	1,039,916	31,768	5,349,337	7,758,372	(118,682)	7,639,690
Profit for the period and total comprehensive income	—	—	—	—	—	—	489,474	489,474	656	490,130
Issue of shares to acquire subsidiaries	4,678	914,322	—	—	(142,116)	—	—	776,884	372,041	1,148,925
At 30 June 2017	24,183	918,962	789,990	523,216	897,800	31,768	5,838,811	9,024,730	254,015	9,278,745
At 1 January 2018	**24,183**	**1,066,648**	**789,990**	**905,211**	**1,033,949**	**31,768**	**5,969,106**	**9,820,855**	**114,916**	**9,935,771**
Profit for the period and total comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**	**550,816**	**550,816**	**14,470**	**565,286**
At 30 June 2018	**24,183**	**1,066,648**	**789,990**	**905,211**	**1,033,949**	**31,768**	**6,519,922**	**10,371,671**	**129,386**	**10,501,057**

Notes:

i. Capital reserve represents the excess of capital injection over the registered capital of Tianrui Cement Group Company Limited (the "Tianrui Cement").

ii. According to the relevant requirements in the memorandum of the People's Republic of China (the "PRC") subsidiaries, a portion of their profits after taxation is transferred to statutory reserve fund. The transfer to this fund must be made before the distribution of dividend to the equity owners. The statutory reserve fund can be used to make up previous years' losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.

iii. Pursuant to an equity transfer agreement with non-controlling interest of a subsidiary, Tianrui Cement acquired the remaining interest in a subsidiary at a consideration of RMB3,000,000 in 2010. Other reserve represents the difference between the consideration paid by Tianrui Cement and the carrying amount of non-controlling interests being acquired. In addition, it also includes the reserve arising from the reorganization completed on 8 April 2011.

iv. The revaluation reserve represents the revaluation surplus of previously held interests in associates of Tianrui Cement recognized directly in equity when Tianrui Cement acquired additional interests in those entities and obtained control.

v. The China Tianrui Group Cement Company Limited (the "Company") was incorporated on 7 February 2011 and became the ultimate holding company of Zhong Yuan Cement Company Limited ("Zhong Yuan Cement") and China Tianrui (Hong Kong) Company Limited ("Tianrui HK") and Tianrui Cement and its subsidiaries (collectively referred to as the "Group") on 8 April 2011. As part of reorganization, Yu Kuo Company Limited applied a bridging loan in the net amount of US$87,433,333 to pay up 474,526 shares. The amount of US$87,433,333 (equal to approximately RMB565,516,000) in excess of the par value of 474,526 shares was recognized in share premium upon the completion of the reorganization on 8 April 2011.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	**1,288,834**	1,266,022
Investing activities		
Interest received	**33,838**	12,988
Addition of property, plant and equipment	**(65,657)**	(65,752)
Increase in prepaid lease payments	**8,280**	—
Proceeds from disposal of property, plant and equipment	**16,571**	3,365
Changes of deposits paid for acquisition of business, property, plant and equipment and prepaid lease payments	**200,875**	511,883
(Increase) decrease in restricted bank balances	**(275,162)**	495,017
Net cash (used in) from investing activities	**(81,255)**	957,501
Financing activities		
Interest paid	**(571,667)**	(449,255)
Repayment of borrowings	**(3,609,245)**	(4,107,557)
New borrowings raised	**3,615,000**	2,784,000
Repayment of finance lease obligations	**—**	(28,861)
Repayment of short-term debenture	**(500,000)**	—
Net cash used in financing activities	**(1,065,912)**	(1,801,673)
Increase in cash and cash equivalents	**141,667**	421,850
Cash and cash equivalents at beginning of year	**830,744**	726,178
Cash and cash equivalents at end of the year represented by cash and bank balances	**972,411**	1,148,028

Notes to Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

1. GENERAL INFORMATION

China Tianrui Group Cement Company Limited (the "Company") is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 7 February 2011. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 23 December 2011. The registered office of the Company is Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and its principal place of business is located at No. 63, Guangcheng East Road, Ruzhou City, Henan 467500, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of cement and clinker.

The consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2018, the Group's current liabilities exceeded its current assets by RMB673,069,000. The Group's current liabilities mainly included trade and other payables, contract liabilities, debentures and borrowings.

In view of these circumstances, the Directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis. In the opinion of the Directors of the Company, the Group should be able to continue as a going concern in the coming twelve months taking into consideration of various measures to improve its financial position which include, but are not limited to, the following:

(i) Unutilized banking facilities of RMB1,328,000,000 in aggregate which have been obtained before 30 June 2018;

(ii) Expected generated funds of the Group's operation in the next 12 months.

The Directors of the Company are satisfied that the Group is able to meet in full its financial obligations as they fall due in the foreseeable future and therefore the consolidated financial statements are prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from the application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2017.

3. PRINCIPAL ACCOUNTING POLICIES — continued

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures.

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The main revenue of the Group are sales of cement and clinker.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue and IAS 11 Construction Contracts and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers — continued

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 — continued

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Variable consideration

For contracts that contain variable consideration (to specify), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers — continued

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 — continued

Variable consideration — continued

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The directors of the Company assessed the transition to IFRS15 has no material impact on the Group's accumulated losses at 1 January 2018. At the date of initial application, advances from customers amounted to RMB320,718,000 were reclassified to contact liabilities.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts).

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — continued

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Classification and measurement of financial assets — continued

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments/receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments/receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments/receivables. The amounts that are recognised in profit or loss are the same as the carrying amount of these debt instruments/receivables if measured at amortised cost. When these debt instruments/receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the FVTOCI reserve.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — continued

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, other receivables and lease receivables, contract assets and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings (should tailor to reporting entity's specific facts and circumstances).

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — continued

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — continued

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Significant increase in credit risk — continued

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For financial guarantee contracts or loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — continued

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 — continued

Measurement and recognition of ECL — continued

Except for investments in debt instruments/receivables that are measured at FVTOCI and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments/receivables.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, contract assets, lease receivables, loan commitments and financial guarantee contracts for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.2.2.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

3. PRINCIPAL ACCOUNTING POLICIES — continued

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments — continued

3.2.2 Summary of effects arising from initial application of IFRS 9

Below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

Financial assets at FVTPL

Option granted by Tianrui Group to acquire 28.16% equity interests in Shanshui Cement that are linked to and must be settled by delivery of unquoted equity instruments whose fair value cannot be reliably measured, and such instruments are measured at cost less impairment under IAS 39. However, upon initial application of IFRS 9, the option will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all contract assets, trade receivables and lease receivables. To measure the ECL, contract assets and trade receivables have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables are a reasonable approximation of the loss rates for the contract assets.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank balances and loan receivables, which are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees, the Group considers there has been no significant increase in credit risk since initial recognition and hence the loss allowance is measured on 12m ECL basis.

As at 1 January 2018, no material additional credit loss allowance is recognised against accumulated profits.

4. REVENUE

Revenue represents the amount received and receivable for goods sold to external customers, net of sales tax. An analysis of the Group's revenue for the period is set out below:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of cement	**4,177,648**	3,598,937
Sales of clinker	**128,978**	186,278
	4,306,626	3,785,215

5. SEGMENT INFORMATION

Segment information has been identified on the basis of internal management reports. The Group's general manager reviews the operating results and financial information of each manufacturing plant for the purposes of resource allocation and performance assessment. Hence, each manufacturing plant is an operating segment. The nature of products and production process of each manufactory plant are the same and they are operated under similar regulatory environment and applied similar distribution methods. However, customers in different regions are of different economic characteristics. Therefore, the Group has aggregated the operating segments and presented the following two reportable segments based on the regions in which the Group operates: Central China and Northeastern China, which are regularly reviewed by the Board of the Company (being the chief operating decision maker) in order to allocate resources to the operating segments and to assess their performance.

The following is an analysis of the Group's revenue and results by reportable segment:

	Segment revenue For the six months ended 30 June		Segment profit For the six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Central China	**3,297,751**	2,943,607	**684,652**	613,241
Northeastern China	**1,008,875**	841,608	**72,086**	22,273
Total	**4,306,626**	3,785,215	**756,738**	635,514
Unallocated corporate administrative expenses			**(7,425)**	(10,898)
Profit before tax			**749,313**	624,616

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit before tax before unallocation of corporate administrative expenses (including directors' emoluments).

