Asia Cement (China) Holdings Corporation
亞洲水泥(中國)控股公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 743

INTERIM REPORT 2017

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. HSU, Shu-ping *(Vice Chairman)*
Mr. CHANG, Tsai-hsiung
Dr. WU, Chung-lih *(Chief Executive Officer)*
Mr. CHANG, Chen-kuen
Mr. LIN, Seng-chang
Ms. WU, Ling-ling

Non-Executive Director
Mr. HSU, Shu-tong *(Chairman)*

Independent Non-Executive Directors
Mr. TSIM, Tak-lung Dominic
Mr. WANG, Wei
Mr. LEE, Kao-chao
Dr. WANG, Kuo-ming

COMPANY SECRETARY

Ms. HO, Siu Pik

AUTHORIZED REPRESENTATIVES

Dr. WU, Chung-lih
Ms. HO, Siu Pik

MEMBERS OF AUDIT COMMITTEE

Mr. TSIM, Tak-lung Dominic *(Chairman)*
Mr. HSU, Shu-tong
Mr. LEE, Kao-chao

MEMBERS OF REMUNERATION COMMITTEE

Dr. WANG, Kuo-ming *(Chairman)*
Mr. HSU, Shu-tong
Mr. TSIM, Tak-lung Dominic

MEMBERS OF NOMINATION COMMITTEE

Mr. HSU, Shu-tong *(Chairman)*
Mr. TSIM, Tak-lung Dominic
Mr. WANG, Wei

MEMBERS OF INDEPENDENCE COMMITTEE

Mr. LEE, Kao-chao *(Chairman)*
Mr. TSIM, Tak-lung Dominic
Dr. WANG, Kuo-ming

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Ma-Tou Town, Ruichang City
Jiangxi Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Portion of Unit B, 11th Floor
Lippo Leighton Tower
103 Leighton Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road,
P.O.BOX 1586, Grand Cayman, KY1-1110,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
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Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Bank of China
Bank of Communications

HONG KONG LEGAL ADVISER
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AUDITORS
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STOCK CODE
743

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CONTACT DETAILS
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Financial Highlights

	Notes	Six months ended 30 June **2017** **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)
Revenue		**3,359,764**	2,808,975
Gross profit		**618,913**	454,293
Profit (Loss) for the period		**90,930**	(60,691)
Profit (Loss) attributable to owners of the Company		**81,907**	(64,588)
Gross profit margin		**18%**	16%
Earning (Loss) per share			
— Basic		**RMB0.052**	RMB(0.041)
— Diluted		**RMB0.052**	RMB(0.041)

		30 June **2017** **RMB'000** **(unaudited)**	31 December 2016 RMB'000 (audited)
Total assets		**15,888,337**	15,902,155
Net assets		**9,665,112**	9,635,148
Liquidity and Gearing			
Current ratio	*1*	**1.16**	1.32
Quick ratio	*2*	**0.94**	1.06
Gearing ratio	*3*	**0.39**	0.39

Notes:

1. *Current ratio is calculated as current assets divided by current liabilities.*
2. *Quick ratio is calculated as current assets less inventories divided by current liabilities.*
3. *Gearing ratio is calculated as total liabilities divided by total assets.*

