

**HUAXIN CEMENT CO., LTD.**

**FINANCIAL STATEMENTS AND  
AUDITOR'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

**HUAXIN CEMENT CO., LTD.**

Financial Statements and Auditor's Report  
For the Year Ended 31 December 2017

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[English Translation for Reference Only]

**I Auditor's Report**

**Auditor's Report**

PwC ZT Shen Zi (2018) No. 10025  
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To the Shareholders of Huaxin Cement Co., Ltd.

**Opinion**

*What we have audited*

We have audited the accompanying financial statements of Huaxin Cement Co., Ltd. ("Huaxin Cement"), which comprise:

- the consolidated and company balance sheets as at 31 December 2017;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended; and
- notes to the financial statements.

*Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Huaxin Cement as at 31 December 2017, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

### **Basis for Opinion**

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Huaxin Cement in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of fixed assets
- Fair value of intangible asset in business combination
- Recognition of deferred tax assets

**Key Audit Matters (Cont'd)**

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter</b>
<p>(I) Impairment of fixed assets</p> <p>Refer to Note V (17), Note V (26) and Note VII (11).</p> <p>Fixed assets of Huaxin Cement Co., Ltd and its subsidiaries ("Huaxin Cement Group") fixed assets comprise mainly buildings, cement and clinker production machinery and other equipment.</p> <p>Certain subsidiaries of Huaxin Cement Group suffered continuous losses which the Management considered to be indicators of potential impairment of fixed assets.</p> <p>Huaxin Cement Group has performed an impairment test on these fixed assets with impairment indicators amounting to RMB690,282,210 and recognised impairment losses of RMB151,131,073 (Note VII(11)(f)).</p>	<p>Our audit procedures to assess the impairment of fixed assets included the following:</p> <ul style="list-style-type: none"> <li>• Understood and assessed internal controls in relation to impairment test of fixed assets;</li> <li>• Evaluated management's identification of cash generating units ("CGUs") and the methodology applied by management in its impairment assessment;</li> <li>• Checked the accuracy of the calculation in the impairment test performed by management;</li> <li>• Evaluated the reasonableness of key parameters and assumptions applied in the discounted cash flow forecast: <ul style="list-style-type: none"> <li>- In respect of the discount rate, we assessed its reasonableness by comparing the weighted average cost of capital prepared by taking into account the geographic and industry factors, market risk-free rate and debt ratio at the balance sheet date, discount rate of comparable listed companies, specific risk of the CGU and etc.;</li> </ul> </li> </ul>

<b>Key Audit Matter (Cont'd)</b>	<b>How our audit addressed the Key Audit Matter (Cont'd)</b>
<p>(I) Impairment of fixed assets (Cont'd)</p> <p>In the impairment assessment of the fixed assets mentioned above, recoverable amount of fixed assets was determined at the higher of the fair value less costs to sell and present value of the forecasted future cash flows. The preparation of discounted cash flow forecast involved significant management judgement on key parameters (i.e., discount rate) and assumptions of future operating condition including but not limit to sales growth rate and gross profit ratio.</p> <p>We identified the impairment of fixed assets as a key audit matter by considering its material impact to the consolidated financial statements and the involvement of management significant estimates and judgements.</p>	<p>Our audit procedures to assess the impairment provision for fixed assets included the following: (Cont'd)</p> <ul style="list-style-type: none"> <li>- Evaluated the reasonableness of sales growth rate by comparing the historical sales growth rate of the CGU, comparable subsidiaries of Huaxin Cement Group and other comparable companies in the industry;</li> <li>- Evaluated the reasonableness of gross profit rate by comparing the historical gross profit rate of the CGU and comparable subsidiaries of Huaxin Cement Group;</li> <li>• Reviewed the reasonableness of sensitivity analysis prepared by the Management for the discount rate, the growth rate and gross profit margin, considering potential influences of reasonable variance of the key parameters and assumption.</li> </ul> <p>Base on the procedures performed above, we found management's assessment on the impairment of fixed assets to be supported by available evidence.</p>

**Key Audit Matters (Cont'd)**

<b>Key Audit Matter (Cont'd)</b>	<b>How our audit addressed the Key Audit Matter (Cont'd)</b>
<p>(II) Fair value of intangible asset in business combination</p> <p>Refer to Note V (17), Note V (26) and VIII (1).</p> <p>On 24 January 2017, Huaxin Cement completed the acquisition of Lafarge China Cement Limited's ("Lafarge China") certain business in South-Western China for a consideration of RMB1,375,000,000. The acquired businesses comprise 97.27% equity interest of Chongqing Lafarge Shui On Diwei Cement Co., Ltd., 80% equity interest of Chongqing Lafarge Shui On Water Cement Co., Ltd., and 100% equity interest of Sommerset Investment Limited, Yunnan Lafarge Construction Material Investment Holding Ltd., Chongqing Lafarge Concrete Co., Ltd., and Chongqing Lafarge Phoenix Lake Concrete Co., Ltd. PRC (hereinafter "the target companies"). Fair value of identifiable net assets of the target companies attributable to Huaxin Cement amounted to RMB1,632,243,520, included in which the intangible assets amounted to RMB762,250,413 (note VIII(1)). The acquisition was recognised as business combination not under common control.</p>	<p>Our audit procedure to assess the fair value of intangible assets included the following:</p> <ul style="list-style-type: none"> <li>• We assessed the competency, the capability and objectivity of independent valuer;</li> <li>• We involved our valuation specialists to assess the reasonableness of the methodologies and key assumptions used in the valuation of the fair value of intangible assets;</li> <li>• We assessed the reasonableness of the key parameters and assumptions used in the valuation of the fair value of intangible assets: <ul style="list-style-type: none"> <li>- Compared the benchmark land price with local government's public information and compared the land usage period with the land certificate and relevant documents;</li> <li>- In respect of the adjusted benchmark land price, we cross-checked with the price of comparable land transactions in the similar region;</li> </ul> </li> </ul>

**Key Audit Matters (Cont'd)**

<b>Key Audit Matter (Cont'd)</b>	<b>How our audit addressed the Key Audit Matter (Cont'd)</b>
<p>(II) Fair value of intangible asset in business combination (Cont'd)</p> <p>Huaxin Cement has engaged an independent valuer to perform a valuation of identifiable net assets. The fair value of intangible assets, which mainly comprise land use rights and mining rights, were determined by valuation technique. The adoption of valuation methods, key parameters and future cash flow forecast involved management's significant accounting estimates and judgements.</p> <ul style="list-style-type: none"> <li>• Benchmark land price method was adopted in valuing land use rights. To determine the prices of land use rights, the valuer adjusted the benchmark land price set by local governments by considering land usage period, regional factors, company specific factors and marketable factors.</li> </ul>	<p>The audit procedure we perform for evaluation of the fair value of intangible assets include (Cont'd):</p> <ul style="list-style-type: none"> <li>- In respect of selling price of mineral resources, we compared the trading data of the comparable products in Huaxin Cement Group;</li> <li>- In respect of exploitation costs and operating expenses, we compared the historical data of the target companies and actual data of comparable subsidiaries in Huaxin Cement Group;</li> <li>- In respect of the discount rate, we referred to relevant guidelines in mining industry and assessed the reasonableness of discount rate based on the operation and industry situation;</li> <li>• Reviewed the reasonableness of sensitivity analysis prepared by the Management for the discount rate and operating assumptions, considering potential influences of reasonable variance of the key parameters and assumption.</li> </ul> <p>Based on the procedures performed above, we found management's assessment of the fair value of intangible asset in business combination to be supported by available evidence.</p>



**Key Audit Matters (Cont'd)**

<b>Key Audit Matter (Cont'd)</b>	<b>How our audit addressed the Key Audit Matter (Cont'd)</b>
<p>(II) Fair value of intangible asset in business combination (Cont'd)</p> <ul style="list-style-type: none"><li>Discount cash flow method was adopted in valuing the mining rights. To determine the present value of future cash flow, management estimated the selling price and exploitation cost of mining resources, operating expenses and applicable discount rate of the forecast period.</li></ul> <p>We identified fair value of intangible asset in business combination as a key audit matter by considering its material impact to the consolidated financial statements and the involvement of management's significant estimates and judgements.</p>	

**Key Audit Matters (Cont'd)**

<b>Key Audit Matter (Cont'd)</b>	<b>How our audit addressed the Key Audit Matter (Cont'd)</b>
<p>(III) Recognition of deferred tax assets</p> <p>Refer to Note V (23), Note V (26) and Note VII (17)</p> <p>As at 31 December 2017, Huaxin Cement Group's deferred tax assets amounted to RMB378,042,451.</p> <p>Deferred tax assets in respect of deductible temporary differences and tax losses were recognised if it is probable that future taxable profit will be available to utilise those temporary differences and losses based on management's estimate.</p> <p>We identified the recognition of deferred tax assets as a key audit matter by considering its material impact to the consolidated financial statements and the involvement of management's significant estimates and judgements.</p>	<p>Our audit procedures to assess recognition of deferred tax assets included the following:</p> <ul style="list-style-type: none"> <li>• Checked the accuracy of calculation of deferred tax assets.</li> <li>• Obtained supporting documents, including income tax final settlement report, tax annual filing report and accounting records, checked the existence of tax losses and deductible temporary differences and accuracy of amounts and expiry period against these documents;</li> <li>• Obtained the entities' profit forecast approved by management, evaluated the reasonableness of the forecast based on the industry trend and historical financial performance of the entities.</li> <li>• Reviewed the recognition of deferred tax assets of tax losses and deductible temporary differences is to the extent of taxable income will be available in the future.</li> </ul> <p>Based on the procedures performed above, we found management's estimate applied on recognition of deferred tax assets to be supported by available evidence.</p>

### **Other Information**

Management of Huaxin Cement is responsible for the other information. The other information comprises all of the information included in 2017 annual report of Huaxin Cement other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management of Huaxin Cement is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, management is responsible for assessing Huaxin Cement's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate Huaxin Cement or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Huaxin Cement's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**Auditor's Responsibilities for the Audit of the Financial Statements  
(Cont'd)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Huaxin Cement's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Huaxin Cement to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Huaxin Cement to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of Huaxin Cement Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Auditor's Responsibilities for the Audit of the Financial Statements  
(Cont'd)**

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

HUAXIN CEMENT CO., LTD.