6. OTHER INCOME

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Value-added tax refund	**156,163**	145,230
Incentive subsidies	**6,230**	5,273
Interest on bank deposits	**33,838**	12,989
Rental income	**900**	900
Release of deferred income	**746**	746
Profits from the sales of limestone, aggregate and others, net	**75,874**	39,119
Others	**7,346**	2,279
	281,097	206,536

7. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Foreign exchange loss/(gain), net	**28,662**	(17,144)
Gain on disposal of property, plant and equipment, net	**(5,092)**	(204)
	23,570	(17,348)

8. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest on:		
Bank borrowings	**254,175**	146,958
Bills discounted with recourse	**95,312**	54,342
Short-term debentures	**—**	29,050
Mid-term debentures	**102,919**	118,540
Long-term corporate bonds	**121,491**	103,040
	573,897	451,930
Less: amounts capitalized	**(2,230)**	(2,675)
	571,667	449,255

The borrowing costs on general borrowing pool capitalized are calculated by applying a capitalization rate of 6.18% per annum (2017: 5.52% per annum) for the period ended 30 June 2018.

9. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("EIT")		
— current interim period	**181,784**	133,881
— under-provision in prior years	**1,385**	604
	183,169	134,485
Deferred tax	**858**	—
	184,027	134,485

No provision for Hong Kong taxation has been made during the both interim periods as the Group's income neither arisen in nor is derived from Hong Kong.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "PRC EIT Law") and Implementation Regulation of the PRC EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

10. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

Profit and total comprehensive income for the period has been arrived at after charging (crediting):

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	**390,660**	349,151
Amortization of prepaid lease payments	**8,280**	7,911
Amortization of mining rights, included in cost of sales	**5,572**	5,159
Amortization of other intangible assets	**405**	405
Total depreciation and amortization, in aggregate	**404,917**	362,626
Cost of inventories recognized as an expense	**2,933,407**	2,611,238
Staff costs including retirement benefit	**205,412**	187,021

11. EARNINGS PER SHARE

The basic earnings per share attributable to owners of the Company for the each of Reporting Period is calculated based on the following data:

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company (in thousands)	**550,816**	489,474
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share (in thousands)	**2,938,282**	2,705,662

No diluted earnings per share is presented as the Company did not have any potential ordinary shares outstanding.

12. DIVIDENDS

During the current interim period, no dividend has been paid, declared or proposed to be paid. And no proposition in relation to the payment of any dividend during the current interim period has been made.

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB11,479,000 (for the six months ended 30 June 2017: RMB3,161,000) for cash proceeds of RMB16,571,000 (for the six months ended 30 June 2017: RMB3,365,000), resulting in a gain on disposal of RMB5,092,000 (for the six months ended 30 June 2017: RMB204,000).

As at 30 June 2018, the carrying amount of buildings, whose certificates of ownership were still being applied, was approximately RMB615,558,000 (31 December 2017: RMB628,738,000).

14. DEPOSITS AND ADVANCES

As at 30 June 2018 and 31 December 2017, the amounts represent deposits and advances paid for acquisition of business, and acquisition of property, plant and equipment and land use rights.

15. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Trade receivables	217,852	279,292
Less: allowance for bad and doubtful debts	(30,480)	(30,480)
	187,372	248,812
Bills receivables	553,906	725,360
Advances to suppliers	2,218,002	2,216,498
Value-added tax refund receivables	85,836	16,226
Prepayment for various taxes	158,752	72,266
Prepaid lease payments	16,559	22,511
Other receivables	363,134	341,239
	3,583,561	3,642,912

The aged analysis of the Group's trade receivables and bills receivables (excluding bills endorsed to suppliers) from the goods delivery date to the end of each Reporting Period is as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Within 90 days	230,498	221,251
91–180 days	448,109	586,399
181–360 days	36,960	126,829
1 year to 2 years	24,888	38,846
Over 2 years	823	847
Total	741,278	974,172

16. PLEDGED BANK BALANCES

Pledged bank balances represent deposits pledged to banks as at 30 June 2018 for (i) securing bank borrowings granted to the Group amounting to RMB734,480,000, and (ii) issuing trade facilities such as bills payables and bank guarantee amounting to RMB2,390,791,000.