Condensed Consolidated Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
	Notes	**2017 RMB'000 (unaudited)**	2016 RMB'000 (unaudited)
Revenue		**3,359,764**	2,808,975
Cost of sales		**(2,740,851)**	(2,354,682)
Gross profit		**618,913**	454,293
Other income	*4*	**39,236**	43,530
Other gains and losses	*5*	**9,531**	(63,795)
Distribution and selling expenses		**(190,031)**	(208,530)
Administrative expenses		**(128,339)**	(138,278)
Share of profit of jointly controlled entities		**916**	1,664
Share of (Loss) profit of an associate		**(107)**	359
Finance costs		**(154,724)**	(97,333)
Profit (Loss) before tax		**195,395**	(8,090)
Income tax expense	*6*	**(104,465)**	(52,601)
Profit (Loss) for the period	*7*	**90,930**	(60,691)
Other comprehensive income		**–**	–
Profit (Loss) for the period attributable to:			
Owners of the Company		**81,907**	(64,588)
Non-controlling interests		**9,023**	3,897
		90,930	(60,691)
		RMB	RMB
Earnings (Loss) per share:	*9*		
Basic		**0.052**	(0.041)
Diluted		**0.052**	(0.041)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	**As at 30 June 2017 RMB'000 (Unaudited)**	As at 31 December 2016 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**9,690,298**	10,079,179
Quarry	*11*	**241,610**	250,322
Prepaid lease payments	*12*	**720,637**	735,033
Investment properties		**56,520**	20,370
Goodwill		**693,000**	693,000
Other intangible assets		**4,415**	4,431
Interest in a joint ventures		**64,641**	63,725
Interest in an associate		**16,914**	17,021
Restricted bank deposits		**29,860**	29,758
Deferred tax assets		**73,578**	68,979
Long term prepaid rental		**22,000**	24,283
		11,613,473	11,986,101
CURRENT ASSETS			
Inventories	*13*	**803,257**	767,818
Long term receivables – due within one year		**–**	25,953
Trade and other receivables	*14*	**2,226,429**	2,039,576
Prepaid lease payments	*12*	**24,014**	23,279
Loan to related companies	*15*	**546,897**	476,683
Amount due from an associate		**4,533**	3,752
Amount due from a joint venture		**40,105**	40,465
Restricted bank deposits		**6,018**	5,108
Bank balances and cash		**623,611**	533,420
		4,274,864	3,916,054
CURRENT LIABILITIES			
Trade and other payables	*16*	**834,989**	969,138
Amount due to a joint venture		**23,833**	13,479
Tax payables		**53,628**	48,015
Borrowings – due within one year		**2,769,312**	1,928,934
		3,681,762	2,959,566
NET CURRENT ASSETS		**593,102**	956,488
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,206,575**	12,942,589
NON-CURRENT LIABILITIES			
Borrowings – due after one year		**2,496,773**	3,262,563
Deferred tax liabilities		**20,205**	22,327
Provision for environmental restoration		**24,485**	22,551
		2,541,463	3,307,441
NET ASSETS		**9,665,112**	9,635,148
CAPITAL AND RESERVES			
Share capital	*17*	**140,390**	140,390
Reserves		**9,249,072**	9,214,171
Equity attributable to owners of the Company		**9,389,462**	9,354,561
Non-controlling interests		**275,650**	280,587
TOTAL EQUITY		**9,665,112**	9,635,148

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to owners of the Company							
	Share capital RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Special reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016 (audited)	140,390	1,351,069	286,038	1,635,906	5,885,939	9,299,342	271,584	9,570,926
(Loss) profit for the period	–	–	–	–	(64,588)	(64,588)	3,897	(60,691)
Other comprehensive income for the period	–	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	–	(64,588)	(64,588)	3,897	(60,691)
Appropriation	–	58,858	–	–	(58,858)	–	–	–
Dividends recognised as distribution	–	–	–	–	(78,343)	(78,343)	–	(78,343)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(8,393)	(8,393)
At 30 June 2016 (unaudited)	140,390	1,409,927	286,038	1,635,906	5,684,150	9,156,411	267,088	9,423,499
At 1 January 2017 (audited)	140,390	1,409,927	286,038	1,635,906	5,882,300	9,354,561	280,587	9,635,148
Profit for the period	–	–	–	–	81,907	81,907	9,023	90,930
Appropriation	–	105,415	–	–	(105,415)	–	–	–
Dividends recognised as distribution	–	–	–	–	(47,006)	(47,006)	–	(47,006)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(13,960)	(13,960)
At 30 June 2017 (unaudited)	140,390	1,515,342	286,038	1,635,906	5,811,786	9,389,462	275,650	9,665,112

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**299,349**	854,174
Net cash used in investing activities	**(68,056)**	(117,332)
Net cash used in financing activities	**(141,102)**	(1,252,968)
Net increase (decrease) in cash and cash equivalents	**90,191**	(516,126)
Cash and cash equivalents at beginning of the period	**533,420**	1,105,250
Cash and cash equivalents at end of the period, represented by bank balances and cash	**623,611**	589,124

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. Basis of Preparation

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

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to IFRSs issued by the international Accounting Standard Board that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosure set out in these condensed consolidated financial statements.

3. Segment Information

The following is an analysis of the Group's revenue and results by reportable and operating segments for the period under review:

Six months ended 30 June 2017 (unaudited)

	Cement business RMB'000	Concrete business RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE					
External sales	**3,172,904**	**186,860**	**3,359,764**	**–**	**3,359,764**
Inter-segment sales	**38,118**	**304**	**38,422**	**(38,422)**	**–**
Total	**3,211,022**	**187,164**	**3,398,186**	**(38,422)**	**3,359,764**
RESULT					
Segment result	**394,054**	**2,694**	**396,748**	**(32,104)**	**364,644**
Unallocated income					**1,859**
Central administration costs, directors' salaries and other unallocated expense					**(17,193)**
Share of profit of jointly controlled entities					**916**
Share of loss of an associate					**(107)**
Finance costs					**(154,724)**
Profit before tax					**195,395**