II Financial Statement

**CONSOLIDATED BALANCE SHEET**

**AS AT 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)

[English Translation for Reference Only]

ASSETS	Note	31 December 2017 Consolidated	31 December 2016 Consolidated
<b>Current assets</b>			
Cash at bank and in hand	VII(1)	3,606,246,276	3,719,378,221
Financial assets at fair value through profit or loss	VII(2)	453,990,407	801,555,568
Notes receivable	VII(3)	1,711,160,593	828,792,121
Accounts receivable	VII(4)	642,210,893	502,371,725
Advances to suppliers	VII(5)	225,637,668	66,412,138
Other receivables	VII(6)	379,786,691	211,761,982
Inventories	VII(7)	1,621,482,745	1,174,261,964
Current portion of non-current assets		3,600,000	3,600,000
Other current assets	VII(8)	122,926,210	116,672,478
<b>Total current assets</b>		<b>8,767,041,483</b>	<b>7,424,806,197</b>
<b>Non-current assets</b>			
Available-for-sale financial assets	VII(9)	71,198,874	69,247,625
Long-term receivables		31,124,087	30,010,131
Long-term equity investments	VII(10)	435,003,431	387,513,512
Fixed assets	VII(11)	15,756,941,609	15,343,820,403
Construction in progress	VII(12)	1,248,084,829	771,069,947
Construction materials	VII(13)	54,877,711	36,837,335
Fixed assets pending for disposal		1,721,313	127,920
Intangible assets	VII(14)	3,026,753,484	2,295,250,101
Goodwill	VII(15)	447,472,492	447,472,492
Long-term prepaid expenses	VII(16)	281,061,433	335,441,362
Deferred tax assets	VII(17)	378,042,451	285,152,385
<b>Total non-current assets</b>		<b>21,732,281,714</b>	<b>20,001,943,213</b>
<b>TOTAL ASSETS</b>		<b>30,499,323,197</b>	<b>27,426,749,410</b>

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

CONSOLIDATED BALANCE SHEET (CONT'D)

AS AT 31 DECEMBER 2017

(All amounts in RMB Yuan unless otherwise stated)

[English Translation for Reference Only]

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	31 December 2017 Consolidated	31 December 2016 Consolidated
<b>Current liabilities</b>			
Short-term borrowings	VII(19)	1,141,500,000	904,000,000
Notes payable	VII(20)	14,450,000	148,902,088
Accounts payable	VII(21)	4,139,575,215	3,132,394,785
Advances from customers	VII(22)	562,705,382	307,809,502
Employee benefits payable	VII(23)	281,087,404	155,094,320
Taxes payable	VII(24)	507,945,221	245,703,466
Interests payable	VII(25)	113,171,188	144,763,154
Dividends payable	VII(26)	174,309,238	66,112,234
Other payables	VII(27)	622,919,230	453,881,372
Current portion of non-current liabilities	VII(28)	1,682,733,582	4,242,439,250
<b>Total current liabilities</b>		<b>9,240,396,460</b>	<b>9,801,100,171</b>
<b>Non-current liabilities</b>			
Long-term borrowings	VII(29)	4,058,959,121	3,634,947,631
Debentures payable	VII(30)	3,295,605,346	1,992,645,597
Long-term payables	VII(31)	99,385,421	140,265,753
Provisions	VII(32)	162,893,548	114,916,662
Deferred income	VII(33)	252,146,422	195,239,747
Long-term employee benefits payable	VII(34)	96,353,657	27,590,864
Deferred tax liabilities	VII(17)	138,012,090	146,345,558
<b>Total non-current liabilities</b>		<b>8,103,355,605</b>	<b>6,251,951,812</b>
<b>Total liabilities</b>		<b>17,342,752,065</b>	<b>16,053,051,983</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	VII(35)	1,497,571,325	1,497,571,325
Capital surplus	VII(36)	2,510,252,020	2,509,753,457
Other comprehensive income	VII(37)	-20,053,747	2,889,647
Surplus reserves	VII(38)	761,464,902	588,645,153
Undistributed profits	VII(39)	7,150,569,774	5,396,004,651
<b>Total equity attributable to shareholders of the Company</b>		<b>11,899,804,274</b>	<b>9,994,864,233</b>
<b>Minority interests</b>		<b>1,255,766,858</b>	<b>1,378,833,194</b>
<b>Total shareholders' equity</b>		<b>13,155,571,132</b>	<b>11,373,697,427</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>30,499,323,197</b>	<b>27,426,749,410</b>

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing  
Principal in charge of accounting: Ms. Kong Lingling

Head of accounting department: Mr. Wu Xin



HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)  
[English Translation for Reference Only]

<b>ASSETS</b>	<b>Note</b>	<b>31 December 2017 Company</b>	<b>31 December 2016 Company</b>
<b>Current assets</b>			
Cash at bank and in hand		2,452,643,578	2,479,003,755
Financial assets at fair value through profit or loss		453,990,407	801,555,568
Notes receivable		446,551,919	282,425,594
Accounts receivable	XVIII(1)	342,023,268	341,025,176
Advances to suppliers		106,287,105	10,367,685
Dividends receivable		20,000,000	800,000
Other receivables	XVIII(2)	5,408,951,612	4,938,613,040
Inventories		44,099,137	56,312,850
Current portion of non-current assets		4,855,490	4,855,490
Other current assets		12,828,851	8,191,865
<b>Total current assets</b>		<b>9,292,231,367</b>	<b>8,923,151,023</b>
<b>Non-current assets</b>			
Available-for-sale financial assets		50,143,374	40,992,125
Long-term receivables		19,239,519	22,564,378
Long-term equity investments	XVIII(3)	9,674,396,153	7,324,702,303
Fixed assets		336,047,804	381,600,329
Construction in progress		13,211,609	5,648,262
Construction materials		84,573	96,228
Intangible assets		49,881,743	54,342,068
Long-term prepaid expenses		881,758	3,917,385
Deferred tax assets		39,026,824	83,433,463
<b>Total non-current assets</b>		<b>10,182,913,357</b>	<b>7,917,296,541</b>
<b>TOTAL ASSETS</b>		<b>19,475,144,724</b>	<b>16,840,447,564</b>

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**COMPANY BALANCE SHEET (CONT'D)  
AS AT 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)  
[English Translation for Reference Only]

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Note</b>	<b>31 December 2017 Company</b>	<b>31 December 2016 Company</b>
<b>Current liabilities</b>			
Short-term borrowings		220,000,000	-
Accounts payable		280,018,627	337,763,690
Advances from customers		21,027,466	17,862,536
Employee benefits payable		29,714,834	44,506,553
Taxes payable		39,351,347	38,847,912
Interests payable		109,814,961	140,261,325
Dividends payable		29,581,523	576,326
Other payables		1,826,220,501	715,053,105
Current portion of non-current liabilities		1,117,508,420	3,516,269,036
<b>Total current liabilities</b>		<b>3,673,237,679</b>	<b>4,811,140,483</b>
<b>Non-current liabilities</b>			
Long-term borrowings		2,854,573,061	1,975,979,112
Debentures payable		3,295,605,346	1,992,645,597
Provisions		7,551,106	7,160,094
Deferred income		16,035,000	19,337,667
Long-term employee benefits payable		19,236,904	10,582,771
<b>Total non-current liabilities</b>		<b>6,193,001,417</b>	<b>4,005,705,241</b>
<b>Total liabilities</b>		<b>9,866,239,096</b>	<b>8,816,845,724</b>
<b>Shareholders' equity</b>			
Share capital		1,497,571,325	1,497,571,325
Capital surplus		2,908,595,304	2,908,595,304
Other comprehensive income		25,917,737	19,054,301
Surplus reserves		761,464,902	588,645,153
Undistributed profits		4,415,356,360	3,009,735,757
<b>Total shareholders' equity</b>		<b>9,608,905,628</b>	<b>8,023,601,840</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>19,475,144,724</b>	<b>16,840,447,564</b>