Pledged bank balances represent deposits pledged to banks as at 31 December 2017 for (i) securing bank borrowings granted to the Group amounting to RMB584,204,000, (ii) issuing trade facilities such as bills payables and bank guarantee amounting to RMB2,748,602,000 and (iii) the deposits pledged to banks for the maintenance of limestone mines amounting to RMB67,627,000.

The restricted bank balances carried interest at market rates of 0.3% to 2.1% per annum as at 30 June 2018 (31 December 2016: 0.3% to 2.1% per annum).

17. AMOUNTS DUE FROM A RELATED PARTY

As at 30 June 2018, the amounts due from a related party referred to the prepayment by the Group to Ruiping Shilong for the amounts regarding the purchases of clinker of RMB540,516,000 (31 December 2017: RMB625,992,000).

18. CASH AND BANK BALANCES

The amounts represent cash and bank balances held by the Group. As at 30 June 2018, bank balances carried interest at market rates of 0.3% and 1.5% per annum (31 December 2017: 0.3% and 1.5% per annum).

19. TRADE AND OTHER PAYABLES

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Trade payables	**974,261**	964,952
Bills payables	**750,000**	1,261,300
Construction cost and retention payables	**154,559**	357,097
Other tax payables	**23,114**	53,267
Accrued interest	**193,962**	235,838
Other payables and accrued expenses	**37,478**	55,544
	2,133,374	2,927,998

19. TRADE AND OTHER PAYABLES — continued

The aged analysis of the Group's trade payables and bills payables from the goods receipt date to the end of each Reporting Period is as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Within 1–90 days	1,102,843	1,136,862
91–180 days	72,858	299,834
181–365 days	343,006	604,721
Over 1 year	205,554	184,835
Total	1,724,261	2,226,252

20. BORROWINGS

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Bank and non-banking financial institution borrowings		
— fixed-rate	3,591,606	4,649,456
— variable-rate	1,575,278	1,155,652
	5,166,884	5,805,108
Bank borrowings relating to bills discounted with recourse	141,460	651,977
	5,308,344	6,457,085
Secured	3,439,906	4,693,883
Unsecured	1,868,438	1,763,202
	5,308,344	6,457,085

20. BORROWINGS — continued

The borrowings are repayable as follows:

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Within one year	4,331,184	5,382,423
More than one year, but not exceeding two years	371,500	552,580
More than two years, but not exceeding five years	605,660	91,260
More than five years	—	430,822
	5,308,344	6,457,085
Less: amount due within one year shown under current liabilities	(4,331,184)	(5,382,423)
Amount due after one year	977,160	1,074,662

During the current interim period, the Group obtained new bank loans amounting to RMB3,615,000,000 (30 June 2017: RMB2,784,000,000). The loans carried interest at variable market rates of 4.35% to 14.40% (31 December 2017: 4.35% to 14.40%). The Directors consider that the carrying amounts of the borrowings recognized in the condensed consolidated financial statements approximate to their fair values.

21. MID-TERM DEBENTURES

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Mid-term debentures	1,898,896	2,369,828
Less: due within one year	(1,898,896)	(2,369,828)
Due after one year	—	—

21. MID-TERM DEBENTURES — continued

The mid-term debentures as at 30 June 2018 included enterprise private debentures with an aggregate principal amount of RMB500,000,000, RMB900,000,000 and RMB600,000,000 issued on 25 August 2016, 20 September 2016 and 21 October 2016, respectively, with maturity of two years, and all carrying fixed interest rate of 7.00% per annum. According to the terms and conditions of these debentures, the Group has an option to adjust the interest rate of each of the enterprise private debentures for the second year of respective debenture at the end of the first year by giving a notice to the respective debenture holders. Each of the debenture holders may accordingly at their option to require the Group to redeem the debentures at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest up to such redemption date. The remaining unredeemed debentures will be subject to the interest rate offered by the Group at the end of the first year until the maturity date.