Six months ended 30 June 2016 (unaudited)

	Cement business RMB'000	Concrete business RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE					
External sales	2,612,597	196,378	2,808,975	–	2,808,975
Inter-segment sales	33,557	14	33,571	(33,571)	–
Total	2,646,154	196,392	2,842,546	(33,571)	2,808,975
RESULT					
Segment result	158,163	8,589	166,752	(75,025)	91,727
Unallocated income					14,020
Central administration costs, directors' salaries and other unallocated expense					(18,527)
Share of profit of jointly controlled entities					1,664
Share of profit of an associate					359
Finance costs					(97,333)
Loss before tax					(8,090)

Segment result represents the profit earned (loss incurred) by each segment without allocation of central administration costs, directors' salaries, share of results of jointly controlled entities and associate, investment income and financial costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Inter-segment sales were charged at market price or where no market price was available at cost plus a percentage mark-up.

4. Other Income

	Six months ended 30 June	
	2017 **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)
Government grant	**20,630**	20,240
Transportation fee income	**1,201**	2,149
Sales of scrap materials	**5,041**	4,264
Interest income on bank deposits	**4,415**	8,152
Rental income, net of outgoings	**5,168**	2,594
Others	**2,781**	6,131
	39,236	43,530

5. Other Gains and Losses

	Six months ended 30 June	
	2017 **RMB'000** **(unaudited)**	2016 RMB'000 (unaudited)
Allowance for doubtful debts, net	**14,142**	1,899
Exchange loss, net	**(2,028)**	(65,299)
Loss on disposal of property, plant and equipment	**(1,751)**	(395)
Loss from changes in fair value of investment property	**(832)**	–
	9,531	(63,795)

6. Income Tax Expense

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Current tax:		
— PRC Enterprise Income Tax ("EIT")	**113,930**	53,002
Withholding tax paid	**–**	–
Underprovision (overprovision) in prior years	**(2,744)**	36
Deferred tax credit	**(6,721)**	(437)
	104,465	52,601

For the six months ended 30 June 2017 and 2016, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 15% to 25% and 15% to 25%, respectively.

No provision for Hong Kong Profits Tax and Singapore income tax has been made in the condensed consolidated statement of comprehensive income as the Group had no assessable profit arising in these jurisdictions for the six months ended 30 June 2017 and 2016.

7. Profit (loss) for the Period

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Profit (loss) for the period has been arrived at after charging:		
Depreciation and amortisation	**435,736**	436,358

8. Dividends

A final dividend of RMB3 cents per share for the year ended 31 December 2016, amounting to RMB47,006,000, was paid during the six months ended 30 June 2017.

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 and 2016.

9. Earnings (Loss) Per Share

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings per share (profit (loss) for the period attributable to owners of the Company)	**81,907**	(64,588)
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,566,851**	1,566,851
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,566,851**	1,566,851

10. Property, Plant and Equipment

	Carrying value RMB'000
At 1 January 2016 (audited)	10,879,534
Additions	84,441
Depreciation for the period	(417,156)
Disposals	(2,776)
At 30 June 2016 (unaudited)	10,544,043
At 1 January 2017 (audited)	10,079,179
Additions	31,594
Depreciation for the period	(414,652)
Disposals	(5,823)
At 30 June 2017 (unaudited)	9,690,298

11. Quarry

	Carrying value RMB'000
At 1 January 2016 (audited)	256,476
Additions	–
Amortisation during the period	(8,215)
At 30 June 2016 (unaudited)	248,261
At 1 January 2017 (audited)	250,322
Additions	–
Amortisation during the period	(8,712)
At 30 June 2017 (unaudited)	241,610

12. Prepaid Lease Payment

	Carrying value RMB'000
At 1 January 2016 (audited)	661,029
Additions	115,129
Amortisation during the period	(10,281)
At 30 June 2016 (unaudited)	765,877
At 1 January 2017 (audited)	758,312
Additions	–
Amortisation during the period	(11,661)
Disposals	(2,000)
At 30 June 2017 (unaudited)	744,651

13. Inventories

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Spare parts and ancillary materials	**313,966**	310,174
Raw materials	**281,963**	251,461
Work in progress	**102,962**	120,714
Finished goods	**104,366**	85,469
	803,257	767,818

14. Trade and Other Receivables

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade receivables	**1,158,521**	1,230,734
Less: accumulated allowance	**(113,384)**	(127,283)
	1,045,137	1,103,451
Bills receivable	**865,767**	739,751
	1,910,904	1,843,202
Other receivables	**315,525**	196,374
	2,226,429	2,039,576

The Group has a policy of allowing a credit period from 30 to 180 days for cement customers and 180 to 365 days for concrete customers whereas longer credit term are occasionally allowed to certain selected customers with good credit histories.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 – 90 days	**398,763**	491,918
91 – 180 days	**184,456**	154,027
181 – 365 days	**221,654**	190,478
Over 365 days	**240,264**	267,028
	1,045,137	1,103,451

15. Loan to Related Companies

Loan to related companies of RMB546,897,000 is unsecured, interest free and repayable in August 2018.