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing  
Principal in charge of accounting: Ms. Kong Lingling

Head of accounting department:  
Mr. Wu Xin

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB yuan unless otherwise stated)  
[English Translation for Reference Only]

Item	Note	2017 Consolidated	2016 Consolidated
<b>Revenue</b>	VII(40)	20,889,291,990	13,525,759,490
Less: Cost of sales	VII(40)	14,716,492,598	9,971,000,727
Taxes and surcharges	VII(41)	331,811,251	207,559,915
Selling and distribution expenses	VII(42)	1,402,119,400	1,105,521,093
General and administrative expenses	VII(43)	1,204,019,321	939,281,428
Financial expenses - net	VII(44)	660,630,215	569,399,572
Asset impairment losses	VII(47)	269,466,670	35,624,701
Add: Changes in fair value recognised in profit or loss	VII(46)	2,697,595	862,070
Investment income	VII(48)	108,409,622	85,511,591
Including: Investment income from associates and joint ventures		99,089,919	77,974,415
Gains on disposals of assets (loss presented with "-")	VII(49)	-1,576,103	-98,858,886
Other income	VII(50)	165,219,286	-
<b>Operating profit</b>		2,579,502,935	684,886,829
Add: Non-operating income	VII(51)	272,310,194	152,856,829
Less: Non-operating expenses	VII(52)	39,778,618	30,748,174
<b>Total profit</b>		2,812,034,511	806,995,484
Less: Income tax expenses	VII(53)	600,276,283	186,162,772
<b>Net profit</b>		2,211,758,228	620,832,712
Classified by going concern basis		2,211,758,228	620,832,712
Net profit of continuing operation		2,211,758,228	620,832,712
Net profit of discontinuing operation		-	-
Classified by ownership		2,211,758,228	620,832,712
Minority interests		134,117,660	168,892,299
Net profit attributable to shareholders of the Company		2,077,640,568	451,940,413
<b>Other comprehensive income - net of tax</b>		-51,719,266	14,350,822
Attributable to shareholders of the Company, net of tax		-22,943,394	11,876,199
Items which will be reclassified subsequently to profit or loss		-22,943,394	11,876,199
Changes in fair value of available-for-sale financial assets (losses presented with "-")		6,863,436	-1,588,289
Differences on translation of foreign currency financial statements		-29,806,830	13,464,488
Attributable to minority interest, net of tax		-28,775,872	2,474,623
<b>Total comprehensive income</b>		2,160,038,962	635,183,534
Attributable to shareholders of the Company		2,054,697,174	463,816,612
Attributable to minority interest		105,341,788	171,366,922
<b>Earnings per share</b>			
Basic earnings per share (RMB Yuan)	VII(54)(a)	1.39	0.30
Diluted earnings per share (RMB Yuan)	VII(54)(b)	1.39	0.30

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing      Principal in charge of accounting: Ms. Kong Lingling      Head of accounting department: Mr. Wu Xin

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**COMPANY INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)  
[English Translation for Reference Only]

Item	Note	2017 Company	2016 Company
<b>Revenue</b>	XVIII(4)	1,487,413,678	1,068,415,060
Less: Cost of sales	XVIII(4)	1,080,110,074	747,488,327
Taxes and surcharges		14,100,932	15,010,043
Selling and distribution expenses		46,071,180	48,072,191
General and administrative expenses		188,088,827	203,699,306
Financial expenses - net		163,154,455	146,667,025
Asset impairment loss		1,723,104	5,465,272
Add: Changes in fair value recognised in profit or loss		2,697,595	862,070
Investment income	XVIII(5)	1,776,247,518	475,537,203
Including: Investment income from associates and joint ventures		98,670,161	77,988,231
Gains on disposals of assets (loss presented with "-")		-1,256,330	-95,833,898
Other income		5,077,167	-
<b>Operating profit</b>		1,776,931,056	282,578,271
Add: Non-operating income		162,969	10,487,012
Less: Non-operating expenses		1,818,427	347,000
<b>Total profit</b>		1,775,275,598	292,718,283
Less: Income tax expenses		47,078,113	-45,724,460
<b>Net profit</b>		1,728,197,485	338,442,743
Classified by going concern basis		1,728,197,485	338,442,743
Net profit of continuing operation		1,728,197,485	338,442,743
Net profit of discontinuing operation		-	-
<b>Other comprehensive income - net of tax</b>		6,863,436	-1,588,289
Items which will be reclassified subsequently to profit or loss		6,863,436	-1,588,289
Changes in fair value of available-for-sale financial assets (losses presented with "-")		6,863,436	-1,588,289
<b>Total comprehensive income</b>		1,735,060,921	336,854,454

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing      Principal in charge of accounting: Ms. Kong Lingling      Head of accounting department: Mr. Wu Xin

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)  
[English Translation for Reference Only]

Item	Note	2017 Consolidated	2016 Consolidated
<b>Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		23,796,537,126	15,944,541,706
Refund of taxes and surcharges		109,776,064	129,332,742
Cash received from other operating activities	VII(55)(a)	106,623,146	149,497,060
<b>Sub-total of cash inflows</b>		24,012,936,336	16,223,371,508
Cash paid for goods and services		15,720,483,792	9,988,834,513
Cash paid to and on behalf of employees		1,910,326,299	1,449,477,281
Payments of taxes and surcharges		1,792,139,248	1,270,941,592
Cash paid for other operating activities	VII(55)(b)	685,910,949	417,967,235
<b>Sub-total of cash outflows</b>		20,108,860,288	13,127,220,621
<b>Net cash flows from operating activities</b>	VII(56)(a)	3,904,076,048	3,096,150,887
<b>Cash flows from investing activities</b>			
Cash received from disposal of investments		1,157,200,000	30,013,282
Cash received from returns on investments		62,537,786	16,779,872
Net cash received from disposal of fixed assets and intangible assets		28,626,285	36,180,007
Net cash received from disposal of subsidiaries and other business units	VII(56)(b)	-	4,287,302
Cash received from other investing activities	VII(55)(c)	83,528,027	42,169,323
<b>Sub-total of cash inflows</b>		1,331,892,098	129,429,786
Cash paid to acquire fixed assets, intangible assets and other long-term assets		1,121,968,095	1,212,058,252
Cash paid to acquire investments		800,205,327	826,105,489
Net cash paid to acquire subsidiaries	VII(56)(b)	1,044,025,863	95,802,486
Cash paid for other investing activities		-	-
<b>Sub-total of cash outflows</b>		2,966,199,285	2,133,966,227
<b>Net cash flows from investing activities</b>		-1,634,307,187	-2,004,536,441
<b>Cash flows from financing activities</b>			
Cash received from capital contributions		6,000,000	2,003,905
Including: Cash received by subsidiaries from minority shareholders		6,000,000	2,003,905
Cash received from borrowings		2,985,363,377	3,285,612,317
Cash received from issuance of debentures		-	1,193,500,000
Cash received from other financing activities	VII(55)(d)	217,951,576	154,195,344
<b>Sub-total of cash inflows</b>		3,209,314,953	4,635,311,566
Cash repayments of borrowings		4,252,566,175	3,218,125,291
Cash payments for interest expenses and distribution of dividends		833,256,542	658,200,179
Including: Cash payments for dividends or profit to minority shareholders of subsidiaries		128,616,539	96,635,648
Cash payments for other financing activities	VII(55)(e)	482,978,017	79,033,951
<b>Sub-total of cash outflows</b>		5,568,800,734	3,955,359,421
<b>Net cash flows from financing activities</b>		-2,359,485,781	679,952,145
<b>Effect of foreign exchange rate changes on cash</b>		-20,260,302	8,241,422
<b>Net increase in cash (decrease presented with "-")</b>	VII(56)(a)	-109,977,222	1,779,808,013
Add: Cash at beginning of year		3,642,286,117	1,862,478,104
<b>Cash at end of year</b>	VII(56)(c)	3,532,308,895	3,642,286,117

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing      Principal in charge of accounting: Ms. Kong Lingling      Head of accounting department: Mr. Wu Xin

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**COMPANY CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)  
[English Translation for Reference Only]