The Directors of the Company consider that the carrying amounts of the mid-term debentures and the relevant interest recognized on 30 June 2018 in the consolidated financial statements approximate to their fair values.

22. LONG-TERM CORPORATE BONDS

	As at 30 June 2018 RMB'000 (unaudited)	As at 31 December 2017 RMB'000 (audited)
Long-term corporate bonds	**3,063,545**	3,070,820
Less: Amounts due within one year	**(995,950)**	(2,998,515)
Amounts due after one year	**2,067,595**	72,305

The amounts as at 30 June 2018 represented:

(i) long-term corporate bonds in an aggregate principal amount of RMB2,000,000,000 issued on 6 February 2013 with a term of eight years and an interest rate of 7.21% per annum. According to the terms and conditions of these bonds, the Group has an option to adjust the bonds rate for the sixth to eighth year at the end of the fifth year by giving a notice to the bond holders. The bond holders may accordingly at their option to require the Group to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining unredeemed bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. These bonds were issued through a lead underwriter, HUAXI Securities Co., Ltd (華西證券有限責任公司) to non-specific buyers. These bonds are jointly and severally guaranteed by Tianrui Foundry and Tianrui Travel, two subsidiaries of Tianrui Group. The guarantees have been provided at no cost to the Group.

(ii) long-term public corporate bonds in an aggregate principal amount of RMB1,000,000,000 issued on 29 September 2015 through a lead underwriter, Ping An Securities Company Limited (平安證券有限責任公司), with a term of five years and an interest rate of 5.95% per annum. According to the terms and conditions of these bonds, the Group has an option to adjust the bonds rate for the fourth year and fifth year at the end of the third year by giving a notice to the bond holders. The bond holders may accordingly at their option to require the Group to redeem the bonds at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining unredeemed bonds will be subject to the interest rate offered by the Group at the end of the third year until the maturity date.

22. LONG-TERM CORPORATE BONDS — continued

(iii) long-term corporate bonds in an aggregate principal amount of HK$86,500,000 (approximately RMB72,928,000) which including the issuance of first tranche of HK$45,540,000 issued on 2 December 2014, the second tranche of HK$33,460,000 issued on 15 July 2015 and the third tranche of HK$7,500,000 issued on 9 January 2016, with a term of eight years each and an interest rate of 6.50% per annum each. These bonds were issued through a lead underwriter, Convoy Investment Service Limited (康宏證券投資服務有限公司), to non-specific buyers.

In February 2018, the Group exercised its rights to adjust the interest rate of the long-term corporate bonds issued on 6 February 2013 in an aggregate principal amount of RMB2,000,000,000 to 8.0% per annum. No redemption was exercised by the bondholders and the maturity date of those corporate bonds is 6 February 2021. In August 2018, the Group did not adjust the interest rate of the long-term corporate bonds issued on 29 September 2015 in an aggregate principal amount of RMB1,000,000,000 while exercising its rights. Bondholders exercised redemption to repurchase an amount of RMB788,648,000, remaining RMB211,352,000. A payment of 50% of the remaining principal of bonds for the period will be made in September 2019 and September 2020 respectively.

The Directors of the Company consider that the carrying amounts of the long-term corporate bonds and the relevant interest recognized in the consolidated financial statements on 30 June 2018 approximate to their fair values.

23. ISSUED CAPITAL

The Company

	Number of shares	Share capital	
		HK$'000	RMB'000
Ordinary share of HK$0.01 each:			
Authorised			
On incorporation	38,000,000	380	316
Additions (Note d)	9,962,000,000	99,620	80,754
At 31 December 2013 and 30 June 2015	10,000,000,000	100,000	81,070
Issued			
On incorporation (Note a)	1	—	—
Issued on 21 February and 2 April 2011 (Note b)	474,999	5	4
Issued on 2 April 2011 (Note c)	525,000	5	4
As at 30 June 2011	1,000,000	10	8
Issued on 23 December 2011 (Note e)	1,999,000,000	19,990	16,240
Issued on 23 December 2011 (Note f)	400,900,000	4,009	3,257
As at 31 December 2016	2,400,900,000	24,009	19,505
Issued on 6 June 2017 (Note g)	537,381,647	5,374	4,678
As at 30 June 2018	2,938,281,647	29,383	24,183