16. Trade and Other Payables

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Trade and bills payables	**347,183**	450,216
Other payables and accruals	**487,806**	518,922
	834,989	969,138
Analysed for reporting purposes as:		
Non-current liabilities	**–**	–
Current liabilities	**834,989**	969,138
	834,989	969,138

The following is an aged analysis of trade and bills payables presented based on the invoice date at the end of the reporting period:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
0 – 90 days	**255,901**	389,291
91 – 180 days	**27,084**	27,878
181 – 365 days	**40,717**	20,268
Over 365 days	**23,481**	12,779
	347,183	450,216

Trade payables principally comprise amounts outstanding for trade purchases. The average credit period for trade purchases is 30 to 90 days.

17. Share Capital

Issued share capital as at 30 June 2017 amounted to RMB140,390,000. There were no movements in the issued share capital of the Company for the six months ended 30 June 2017.

18. Commitments

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment and land use rights contracted for but not provided in the condensed consolidated financial statements	**529,036**	526,376

19. Related Party Transactions

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Jointly controlled entities:		
Transportation expenses	**38,361**	30,820
Associate:		
Sale of goods	**3,230**	2,133
Ultimate holding company:		
Sale of goods	**–**	26,635

The remuneration of directors was as follows:

	Six months ended 30 June	
	2017 RMB'000 (unaudited)	2016 RMB'000 (unaudited)
Short-term employee benefits	**2,881**	2,962

The remuneration of directors is determined by having regard to the performance of individuals and market trends.

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

2017 is a crucial year for the implementation of the nation's "13th Five-Year Plan"; it is also a year of deepening the supply-side structural reform. In the first half of 2017, the continued implementation of "eliminating excess capacity, clearing inventory, deleveraging, reducing costs and shoring up weakness" had been conducive to creating more favourable conditions for the stable growth of the national economy, with industrial transformation and upgrading making progress, improvement in corporate profits, a rebound in exports; certain sectors which previously had difficulty to grow saw positive growth. In the first half of 2017, the national GDP saw a 6.9% year-on-year increase, continuing to grow within a reasonable range of medium- to high-speed rate. Fixed assets investment in China increased by 8.6% year-on-year, while property development investment increased by 8.5% year-on-year. (Source: National Bureau of Statistics of China).

From January to June 2017, the national cement production volume amounted to 1,110 million tonnes, representing an increase of 0.4% from that of the corresponding period of 2016. Under the dual drive of proactive off-peak season production in various regions and the recovery of market demand, cement price had been rising gradually since March, and adjusted at high levels from April to May. However, in June, cement price decreased, due to certain manufacturers' control over inventory as a result of the rainy weather and upcoming off season of the cement market in summer. All in all, the price in the second quarter rose out of the doldrums in the first quarter; the industry as a whole experienced increase in both volume and price, and the industry profit improved significantly. According to the statistics of National Bureau of Statistics of China, from January to May 2017, the cement industry realized a profit of RMB23.7 billion, far more than its total profit of RMB4.5 billion for the same period of 2016.

In the first half of 2017, the Group had actively seized on the trend of economic and cement industry's recovery, explored production and sales potential from various aspects, carried out thorough review of its weak spots and flexibly adopted innovations in different areas, with an aim to increase the Company's revenue through a number of measures. In terms of production, the Group continued to implement various effective cost-efficient measures, and through optimizing production process and staff allocation, the Group reduced costs in respect of material procurement, warehousing, equipment operation and energy-saving. On the front of sales, subsidiaries of the Group intensified penetration of the surrounding markets and continued to expand sales volume and market share in the neighbouring areas of the factories, actively participated in tenders for key and large-scale projects, and strove to expand export sales volume. Meanwhile, the Group leveraged its competitive edge in mine resources and technology research and development, to actively develop non-cement product markets, such as wood, concrete admixture, grinding aid, etc. The above mentioned efforts enabled the Group to continue to achieve full disposal of all output during the first half of 2017, with an aggregate sales volume of cement and clinker of 13.79 million tonnes. Although the Group reported a loss in the first quarter of the year, it returned to profitability in the second quarter. The profit for the first half of the year increased significantly from that of the same period of 2016.