Item	Note	2017 Company	2016 Company
<b>Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		1,622,832,192	1,003,219,765
Refund of taxes and surcharges		230,127	49,959,070
Cash received from other operating activities		148,410,371	65,552,125
<b>Sub-total of cash inflows</b>		<b>1,771,472,690</b>	<b>1,118,730,960</b>
Cash paid for goods and services		1,372,941,364	893,672,266
Cash paid to and on behalf of employees		205,997,889	146,811,410
Payments of taxes and surcharges		73,451,066	81,459,057
Cash paid for other operating activities		25,515,148	44,882,086
<b>Sub-total of cash outflows</b>		<b>1,677,905,467</b>	<b>1,166,824,819</b>
<b>Net cash flows from operating activities</b>		<b>93,567,223</b>	<b>-48,093,859</b>
<b>Cash flows from investing activities</b>			
Cash received from disposal of investments		1,150,000,000	25,000,000
Cash received from returns on investments		1,603,278,591	305,915,635
Net cash received from disposal of fixed assets and intangible assets		321,966	556,189
Net cash received from disposal of subsidiaries and other business units		-	4,290,000
Cash received from other investing activities		1,141,588,495	612,237,129
<b>Sub-total of cash inflows</b>		<b>3,895,189,052</b>	<b>947,998,953</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		25,119,452	10,391,783
Cash paid to acquire investments		800,205,327	826,105,489
Net cash paid to acquire subsidiaries		1,427,640,000	92,345,766
Cash paid for other investing activities		1,974,985,685	154,553,625
<b>Sub-total of cash outflows</b>		<b>4,227,950,464</b>	<b>1,083,396,663</b>
<b>Net cash flows from investing activities</b>		<b>-332,761,412</b>	<b>-135,397,710</b>
<b>Cash flows from financing activities</b>			
Cash received from borrowings		1,760,013,652	1,804,000,000
Cash received from issuance of debentures		-	1,193,500,000
Cash received from other financing activities		785,632,762	106,395,344
<b>Sub-total of cash inflows</b>		<b>2,545,646,414</b>	<b>3,103,895,344</b>
Cash repayments of borrowings		1,761,651,986	1,063,559,400
Cash payments for interest expenses and distribution of dividends		550,828,179	381,167,872
Cash payments for other financing activities		4,920,604	3,379,791
<b>Sub-total of cash outflows</b>		<b>2,317,400,769</b>	<b>1,448,107,063</b>
<b>Net cash flows from financing activities</b>		<b>228,245,645</b>	<b>1,655,788,281</b>
<b>Effect of foreign exchange rate changes on cash</b>		<b>-4,492,812</b>	<b>8,669,124</b>
<b>Net increase in cash (decrease presented with "-")</b>		<b>-15,441,356</b>	<b>1,480,965,836</b>
Add: Cash at beginning of year		2,450,928,763	969,962,927
<b>Cash at end of year</b>		<b>2,435,487,407</b>	<b>2,450,928,763</b>

The accompanying notes form an integral part of these financial statements.

Legal representative:  
Mr. Li Yeqing

Principal in charge of accounting:  
Ms. Kong Lingling

Head of accounting department:  
Mr. Wu Xin

HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)

[English Translation for Reference Only]

	Attributable to shareholders of the Company						Minority interests	Total shareholders' equity
	Share capital	Capital surplus	Less: Treasury share	Other comprehensive income	Surplus reserves	Retained earnings		
Note	VII(35)	VII(36)		VII(37)	VII(38)	VII(39)		
<b>Balance at 1 January 2016</b>	1,497,571,325	2,508,997,954	-	-8,986,552	554,800,879	5,053,285,645	1,371,885,407	10,977,554,658
<b>Movements for the year ended 31 December 2016</b>								
Total comprehensive income								
Net profit	-	-	-	-	-	451,940,413	168,892,299	620,832,712
Other comprehensive income	-	-	-	11,876,199	-	-	2,474,623	14,350,822
Total comprehensive income	-	-	-	11,876,199	-	451,940,413	171,366,922	635,183,534
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	-	-	-	-	-	-	2,003,905	2,003,905
Share-based payment included in shareholders' equity	-	-	-	-	-	-	-	-
Others	-	256,936	-	-	-	-	-12,602,720	-12,345,784
Profit distribution								
Appropriation to surplus reserves	-	-	-	-	33,844,274	-33,844,274	-	-
Profit distribution to shareholders	-	-	-	-	-	-74,878,566	-153,820,320	-228,698,886
Others	-	-	-	-	-	-	-	-
Transfer within shareholders' equity								
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-
Others	-	498,567	-	-	-	-498,567	-	-
<b>Balance at 31 December 2016</b>	1,497,571,325	2,509,753,457	-	2,889,647	588,645,153	5,396,004,651	1,378,833,194	11,373,697,427

**HUAXIN CEMENT CO., LTD.**

**II Financial Statement (Cont'd)**

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)

[English Translation for Reference Only]

	Attributable to shareholders of the Company						Minority interests	Total shareholders' equity
	Share capital	Capital surplus	Less: Treasury share	Other comprehensive income	Surplus reserves	Retained earnings		
Note	VII(35)	VII(36)		VII(37)	VII(38)	VII(39)		
<b>Balance at 1 January 2017</b>	1,497,571,325	2,509,753,457	-	2,889,647	588,645,153	5,396,004,651	1,378,833,194	11,373,697,427
<b>Movements for the year ended 31 December 2017</b>								
Total comprehensive income								
Net profit	-	-	-	-	-	2,077,640,568	134,117,660	2,211,758,228
Other comprehensive income	-	-	-	-22,943,394	-	-	-28,775,872	-51,719,266
Total comprehensive income	-	-	-	-22,943,394	-	2,077,640,568	105,341,788	2,160,038,962
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	-	-	-	-	-	-	39,551,379	39,551,379
Share-based payment included in shareholders' equity	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-57,623,689	-57,623,689
Profit distribution								
Appropriation to surplus reserves	-	-	-	-	172,819,749	-172,819,749	-	-
Profit distribution to shareholders	-	-	-	-	-	-149,757,133	-210,335,814	-360,092,947
Others	-	-	-	-	-	-	-	-
Transfer within shareholders' equity								
Transfer from capital surplus to share capital	-	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-	-
Others	-	498,563	-	-	-	-498,563	-	-
<b>Balance at 31 December 2017</b>	1,497,571,325	2,510,252,020	-	-20,053,747	761,464,902	7,150,569,774	1,255,766,858	13,155,571,132

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing

Principal in charge of accounting: Ms. Kong Lingling

Head of accounting department: Mr. Wu Xin



HUAXIN CEMENT CO., LTD.

II Financial Statement (Cont'd)

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2016**

(All amounts in RMB Yuan unless otherwise stated)

[English Translation for Reference Only]

Item	Share capital	Capital surplus	Less: Treasury share	Other comprehensive income	Surplus reserves	Retained earnings	Total shareholders' equity
<b>Balance at 1 January 2016</b>	1,497,571,325	2,908,595,304	-	20,642,590	554,800,879	2,780,015,854	7,761,625,952
<b>Movements for the year ended 31 December 2016</b>							
Total comprehensive income							
Net profit	-	-	-	-	-	338,442,743	338,442,743
Other comprehensive income	-	-	-	-1,588,289	-	-	-1,588,289
Total comprehensive income	-	-	-	-1,588,289	-	338,442,743	336,854,454
Capital contribution and withdrawal by shareholders							
Capital contribution by shareholders	-	-	-	-	-	-	-
Share-based payment included in shareholders' equity	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Profit distribution							
Appropriation to surplus reserves	-	-	-	-	33,844,274	-33,844,274	-
Profit distribution to shareholders	-	-	-	-	-	-74,878,566	-74,878,566
Others	-	-	-	-	-	-	-
Transfer within shareholders' equity							
Transfer from capital surplus to share capital	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
<b>Balance at 31 December 2016</b>	1,497,571,325	2,908,595,304	-	19,054,301	588,645,153	3,009,735,757	8,023,601,840

**HUAXIN CEMENT CO., LTD.**

**II Financial Statement (Cont'd)**

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB Yuan unless otherwise stated)

[English Translation for Reference Only]

Item	Share capital	Capital surplus	Less: Treasury share	Other comprehensive income	Surplus reserves	Retained earnings	Total shareholders' equity
<b>Balance at 1 January 2017</b>	1,497,571,325	2,908,595,304	-	19,054,301	588,645,153	3,009,735,757	8,023,601,840
<b>Movements for the year ended 31 December 2017</b>							
Total comprehensive income							
Net profit	-	-	-	-	-	1,728,197,485	1,728,197,485
Other comprehensive income	-	-	-	6,863,436	-	-	6,863,436
Total comprehensive income	-	-	-	6,863,436	-	1,728,197,485	1,735,060,921
Capital contribution and withdrawal by shareholders							
Capital contribution by shareholders	-	-	-	-	-	-	-
Share-based payment included in shareholders' equity	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Profit distribution							
Appropriation to surplus reserves	-	-	-	-	172,819,749	-172,819,749	-
Profit distribution to shareholders	-	-	-	-	-	-149,757,133	-149,757,133
Others	-	-	-	-	-	-	-
Transfer within shareholders' equity							
Transfer from capital surplus to share capital	-	-	-	-	-	-	-
Transfer from surplus reserves to share capital	-	-	-	-	-	-	-
Surplus reserves used to offset accumulated losses	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
<b>Balance at 31 December 2017</b>	1,497,571,325	2,908,595,304	-	25,917,737	761,464,902	4,415,356,360	9,608,905,628

The accompanying notes form an integral part of these financial statements.