23. ISSUED CAPITAL — continued

The Company — continued

Notes:

(a) On 7 February 2011, one subscriber share was issued to the Company's subscriber, Yu Kuo Company Limited ("Yu Kuo"), at par value;

(b) On 21 February 2011, the Company issued 473 shares to Yu Kuo in exchange for the 100% equity interests in Zhong Yuan Cement Company Limited ("Zhong Yuan Cement") and on 2 April 2011, issued 474,526 shares to Yu Kuo at a consideration of US$87,433,333;

(c) On 2 April 2011, the Company issued 525,000 shares to other shareholders of Tianrui Cement for acquiring their respective interests in Tianrui Cement;

(d) On 12 December 2011, the Company increased the authorized share capital of the Company from HK$380,000 divided into 38,000,000 shares of HK$0.01 each by the creation of an additional 9,962,000,000 shares of HK$0.01 each;

(e) On 23 December 2011, the Company allotted and issued a total of 1,999,000,000 shares (the "Capitalization Shares"), credited as fully paid by par, to holders of shares whose names appeared on the principal register of members of the Company in proportion to their then existing shareholders in the Company, by way of capitalization of HK$19,990,000 standing to credited of the share premium accounted of the Company and applying such sum of HK$19,990,000 in paying up in full at par 1,999,000,000 shares for such allotment and issue. The new shares rank pari passu with the existing shares in all respects;

(f) On 23 December 2011, the Company issued 409,000,000 shares of HK$0.01 each for cash pursuant to the initial public offering at the price of HK$2.41 each. The new shares rank pari passu with the existing shares in all respects;

(g) On 7 June 2017, the Company issued 537,381,467 shares of HK$0.01 each at the price of HK$2.28 each to acquire equity interests 100% and 55% of Yongan Cement and Xindeng Cement respectively. The new shares rank pari passu with the existing shares in all respects.

24. PLEDGE OF ASSETS

As at the end of the reporting period, the carrying amount of the assets of the Group pledged to secure the bank borrowings granted to the Group is analyzed as follows:

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Property, plant and equipment	2,470,376	3,058,556
Prepaid lease payments	519,450	498,830
Mining rights	2,096	2,096
Restricted bank balances	734,480	584,204
	3,726,402	4,143,686

25. CAPITAL COMMITMENTS

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Capital expenditure of the Group in respect of acquisition of property, plant and equipment — contracted for but not provided in the condensed consolidated financial statements	461,991	470,690

26. OPERATING LEASE COMMITMENTS

The Group as lessee

The rental payment paid for the period ended 30 June 2018 amounted to approximately RMB900,000 (six months ended 30 June 2017: RMB900,000) are paid for certain of its office properties.

As at 30 June 2018, the Group had commitments for future minimum lease payments in respect of rented premises which fall due as follows:

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Within one year	1,391	1,883
In the second to fifth year inclusive	2,661	2,748
Over five years	4,700	5,031
	8,752	9,662

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average terms of one to seventeen years and rental are fixed throughout the lease term.

27. RELATED PARTY DISCLOSURES

Apart from above, during the period, the Group had the following major transactions with the related parties.

Nature of transaction	Name of related company	Note	Six months ended 30 June 2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Purchase of goods	Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司)	i	157,210	185,431
			157,210	185,431
Office rental expenses	Tianrui Group Company Limited (天瑞集團有限公司)		900	900

Note:

i. An associate of the Group.

28. CONTINGENT LIABILITIES

	At 30 June 2018 RMB'000 (unaudited)	At 31 December 2017 RMB'000 (audited)
Guarantees provided in respect of banking facilities granted to:		
Related parties	**1,188,000**	1,710,000
	1,188,000	1,710,000

As at 30 June 2018, the financial guarantee given to banks in respect of bank facilities utilised by Tianrui Group and its subsidiaries, Tianrui Foundry and Tianrui Travel, amounted to a total of RMB1,188,000,000 (31 December 2017: RMB1,710,000,000). The management considers the risk of the contingent liabilities and recognised financial guarantee liabilities of RMB20,934,000 (31 December 2017: RMB23,260,000) in the consolidated financial statement.