Revenue

The table below shows the sales breakdown by region during the reporting period:

	For the six months ended	
	30 June 2017 RMB'000 (unaudited)	30 June 2016 RMB'000 (unaudited)
Region		
Southeastern region	**1,242,325**	1,012,061
Central region	**854,330**	710,875
Southwestern region	**879,616**	774,590
Eastern region	**383,493**	311,449
	3,359,764	2,808,975

BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Revenue (continued)

In the reporting period, the Group's revenue amounted to RMB3,360.0 million, representing an increase of RMB551.0 million or 20% from that of RMB2,809.0 million for the corresponding period of 2016. The increase in revenue was mainly attributable to the increase in average selling price of the Company's products.

In respect of revenue contribution for the six months ended 30 June 2017, sales of cement and related products accounted for 95% (2016: 94%) and the sales of ready-mix concrete accounted for 5% (2016: 6%). The table below shows the sales breakdown by product during the reporting period:

	For the six months ended	
	30 June 2017 RMB'000 (unaudited)	30 June 2016 RMB'000 (unaudited)
Cement	**2,910,247**	2,522,339
Clinker	**211,084**	74,773
Blast-furnace slag powder	**20,742**	15,514
RMC	**164,472**	174,165
Others	**53,219**	22,184
	3,359,764	2,808,975

Cost of Sales and Gross Profit

The Group's cost of sales primarily includes cost of raw materials, fuel expenses (consisting of coal and electricity), employee compensation and benefits, depreciation and amortization and other overhead costs. During the period under review, the Group's cost of sales was RMB2,740.9 million (2016: RMB2,354.7 million). The increase in cost of sales was mainly due to the increase in coal cost.

The gross profit for the six months ended 30 June 2017 was RMB618.9 million (2016: RMB454.3 million), representing a gross profit margin of 18% on revenue (2016: 16%). The increase in gross profit was mainly attributable to the net effect of increase in average selling price of cement products and coal cost when compared with that of the corresponding period of the previous year.

Other Income

Other income mainly comprises government grants, transportation fee income, interest income and sales of scrap materials. For the six months ended 30 June 2017, other income amounted to RMB39.2 million, representing a decrease of RMB4.3 million or 10% from RMB43.5 million for the corresponding period in 2016. The decrease in other income was attributable to the decrease in interest incomes during the period under review.

Other Gains and Losses

Other gains and losses mainly comprise net foreign exchange loss and allowance of doubtful debts. For the period under review, other gains amounted to RMB9.5 million, representing an increase of RMB73.3 million from the losses of RMB63.8 million for the corresponding period in 2016. The increase in gains was principally attributable to the decrease in foreign exchange loss from US dollar denominated bank borrowings.

BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Distribution and Selling Expenses, Administrative Expenses and Finance Costs

For the six months ended 30 June 2017, the distribution and selling expenses amounted to RMB190.0 million, representing an decrease of RMB18.5 million or 9% from RMB208.5 million for the corresponding period of 2016. The decrease in distribution and selling expenses was attributable to decrease in packing materials consumed during the period under review.

Administrative costs, including employee compensation and benefits, depreciation expenses and other general office expenses decreased by 7%, to RMB128.3 million from RMB138.3 million for the corresponding period of 2016. The decrease was attributable to decrease in other taxations during the period under review.

The finance costs increased by 59% was mainly due to increase in borrowing interest rate.

Profit (Loss) for the Period

In the reporting period, the net profit of the Group amounted to RMB90.9 million, representing an increase of RMB151.6 million from a net loss of RMB60.7 million for the corresponding period of 2016. The increase in net profit was mainly attributable to the net effect of increase in average selling price of cement products and coal cost when compared with that of the corresponding period of the previous year.

Financial Resources and Liquidity

The Group maintained a healthy financial and liquidity position for the six months ended 30 June 2017. The total assets approximately RMB15,888.3 million (31 December 2016: approximately RMB15,902.2 million) while the total equity approximately RMB9,665.1 million (31 December 2016: approximately RMB9,635.1 million).

As at 30 June 2017, the Group's cash and cash equivalents amounted to approximately RMB623.6 million (31 December 2016: approximately RMB533.4 million).

As at 30 June 2017, the Group's gearing ratio was approximately 39% (31 December 2016: 39%). The calculation of the gearing ratio was based on total liabilities and total assets as at 30 June 2017 and 31 December 2016, respectively.