Legal representative: Mr. Li Yeqing

Principal in charge of accounting: Ms. Kong Lingling

Head of accounting department: Mr. Wu Xin

## HUAXIN CEMENT CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB yuan unless otherwise stated)  
[English Translation for Reference Only]

#### III General information

Huaxin Cement Co., Ltd. (the "Company") is a limited liability company incorporated in the People's Republic of China (the "PRC"). In 1994, as approved by Hubei Provincial People's Government, the Company's shares were listed on the Shanghai Stock Exchange. In 2006, as approved by the Ministry of Commerce of the PRC, the legal status of Company was changed to a Sino-foreign joint stock limited company. In May 2011, based on its total share capital of 403,600,000 shares at the end of 2010, the Company allotted shares from its capital surplus at 10 shares for every 10 shares, amounting to RMB403,600,000. As a result, the share capital of the Company increased from 403,600,000 shares to 807,200,000 shares. On 4 November 2011, a private placement in A share was completed in which additional 128,099,928 shares were issued to designated investors. As a result, the total shares of the Company increased to 935,299,928. In June 2014, based on its total share capital of 935,299,928 shares at the end of 2013, the Company allotted shares from its capital surplus at 6 shares for every 10 shares, amounting to RMB561,179,957. As a result, the total shares of the Company increased to 1,496,479,885. In July 2015, 1,091,440 stock options were exercised at RMB9.06 for Phase I stock option in the Company's equity incentive plan. As a result, the total shares of the Company changed to 1,497,571,325, including 972,771,325 A shares and 524,800,000 B shares.

The Company and its subsidiaries (together, the "Group") are principally engaged in manufacturing and sales of cement. The Group's revenue is mainly generated in the PRC. The address of the Company's registered office is No. 897, Huangshi Avenue, Huangshi City, Hubei Province and the office address is Building B, Huaxin Building, No.426, Gaoxin Avenue, East Lake High-tech Development Zone, Wuhan City, Hubei Province.

Principal subsidiaries included in the scope of consolidation are listed in Note IX.

These financial statements were authorised for issue by the Company's Board of Directors on 22 March 2018.

#### IV Basis of preparation of the financial statements

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS"), and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting* issued by China Securities Regulatory Commission.

Management has performed an assessment on the Group's liquidity, by considering the Group's available banking facilities, the mid-term notes which have been approved for issuance by relevant authorities and other alternative financing plans, management is of the view that the Group will be able to settle its liabilities as they fall due and carry on its business without a significant curtailment of operations in the 12 months from the balance sheet date, and thus has prepared these financial statements on a going concern basis.

## HUAXIN CEMENT CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB yuan unless otherwise stated)  
[English Translation for Reference Only]

#### **V Summary of significant accounting policies and accounting estimates**

The Group determines its specific accounting policies and accounting estimates based on its business nature, which are mainly the provision of bad debts (Note V(9)), costing of inventories (Note V(10)), impairment of long-term equity investments, fixed assets and goodwill (Note V(17)), depreciation of fixed assets and amortisation of intangible assets (Note V(12) and II(15)), timing of revenue recognition (Note V(21)), etc.

Critical judgements in determining significant accounting estimates are detailed in Note V(26).

#### **(1) Statement of compliance with the Accounting Standards for Business Enterprises**

The financial statements of the Company for the year ended 31 December 2017 are prepared in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and company financial position of the Company as at 31 December 2017 and of consolidated and company financial performance, cash flows of the Company for the year then ended.

#### **(2) Accounting year**

The Company's accounting year starts on 1 January and ends on 31 December.

#### **(3) Recording currency**

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates ("the recording currency"). The financial statements are presented in Renminbi ("RMB").

#### **(4) Business combinations**

Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs of equity securities or debt securities that are attributable to the business combination are included in their initially recognised amounts.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Other comprehensive income related to the acquiree's previously held equity interests are recognised in profit or loss. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB yuan unless otherwise stated)  
[English Translation for Reference Only]

**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(5) Preparation of consolidated financial statements**

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, where the accounting policies of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognised as minority interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the Company. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the Company and minority interests in accordance with the allocation proportion of the Company in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the Company and minority interests in accordance with the allocation proportion of the Company in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

**(6) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Restricted cash at bank is excluded from cash and cash equivalents in the cash flow statement.

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#### **V Summary of significant accounting policies and accounting estimates (Cont'd)**

##### **(7) Foreign currency transaction**

###### **(a) Foreign currency translation**

Foreign currency transactions are translated into the recording currency of each entity of the Group, using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into the recording currency of each entity of the Group, using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

###### **(b) Translation of foreign currency financial statements**

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

##### **(8) Financial instruments**

###### **(a) Financial assets**

###### **(i) Classifications of financial assets**

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

The Group's financial assets include financial assets at fair value through profit or loss, receivables and held-to-maturity investments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets which are mainly for the purpose of selling or repurchase in the near future.

Receivables

Receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(8) Financial instruments (Cont'd)**

(a) Financial assets (Cont'd)

(i) Classifications of financial assets (Cont'd)

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables are measured at amortised cost using the effective interest method.

The profits or losses arising from the change in the fair value of the financial assets at fair value through profit or loss are recognised in the current profits or losses. Interests, cash dividends declared and disposal gain or losses are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. The interest of available-for-sale liability instruments, calculated in accordance with the actual interest rate method, and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the current period.

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(8) Financial instruments (Cont'd)**

(a) Financial assets (Cont'd)

(iii) Impairment of financial assets

Except financial assets at fair value through profit or loss, the Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

The objective evidence proving that the financial asset has been impaired refers to the actually incurred events which, after the financial asset is initially recognised, have an impact on the predicted future cash flow of the said financial asset that can be reliably measured by the Group.

The objective evidence proving that the available-for-sale equity instruments have been impaired includes a significant or prolonged decline in the fair value of an investment in equity instruments. The Group assesses the available-for-sale equity instruments at each balance sheet date. If its fair value at the balance sheet date is lower than its initial investment cost for more than 50% (inclusive) or lower than its initial investment cost for the duration of no less than one year (inclusive), therefore, the impairment loss has occurred. However, if its fair value at the balance sheet date is lower than its initial investment cost for more than 20% (inclusive) but 50%, the Group will take into account other factors, such as price volatility in the judgement of impairment loss.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

When an impairment loss on available-for-sale financial assets measured at fair value incurs, the cumulative losses arising from the decline in fair value that had been recognised directly in equity are transferred out from equity and into impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed into profit or loss for the current period. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised directly in equity.

When an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss for the current period. The previously recognised impairment loss will not be reversed in subsequent periods.



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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(8) Financial instruments (Cont'd)**

(a) Financial assets (Cont'd)

(iv) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in equity, is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings and debentures payable.

Payables, including accounts payable and other payables, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities with maturities within one year (inclusive) are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year (inclusive) at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. During valuation, the Group uses valuation techniques that are applicable in the current situation and supported by adequate available data and other information, selects inputs with the same characteristics as those of assets or liabilities considered in relevant transactions of assets or liabilities by market participants, and gives priority to the use of relevant observable inputs. The Group uses unobservable inputs when relevant observable inputs are not applicable or feasible.

## HUAXIN CEMENT CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### V Summary of significant accounting policies and accounting estimates (Cont'd)

##### (9) Receivables

Receivables comprise notes receivable, accounts receivable and other receivables. Accounts receivable arising from sales of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

- (a) Receivables with amounts that are individually significant and subject to separate assessment for provision for bad debts:

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

Individual account receivable over RMB3,000,000 or other receivables over RMB2,000,000 is considered as "individually significant".

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

- (b) Receivables that are subject to provision for bad debts on the grouping basis

Receivables with amounts that are not individually significant and have not been individually assessed for impairment and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

Basis for grouping is as follows:

Group	Basis
Group 1	Significant and main project receivables
Group 2	Accounts receivable except for significant and main project receivables
Group 3	Deposits, security deposits, advances to staff, reserve funds and transaction amount due from/to who has business relationship
Group 4	Other receivables except for those included in Group 3
Bank acceptance notes	Bank with lower credit risk

Methods of determining provision for bad debts by groupings are as follows:

Group	Basis
Group 1	The provision rate is zero based on the historical loss ratio of receivables with similar credit risk characteristics
Group 2	Ageing analysis method
Group 3	The provision rate is zero based on the historical loss ratio of receivables with similar credit risk characteristics
Group 4	Ageing analysis method
Bank acceptance notes	No provision

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(9) Receivables (Cont'd)**

- (b) Receivables that are subject to provision for bad debts on the grouping basis (Cont'd)

The provision ratios used under the ageing analysis method are as follows:

	Provision rate used for accounts receivable and other receivables (%)
Between 1 and 2 years	10%
Between 2 and 3 years	20%
Over 3 years	40%

- (c) Receivables with amounts that are not individually significant but subject to separate assessment for provision for bad debts

Receivables that are not individually significant are subject to separate impairment assessment and a provision for impairment of such receivables is made if there is objective evidence that the Group will not be able to collect the amount under the original terms.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

- (d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

**(10) Inventories**

- (a) Classification

Inventories include raw materials, work in progress, finished goods, spare parts, auxiliary materials, turnover materials, and completed but unsettled construction contracts, and are measured at the lower of cost and net realisable value.