Borrowings

The maturity profiles of the Group's borrowings outstanding as at 30 June 2017 and 31 December 2016 are summarized as below:

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Within one year	**2,769,312**	1,928,934
In the second year	**2,496,773**	3,262,563
	5,266,085	5,191,497

BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Capital Expenditure and Capital Commitments

Capital expenditure for the six months ended 30 June 2017 amounted to approximately RMB32.3 million (31 December 2016: approximately RMB203.2 million) and capital commitments as at 30 June 2017 amounted to approximately RMB529.0 million (31 December 2016: approximately RMB526.4 million). Both the capital expenditure and capital commitments were mainly related to the purchase of plant, equipment and investment projects. The Group anticipates funding those commitments from future operating revenue, bank borrowings and other sources of finance when appropriate.

Pledge of Assets

As at 30 June 2017, the Group did not have any pledge or charge on assets.

Contingent Liabilities

As at the date of this announcement and as at 30 June 2017, the Board was not aware of any material contingent liabilities.

Human Resources

As at 30 June 2017, the Group had 4,010 employees. The Group participates in retirement insurance, medicare, unemployment insurance and housing funds according to the applicable laws and regulations of the PRC for its employees in the PRC and makes contributions to the Mandatory Provident Fund Scheme of Hong Kong for its employees in Hong Kong. The Group remunerates its employees in accordance with their work performance and experience. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted Share Option Scheme, where eligible directors and employees are entitled to various share options to subscribe for ordinary shares in the Company in accordance with their past and potential contribution to the growth of the Group. As at 30 June 2017, no share options have been granted or agreed to be granted pursuant to the Share Option Scheme.

Material Acquisition and Disposals of Subsidiaries and Affiliated Companies

Save for the aforesaid, the Group had no significant investment, material acquisitions or disposals for the six months ended 30 June 2017.

Foreign Exchange Risk Management

The Group’s sales and purchases during the reporting period were mostly denominated in Renminbi (“RMB”).

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against foreign currencies may have an impact on the operating results of the Group.

The Group currently does not maintain a foreign currency hedging policy. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

BUSINESS AND FINANCIAL REVIEW (CONTINUED)

Prospects

Looking into the second half of the year, the Group is cautiously optimistic about the development of the cement industry. From a macro perspective, China's economy will continue to make progress while maintaining stability. The government will continue to proactively carry out effective fiscal policies and prudent monetary policies to ensure continued economic growth. The Group expects that in the second half of the year, cement market demand will moderately increase, while cement price will continue the upward trend in the second quarter. The above is expected to be reflected in the following areas: first, according to the Plan on Municipal Infrastructure Construction in Cities Across China under the 13th Five-Year Plan jointly issued by the Ministry of Housing and Urban-Rural Development and the National Development and Reform Commission on 25 May, during the 13th five-year period that ends in 2020, China will implement 12 key municipal infrastructure projects, including road network improvement, rail transit, utility tunnels, sewage treatment, flood-preventing drainage facilities and sponge city construction, etc. Second, based on the opinions of the industry and the Guiding Opinion on the Building Material Industry Development during the 13th Five-Year Period, China Cement Association, at the beginning of June, formulated the Cement Industry Development Plan for the 13th Five-Year Period (the "Plan"). According to the Plan, from 2013 until now, the annual cement output in China has been maintained at about 2.4 billion tonnes, indicating that the consumption of China's cement products has reached a plateau. As such, even without taking into account new supply of clinker capacity, there are still 400 million tonnes of clinker capacity that need to be reduced to reach the reasonable capacity utilization rate of 80%. In order to achieve the goal of eliminating the excess clinker capacity of 400 million tonnes, the "Plan" has proposed to prohibit the filing for construction of and construction of new capacity projects. Before the end of 2020, filing for construction of as well as construction of new cement and clinker projects or capacity expansion will be strictly prohibited; prior to the end of 2017, the swap of cement and clinker capacity between different enterprises owned by their de facto controllers will be suspended. In 2020, 60% of cement production lines need to reach an advanced level, and production concentration of the cement industry has to reach 80%. Third, to ease the overcapacity problem in the cement industry and under the pressure from environmental protection requirements, restriction on production in the cement industry will reach its peak from June to August. Several provinces and municipalities including Hubei, Jiangxi, Sichuan and Jiangsu where the Company's principal markets are located, as well as Henan and Chongqing have issued their plan for suspension of kiln operation and production for the off-peak season in the summer (June–August).