- (b) Costing of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

- (c) Basis for determining net realisable value of inventories and methods of making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

- (d) The Group adopts the perpetual inventory system.

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(10) Inventories (Cont'd)**

- (e) Amortisation methods of spare parts, auxiliary materials and turnover materials

Turnover materials include low value consumables and packaging materials. Spare parts, auxiliary materials and turnover materials are expensed in full when issued.

- (f) Construction contracts

The costs of construction contract are shown as the accumulative cost and recognised accumulative gross profit/ (loss), net of settled amount.

If the accumulative cost and recognised accumulative gross profit/(loss) exceed the accumulative settled amount, the difference is presented as "completed but unsettled" under inventories; if the accumulative settled amount exceeds the accumulative cost and recognised accumulative gross profit/(loss), the difference is presented as "settled but uncompleted" under advances from customers.

**(11) Long-term equity investments**

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

- (a) Determination of initial investment cost

For long-term equity investments acquired through a business combination: for long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost. If such a business combination is achieved in stages that involve multiple exchange transactions, the cost of long-term equity investment shall be the sum of carrying amount of previously-held equity investment in the acquire and additional investment cost at the acquisition date.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid.

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(11) Long-term equity investments (Cont'd)**

**(b) Subsequent measurement and recognition of related profit and loss**

For long-term equity investments accounted for using the cost method, they are measured at the initial investment costs, and cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost; where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of the net losses of an investee after the carrying amounts of the long-term equity investment together with any long-term interests that in substance form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. The changes of the Group's share of the investee's owner's equity other than those arising from the net profit or loss, other comprehensive income and profit distribution, are recognised in the Group's equity and the carrying amounts of the long-term equity investment are adjusted accordingly. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. Any losses resulting from transactions between the Group and its investees attributable to asset impairment losses are not eliminated.

**(c) Basis for determining existence of control, jointly control or significant influence over investees**

Control is the power to govern an investee and obtain variable returns from participating the investee's activities, and the ability to utilise the power of an investee to affect its returns.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

**(d) Impairment of long-term equity investments**

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note V(17)). Once the impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

## HUAXIN CEMENT CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### V Summary of significant accounting policies and accounting estimates (Cont'd)

##### (12) Fixed assets

###### (a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, office equipment and motor vehicles.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

###### (b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	25 - 40 years	4%	2.4% to 3.8%
Machinery and equipment	5 -18 years	4%	5.3% to 19.2%
Office equipment	5 -10 years	4%	9.6% to 19.2%
Motor vehicles	4 -12 years	4%	8% to 24%

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

###### (c) The carrying amount of a fixed asset is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note V(17)).

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(12) Fixed assets (Cont'd)**

(d) Basis for identification of fixed assets held under finance leases and related measurement

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge (Note V(24) (b)).

Fixed assets held under a finance lease are depreciated on a basis consistent with the depreciation policy adopted for fixed assets that are self-owned. When a leased asset can be reasonably determined that its ownership will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the leased asset is depreciated over the shorter period of the lease term and the period of expected use.

(e) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

**(13) Construction in progress**

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. The carrying amount of construction in progress is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note V(17)).

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(14) Borrowing costs**

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

**(15) Intangible assets**

Intangible assets include land use rights, mining rights, mine restoration fees, computer software and others, which are recognised at cost.

Intangible assets are amortised using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives are as follows:

	Estimated useful lives
Land use rights	40-50 years
Mining rights and mine restoration fees	5-50 years
Computer software and others	5-10 years

For an intangible asset with a finite useful life, its estimated useful life and amortisation method are reviewed at each year-end and adjusted when necessary.

The carrying amount of intangible assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount (Note V(17)).



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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(16) Long-term prepaid expenses**

Long-term prepaid expenses include mine development cost and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

Mine development costs refer to expenditures in connection with infrastructure, exploitation preparation and removal of debris and trees on mines, removal of non-mining raw materials and impurities from ores, after obtaining the right of mining, so as to make it ready for exploitation, and are capitalised in the period in which they are incurred.

**(17) Impairment of long-term assets**

Fixed assets, construction in progress and intangible assets with finite useful lives, and long-term equity investments in subsidiaries and associates are tested for impairment if there is any indication that an asset may be impaired at the balance date. If the result of the impairment assessment indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. A provision for asset impairment is determined and recognised on an individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the CGU to which the asset belongs is determined. A group of assets is the smallest group of assets ("CGU") that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that the asset may be impaired. During the test, the carrying value of goodwill is allocated to the related CGU or group of CGUs that is expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset or CGU including the allocated goodwill is lower than their carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the CGU or group of CGUs, and then deducted from the carrying amounts of other assets within the CGU or group of CGUs in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss mentioned above is recognised, it will not be reversed for the value recovered in the subsequent periods.

**(18) Employee benefits**

Employee benefits are various forms of compensation the Group provide for employees to provide services or terminate labour relations, including short-term employee benefits, pension obligations, termination benefits and other long-term employee benefits.

**(a) Short-term employee benefits**

Short-term employee benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, social security contributions, housing funds, labour union funds, employee education funds and other expenditures incurred in exchange for service rendered by employees.

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#### V Summary of significant accounting policies and accounting estimates (Cont'd)

##### (18) Employee benefits (Cont'd)

###### (b) Pension obligations

The Group operates various post-employment schemes, including both defined beneficial and defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity then the Group has no legal or constructive obligations to pay further contributions. A defined beneficial plan is a pension plan that is not a defined contribution plan (Note VII(34)). The current and past service cost of the defined beneficial plan, recognised in the income statement in employee benefit expense. The net interest cost is calculated by applying the discount rate to the net balance of the defined beneficial obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. In the reporting period, the Group's pension obligations mainly include the basic cost of living subsidies, pension and unemployment insurance for the employees. Living subsidies are classified as defined beneficial pension plans; pension and unemployment insurance are classified as defined contribution pension plans.

###### Pension insurance

Employees of the Group participate in the social pension insurance organized by the local labour and social security departments. The Group pay pension insurance premium to the pension insurance agency with the local provision of social pension insurance base pay and proportional monthly. When the employee is retired, the local labour and social security departments have the responsibility to pay the basic pension insurance to retired employees.

###### (c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates, when the Group can no longer withdraw the offer of those benefits and when the entity recognises costs related to restructuring.

###### Early retirement benefits

The Group provides early retirement benefits to employees who accept voluntary redundancy in exchange for these benefits. Early retirement benefits are the payments of wages or salaries and social insurance for the employees who accept termination plan before the normal retire age. The early retirement benefits plan covers the period from the starting date of termination benefit plan to the normal retire age. When the Group terminates the employment relationship with employees before the end of the employment contract, a provision for early retirement benefits for the compensation arising from termination of the employment relationship with employees to the retire age is recognised with a corresponding change to profit or loss. The difference from change of actuarial assumptions and adjustment on benefit is recognised in the current profits and losses.

Termination benefits falling due within a year are reclassified as a current liability.

## HUAXIN CEMENT CO., LTD.

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#### **V Summary of significant accounting policies and accounting estimates (Cont'd)**

##### **(18) Employee benefits (Cont'd)**

###### **(d) Share-based payment**

Share-based payment refers to a transaction in which the Group grants equity instruments or incurs an equity-instrument-based liability in return for employees' services. The share-based payment of the Group is cash-settled share-based payment.

A cash-settled share-based payment

A cash-settled share-based payment shall be measured based on the liability incurred by the Group that is calculated and determined on the basis of the shares or other equity instruments. For a cash-settled share-based payment, if the right may not be exercised until the vesting period ends, or until the specified performance conditions are met. On each balance sheet date within the vesting period, the services acquired in the current period shall, on the basis of the best estimate of the information about the exercisable right, be recorded as current profit or losses and the corresponding liabilities at the fair value of the liability incurred by the Group. The fair value shall be re-measured each balanced sheet date prior to the relevant liability settlement and each settlement date, and the changes are recognised in the current profits and losses.

##### **(19) Profit distribution**

Cash dividends distribution is recognised as a liability in the period in which the dividends are approved by the shareholders' meeting.

##### **(20) Provisions**

Litigation and mine restoration are recognised when the Group has a present obligation, and it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency such as the risks, uncertainties and the time value of money are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The provision required to be paid within one year started from the balance sheet date is presented as current liability.

###### **(a) Mine restoration**

Pursuant to relevant government regulations, the Group is required to remediate the area that it mines. The Group estimates the remediation obligation on the basis of expected future payment on the remediation efforts and recognised a liability accordingly.

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(21) Revenue recognition**

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Group's activities as described below:

(a) Sales of goods

The Group is engaged in manufacturing and sales of cement. Revenue from sales of goods is recognised when the goods and confirmed documents are delivered, significant risks and rewards of ownership of the goods are transferred to the customers, the Group retains neither continuing managerial involvement to the degree usually associated with the ownership nor effective control over the goods sold, relevant consideration or the documents which grant the right to receive the relevant consideration has been received, and related costs can be measured reliably.