In view of the aforesaid, the Group is of the view that the estimated growth rate of fixed assets investment in China in 2017 will be approximately 8%, while the growth rate of infrastructure construction will be 20%. The above combined with the gradual implementation of the relevant policies of the industry will effectively drive the overall cement demand. This together with the practice of off-peak season production and self-discipline in the industry will drive the market to reach equilibrium, with orderly competition; cement price will rise gradually, while the overall cement supply-demand structure as well as operational efficiency will be optimized. It is expected that cement price in the third quarter will continue the upward trend in the second quarter, and the total profits of the cement industry are expected to continue to increase in the fourth quarter, which is the traditional peak season of the industry.

In pursuit of innovation and change, the Group will continue to carry out reforms on various management systems. The Group will strengthen the training of its management members and staff at all levels, fully leverage the innovative thinking of its workforce, and encourage its staff to improve their own work. All this is to enhance the Company's operating results and performance. In addition, the Group will continue to fulfil its environmental protection obligation, proactively respond to and cooperate with government departments to build cement kilns to dispose household waste as well as solid waste and spare no efforts to perform its corporate social responsibilities. All in all, the Group will flexibly cope with problems, actively carry out reforms and strive to achieve better operating performance and maximize values for its shareholders, employees, and society.

Other Information

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required 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 they were taken or deemed to have under such provisions of the SFO) or (b) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares and underlying shares of the Company

	Number of ordinary shares			
Name of Director	Personal interests	Equity derivatives	Total interests	% of the Company's issued shares
Mr. Hsu, Shu-tong	3,000,000	—	3,000,000	0.19%
Mr. Chang, Tsai-hsiung	1,422,000	—	1,422,000	0.09%
Dr. Wu, Chung-lih	481,500	—	481,500	0.03%
Mr. Chang, Chen-kuen	430,000	—	430,000	0.03%
Mr. Lin, Seng-chang	400,000	—	400,000	0.03%
Mr. Hsu, Shu-ping	200,000	—	200,000	0.01%
Ms. Wu, Ling-ling	20,000	—	20,000	0.001%

Long positions in shares and underlying shares of associated corporation

		Type of interest				
Name of Director	Name of associated corporation	Personal	Through spouse	Corporate	Total No. of ordinary shares in the associated corporation	% of shareholding in the associated corporation
Mr. Hsu, Shu-tong	Asia Cement Corporation ("Asia Cement")	23,278,334	6,352,467	—	29,630,801	0.88%
	Asia Cement (Singapore) Private Limited ("Asia Cement Singapore")	2	—	—	2	0.00002%
	Oriental Industrial Holdings Pte., Ltd ("Oriental Industrial")	4,000	—	—	4,000	0.0007%
Mr. Chang, Tsai-hsiung	Asia Cement	459,350	110,877	—	570,227	0.02%
	Oriental Industrial	2,000	—	—	2,000	0.0004%
Mr. Chang, Chen-kuen	Asia Cement	29,745	5,358	—	35,103	0.001%
Mr. Lin, Seng-chang	Asia Cement	16,892	476	—	17,368	0.0005%
Mr. Hsu, Shu-ping	Asia Cement	13,454,981	—	—	13,454,981	0.40%
Dr. Wang, Kuo-ming	Asia Cement	-	1,841	-	1,841	0.00005%

Saved as disclosed above, as at 30 June 2017, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 June 2017 and to the best knowledge of the Directors and chief executives of the Company, persons (other than Directors or chief executives of the Company) who had an interest or short position, in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long Positions in Shares

Substantial shareholders

Name	Capacity	Number of Shares	Approximate % of issued share capital of the Company
Asia Cement *(note 1)*	Beneficial owner and interest by attribution	1,136,074,000	72.51%
Invesco Hong Kong Limited	Investment manager	94,939,500	6.06%

Note:

1. *Asia Cement beneficially owns approximately 67.73% interest of the Company. Asia Cement Singapore holds approximately 4.07% interest in the Company, which is approximately 99.96% owned by Asia Cement. Asia Cement is deemed to be interested in approximately 4.07% interest of the Company by virtue of its corporate interest in Asia Cement Singapore. Further, Falcon Investments Private Limited holds approximately 0.71% interest in the Company and is owned as to 100% by U-Ming Marine Transport (Singapore) Private Limited, which is in turn owned as to 99.99% by U-Ming Marine Transport Corporation. U-Ming Marine Transport Corporation is owned as to 38.66% by Asia Cement. Asia Cement is deemed to be interested in approximately 0.71% interest of the Company under the SFO.*

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any persons (other than the Directors or chief executives of the Company) also had interests or short positions on the shares or underlying shares of the Company which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEMES

Share Option Scheme

The terms of the share option scheme approved and adopted by the Company on 27 April 2008 (the "Share Option Scheme") are in accordance with the provisions of Chapter 17 of the Listing Rules. The purpose of the Share Option Scheme is to provide incentive or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of, the Company and to enable the Company and its subsidiaries to recruit and retain high-calibre employees.