(b) Service income

Service income is recognised when related service is rendered to customers.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

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#### V Summary of significant accounting policies and accounting estimates (Cont'd)

##### (21) Revenue recognition (Cont'd)

###### (d) Construction contract revenue

When the outcome of a construction contract can be estimated reliably, the contract revenue and contract costs are recognised over the period of the contract by reference to the stage of completion. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract.

The outcome of a construction contract can be estimated reliably when all the following conditions are satisfied: (i) The total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) The contract costs attributable to the contract can be clearly identified and measured reliably ; and (iv) both the contract costs to complete the contract and stage of contract completion at the end of the reporting period can be measured reliably .

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the contract costs incurred are not recoverable, the contract cost is recognised as an expense immediately. The contract revenue and contract cost is recognised over the period of the contract by reference to the stage of completion when the uncertainties on stage of completions ceased.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The contract revenue and cost in the current year are recognised as differences between the accumulated revenue and cost recognised by reference to completion stage and the accumulated revenue and cost recognised in prior periods.

##### (22) Government grants

Government grants are the monetary asset that the Group receives from the government for free, including tax refund, financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of monetary assets, the grant is measured at the amount received or receivable.

The government grants related to assets mean the government assets that are obtained by the Group used for purchase or construction or forming the long-term assets by other ways. The government grants related to income refer to all the government grants except those related to assets.

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(22) Government grants (Cont'd)**

Government grants related to assets are recognised as deferred income, and systematically amortized to profit or loss within the useful life of the related asset. For government grants related to income, where the grants are a compensation for related expenses or losses to be incurred by the Group in the subsequent periods, the grants are recognised as deferred income, and included in profit or loss over the periods in which the related costs are recognised; where the grants are a compensation for related expenses or losses already incurred by the Group, the grants are recognised immediately in profit or loss in the current period. The Group adopts same presentation method for same category of government grants.

Government grants related to daily operation are recognised as operating profit, while others are recognised as non-operating income activities.

Finance discount received by the Group are deducted in borrowing expenses.

**(23) Deferred tax assets and deferred tax liabilities**

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax base of assets and liabilities and their carrying amount (temporary differences). Deferred tax asset is recognised for the tax losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax law. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, tax losses and tax credits can be utilized.

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries and associates, unless the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilized, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- The deferred taxes are related to the same tax payer within the Group and the same taxation authority, and;
- That tax payer has a legally enforceable right to offset current tax assets against current tax liabilities.

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(24) Leases**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

**(a) Operating lease**

Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current period.

**(b) Finance lease**

The leased asset is recognised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The difference between the recorded amount of the leased asset and the minimum lease payments is accounted for as unrecognised finance charge and is amortised using the effective interest method over the period of the lease. A long-term payable is recorded at the amount equal to the minimum lease payments less the unrecognised finance charge.

**(25) Segment information**

The Group identifies operating segments based on the internal organisation structure, management requirements and the internal reporting system, and discloses segment information of reportable segments determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (i) the component is able to earn revenues and incur expenses from its ordinary activities; (ii) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (iii) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics, and satisfy certain conditions, they are aggregated into a single operating segment.

**(26) Critical accounting estimates and judgements**

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

**(a) Estimation on impairment of goodwill**

The Group assess goodwill impairment annually. The recoverable amount of CGU and group of CGUs is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (Note VII(15)).

If management revises the gross margin that is used in the calculation of the future cash flows of CGU and group of CGUs, and the revised gross margin is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

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#### **V Summary of significant accounting policies and accounting estimates (Cont'd)**

##### **(26) Critical accounting estimates and judgements (Cont'd)**

###### **(a) Estimation on impairment of goodwill (Cont'd)**

If management revises the growth rate that is used in the calculation of the future cash flows of CGU and group of CGUs, and the revised growth rate is lower than the one currently used, the Group would need to recognise further impairment against goodwill.

If management revises the pre-tax discount rate applied to the discounted cash flows, and the revised pre-tax discount rate is higher than the one currently applied, the Group would need to recognise further impairment against goodwill.

If the actual gross margin, growth rate or pre-tax discount rate is higher or lower than management's estimates, the impairment loss of goodwill previously provided for is not allowed to be reversed by the Group.

###### **(b) Estimated impairment of fixed assets**

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of fixed assets have been determined based on value-in-use calculations. These calculation and valuations require the use of judgment and estimates, such as gross margin, sales growth rate and discount rate.

If the Group revises the gross margin, sales growth rate or discount rate that is used in the calculation of the future cash flows of fixed assets, and the revised factor is lower/higher than the one currently used, the Group would need to recognise further impairment against fixed assets. If the actual gross margin, sale growth rate or discount rate is higher/lower than management's estimates, the impairment loss of fixed assets previously provided for is not allowed to be reversed by the Group.

###### **(c) Depreciation and amortisation**

Fixed assets (exclude the estimated residual values); intangible assets and long-term prepaid expenses are depreciated or amortized on the straight-line basis or the exploitation basis over their estimated useful lives. Management estimated useful lives of fixed assets based on the experience and expected technical innovations periodically to determine the related depreciation and amortisation expenses for the reporting period. When the previous estimate changes significantly, the depreciation and amortisation expenses would be adjusted in future periods.

###### **(d) Income taxes**

The Group is subject to income taxes in different jurisdictions. There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the management in determining the provision for income taxes in each of these jurisdictions. The Group recognises income taxes in each jurisdiction based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



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#### V Summary of significant accounting policies and accounting estimates (Cont'd)

##### (26) Critical accounting estimates and judgements (Cont'd)

###### (e) Deferred taxation

Deferred tax assets arising from related accumulated deductible losses, tax deduction and other deductible temporary differences have been recognised on respective balance sheet dates. Deferred tax asset is recognised for the tax losses that can be carried forward to subsequent years for deduction of the taxable profit with applicable tax rates in accordance with the tax law. Income tax expense (income) and balance of deferred tax may be variable to changes of applicable tax rates and reverse of temporary differences. Changes of estimation mentioned above may cause significant adjustment of deferred tax.

###### (f) Assessment of fair value of net identifiable asset from business combination which is not under common control

In the business combination which is not under common control, the Group estimates fair value of acquiree's net identifiable asset and liability at the acquisition date. When making the estimation, the reasonableness of the parameters and assumptions used in the valuation process is thoroughly considered and only the assumptions that match the concurrent market condition are adopted in the calculation, for instance:

The Group evaluates the land use rights using benchmark land price method. To determine the prices of land use rights, the benchmark land price set by local governments is adjusted by considering land usage period, regional factors, company specific factors and marketable factors. The Group evaluates the mining rights by discount cash flow method. To determine the present value of future cash flow, management estimated the selling price and exploitation cost of mining resources, operating expenses and applicable discount rate of the forecast period.

The appraised value is calculated based on different assumptions and may be different from the actual value because of the influence of uncertainties.

##### (27) Significant changes in accounting policies

In 2017, the Ministry of Finance released the *Accounting Standard for Business Enterprises No. 42—Non-current Assets or Disposal Groups Held for Sale and Discontinued Operations*, revised *Accounting Standard for Business Enterprises No. 16—Government Grants* and the *Circular on Amendment to Formats of Financial Statements of General Industry* and its interpretation (Cai Kuai [2017] 30). The financial statements are prepared in accordance with the above standards and circular, and impacts are as follows:

The nature and the reasons of the changes in accounting policies	The line items affected	The amounts affected
		1 January 2017
The Group recorded the government grants related to operating activities (except for compensation of loan interest) in other income in 2017 (Note VII(50)). The comparative financial information of 2016 was not restated.	Not applicable	Not applicable

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**V Summary of significant accounting policies and accounting estimates (Cont'd)**

**(27) Significant changes in accounting policies (Cont'd)**

The nature and the reasons of the changes in accounting policies (Cont'd)	The line items affected (Cont'd)	The amounts affected (Cont'd)
Received compensation on loan interest deducted borrowing expenses (Note VII (44)) in 2017. The comparative financial information of 2016 was not restated.	Not applicable	Not applicable
		Year end 31 December 2016
The gains or losses on disposals of fixed assets and intangible assets occurred in 2017, were recorded in gain/loss on disposals of assets. The comparative financial information of 2016 was restated accordingly.	Loss on disposals of assets Non-operating income Non-operating expenses	98,858,886 2,854,732 101,713,618

**VI Tax**

**(1) The types and rates of taxes applicable to the Group are set out below:**

Type	Tax rates	Tax base
Corporate income tax (Note (2))	13%, 15%, 20% or 25%	Taxable income
Value-added tax (Note (a))	17%, 11%, 6%, 5%, 3%, 10% or 18%	Taxable value added amount (tax payable represents output VAT calculated using the taxable sales amount multiplied by the effective tax rate less deductible input VAT)
Business tax (Note (a))	3% or 5%	Taxable service income
Urban maintenance and construction tax	1%, 5% or 7%	VAT and business tax payable

- (a)** Pursuant to the Comprehensive Roll-out of the Business Tax to Value Added Tax Transformation Pilot Program ("Caishui[2016] No. 36") jointly issued by the Ministry of Finance of China ("MoF") and the State Administration of Taxation of China ("SAT"), starting from 1 May 2016, certain income derived from construction service and hotel service and interest income are subject to Value Added Tax with the respective tax rate of 11%, 6% and 6%; before 1 May 2016 these service income and interest income are subject to Business Tax with the respective tax rate of 3%, 5% and 5%.