The Directors may, at their discretion, offer eligible persons (being full time or part time employees, executive directors, non-executive directors and independent non-executive directors or consultant of the Group or any person whom the Board considers, in its sole discretion, has contributed or contributes to the Group) who the Board may in its absolute discretion select to subscribe for the shares.

Initially the maximum number of shares which may be issued upon exercise of all the options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) shall not exceed 10% of the aggregate number of the shares in issue as at the date of the Listing, equivalent to 150,000,000 shares of the Company, which is 9.57% of the issued share capital of the Company as at the date of this Interim Report. The total number of shares which may be issued upon exercise of all the options granted and yet to be exercised under the Share Option Scheme or any other share option schemes adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) must not exceed 30% of the aggregate number of the shares in issue from time to time.

Unless approved by the shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) under the Share Option Scheme or any other share option scheme adopted by the Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) in any 12 month period must not exceed 1% of the shares in issue as at the date of grant.

SHARE OPTION SCHEMES (CONTINUED)

The vesting periods, exercise periods and vesting conditions maybe specified by the Company at the time of the grant, and the share options shall expire no later than 10 years from the relevant date of grant. There is no general requirement that an option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any minimum period at the time of grant of any particular option.

At the time of the grant of the options, the Company may specify any performance target(s) which must be achieved before the options can be exercised. The Share Option Scheme does not contain any performance targets.

The amount payable by a grantee on acceptance of a grant of options is HK$1.00. The subscription price for the shares of the Company being the subject of the options shall be no less than the highest of (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant.

The Share Option Scheme will expire on 26 April 2018. No options have been granted under the Share Option Scheme as at 30 June 2017, or as at the date of this Interim Report.

CORPORATE GOVERNANCE

The Company has complied with all of the code provisions of the Corporate Governance Code ("the CG Code") as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2017, except code provision A.1.8.

Code provision A.1.8 of the CG Code requires that the Company should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the Directors and the management of the Group, the management of the Group believes that all potential claims and legal actions against the Directors can be handled effectively, and the possibility of actual litigation against the Directors is low. Nevertheless, the Board will review this arrangement from time to time in light of the prevailing circumstances and arrange for appropriate insurance coverage as soon as practicable.

AUDIT COMMITTEE

The Company established the Audit Committee on 27 April 2008 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee include the review of financial reporting processes and internal control system of the Group. Currently, the Audit Committee comprises Mr. Tsim, Tak-lung Dominic (Chairman), Mr. Hsu, Shu-tong and Mr. Lee, Kao-chao, all of whom are non-executive Directors.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2017, and was of the opinion that the preparation of such interim results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee with written terms of reference in compliance with the CG Code. The primary duties of the Remuneration Committee include the review of Directors' and senior management's remuneration packages, bonuses and other compensation. Currently, the Remuneration Committee comprises Mr. Wang, Kuo-ming (Chairman), Mr. Hsu, Shu-tong and Mr. Tsim, Tak-lung Dominic, all of whom are non-executive Directors.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with written terms of reference in compliance with the Corporate CG Code. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitability qualified to become members of the Board. Currently, the Nomination Committee comprises Mr. Hsu, Shu-tong (Chairman), Mr. Tsim, Tak-lung Dominic and Mr. Wang, Wei, all of whom are non-executive Directors.

INDEPENDENCE COMMITTEE

The Company has established the Independence Committee. The primary duties of the Independence Committee include the review of transactions between the Group, Asia Cement and Far Eastern Group and assess any potential conflict of interest between them. Save as disclosed in the section headed "Relationship with Asia Cement" and "Connected Transactions" in the prospectus dated 5 May 2008 and the announcement dated 22 March 2017 that issued by the Company, no additional ongoing relationships or potential conflict of interests was identified in the period under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

DIVIDENDS

The Board does not recommend payment of any dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set forth in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Having made specific enquiry with all Directors, all the Directors confirmed that they have complied with the Model Code throughout the period under review.

SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge, information and belief of the Directors, the Directors confirm that the Company had maintained a sufficient public float as required under the Listing Rules throughout the six months ended 30 June 2017.

APPRECIATION

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

By Order of the Board
Asia Cement (China) Holdings Corporation
Hsu, Shu-tong
Chairman

Hong Kong, 8 August 2017