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#### VI Tax (Cont'd)

##### (2) The corporate income tax rate preferences applicable to the subsidiaries are as below:

Huaxin Cement (Tibet) Co., Ltd. and Tibet Huaxin Construction Materials Co., Ltd. are manufacturing enterprises established in western development zone of the PRC. Pursuant to the circular issued by local authority in 2011, the applicable corporate income tax rate for these two entities is 15% from 2011 to 2020. Pursuant to the circular issued by local authority in 2014, 40% of income tax is further exempted for enterprises established in Tibet for the three years from 2015 to 2017.

Huaxin Cement Chongqing Fuling Co., Ltd., Huaxin Cement (Enshi) Co., Ltd., Huaxin Cement (Quxian) Co., Ltd., Huaxin Cement (Wanyuan) Co., Ltd., Huaxin Cement (Lijiang) Co., Ltd., Huaxin Cement (Dongjun) Co., Ltd., Huaxin Guizhou Dingxiao Special Cement Co., Ltd. are manufacturing enterprises established in Western Development Zone of the PRC. Pursuant to circulars issued by respective local municipal authorities in 2011, the applicable corporate income tax rate of these companies for the years from 2011 to 2020 is reduced to 15%.

Huaxin Cement (Huangshi) Equipment Manufacturing Co., Ltd. was approved to be a new high-tech enterprise by Hubei Provincial Science & Technology Department in 2015 for a three-years period from 2015 to 2017. Pursuant to the Corporate Income Tax Law of the PRC, the company can enjoy the preference corporate income tax rate applicable a new high-tech enterprise, thus its applicable corporate income tax rate is 15% for 2017.

Huaxin Gayur Cement LLC and Huaxin Gayur (Sogd) Cement LLC are located in Tajikistan Republic ("Tajikistan"). A new manufacturing company is exempted for income tax for five years since its establishment according to local tax laws. Accordingly, Huaxin Gayur Cement LLC enjoyed tax exemption from September 2011 to September 2016, and Huaxin Gayur (Sogd) Cement LLC can enjoy tax exemption from June 2014 to June 2019. The applicable corporate income tax rate of Huaxin Gayur Cement LLC is 13%. Pursuant to Tax Law of the Tajikistan, both of the entities need to pay withholding tax on dividend based on 12% tax rate.

Cambodian Cement Chakrey Ting Factory Co., Ltd. is located in Cambodia. According to local tax laws, companies with government-encouraged investing project is exempted for income tax during the start-up period, which is earlier of the period from date of obtain of registration certificate to the date firstly generating operating profit or the three-years period from the date firstly generating revenue; after the start-up period, the company is exempt for income tax for a three-year period; afterwards, the company can further enjoy an additional 2-5 years' tax exemption period depending on its industries. According to its industry and investment scale, Cambodian Cement Chakrey Ting Factory Co., Ltd. is entitled on an additional 3 years' tax exemption period. Thus, in total, the company is exempt from income tax for a nine-years period from 2013 to 2021.

Pursuant to the item 3 of clause 27 of Corporate Income Tax Law of the PRC, the business of certain environment engineering companies of the Group can meet the definition of environment protection and energy and water conservation, their profits generated from the business of environment protection and energy and water conservation are exempt from corporate income tax in the first three year starting from date of firstly generating revenue, and followed by a 50% reduction from the fourth year to the sixth year.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(1) Cash at bank and in hand**

	31 December 2017	31 December 2016
Cash in hand	2,581,513	1,039,813
Cash at bank	3,529,727,382	3,641,246,304
Restricted Cash	73,937,381	77,092,104
	<u>3,606,246,276</u>	<u>3,719,378,221</u>

Includes: Cash deposited overseas	215,923,859	238,576,055
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As at 31 December 2017, restricted cash of RMB73,937,381 (31 December 2016: RMB77,092,104) includes bank deposits of RMB21,905,255 that have been pledged to banks as letters of guarantee, bank deposits of RMB28,837,324 that have been pledged as bank acceptance notes and letters of credit, mine restoration deposit of RMB10,905,474, bank deposits of RMB10,600,961 that have been pledged as carbon emission trading deposit, and other bank deposits of RMB1,686,367. The restricted cash is not regarded as cash and cash equivalents in the cash flow statements.

**(2) Financial assets at fair value through profit or loss**

	31 December 2017	31 December 2016
Monetary fund (Note (a))	453,513,045	800,589,796
Others	477,362	965,772
	<u>453,990,407</u>	<u>801,555,568</u>

(a) Monetary fund is issued by China International Fund Management Co., Ltd.. The fair value of this product is based on the market value of the last trading day of 2017. The Group's intended holding period of the monetary fund is within one year.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(3) Notes receivable**

	31 December 2017	31 December 2016
Bank acceptance notes	<u>1,711,160,593</u>	<u>828,792,121</u>

(a) As at 31 December 2017, the pledged notes receivable are as follows:

	31 December 2017
Bank acceptance notes	<u>165,802,127</u>

As at 31 December 2017 notes receivable of RMB165,802,127 was pledged for a group entity's obligation in a finance lease (Note VII(31)).

(b) As at 31 December 2017, notes receivable that has been endorsed or discounted but has not yet expired in the Group are as follows:

	Derecognised
Bank acceptance notes	<u>2,064,506,013</u>

**(4) Accounts receivable**

	31 December 2017	31 December 2016
Accounts receivable	767,089,683	609,843,349
Less: bad debt provision	<u>124,878,790</u>	<u>107,471,624</u>
	<u>642,210,893</u>	<u>502,371,725</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(4) Accounts receivable (Cont'd)**

(a) Accounts receivable ageing analysis is as below:

	31 December 2017	31 December 2016
Within 1 year	540,181,543	337,983,041
Between 1 and 2 years	45,377,782	89,085,682
Between 2 and 3 years	47,377,101	74,509,985
Over 3 years	134,153,257	108,264,641
	<u>767,089,683</u>	<u>609,843,349</u>

As at 31 December 2017, overdue accounts receivable but not impaired amounted to RMB247,403,755 (31 December 2016: RMB221,747,219). Based on analysis of the financial position and credit history of these customers, no objective evidence indicates that the accounts receivable cannot be collected. The ageing analysis is as below:

	31 December 2017	31 December 2016
Within 1 year	236,711,281	198,033,947
Between 1 and 2 years	297,848	23,713,272
Between 2 and 3 years	272,405	-
Over 3 years	10,122,221	-
	<u>247,403,755</u>	<u>221,747,219</u>

(b) Accounts receivable classified by different creditability grouping:

	31 December 2017				31 December 2016			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	%	Amount	% of provision	Amount	%	Amount	% of provision
Debtors with significant balance	57,532,471	8%	47,438,589	82%	59,240,798	10%	28,587,021	48%
Debtors grouped by credit risk								
Group 1	327,840,822	42%	-	-	159,721,158	26%	-	-
Group 2	258,446,302	34%	10,823,086	4%	303,534,855	50%	24,277,512	8%
Others with insignificant balance but assessed individually	123,270,088	16%	66,617,115	54%	87,346,538	14%	54,607,091	63%
	<u>767,089,683</u>	<u>100%</u>	<u>124,878,790</u>	<u>16%</u>	<u>609,843,349</u>	<u>100%</u>	<u>107,471,624</u>	<u>18%</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(4) Accounts receivable (Cont'd)**

- (c) As at 31 December 2017, accounts receivable that are individually significant and the related provision for bad debts is provided on the individual basis are analysed as follows:

	Amounts	Bad debt provision	% of provision	Reason
Client A	12,453,750	12,453,750	100%	Recoverability is doubts due to long ageing
Client B	8,974,092	8,974,092	100%	Recoverability is doubts due to long ageing
Client C	6,322,012	6,322,012	100%	Recoverability is doubts due to long ageing
Client D	6,047,509	6,047,509	100%	Recoverability is doubts due to long ageing
Client E	4,961,267	4,961,267	100%	Recoverability is doubts due to long ageing
Others	18,773,841	8,679,959	46%	Recoverability is doubts due to long ageing
	<u>57,532,471</u>	<u>47,438,589</u>		

- (d) The group of accounts receivable of which bad debt provision is assessed basing on ageing analysis is as following:

	31 December 2017			31 December 2016		
	Carrying Amount	Bad Debt Provision		Carrying Amount	Bad Debt Provision	
	Amount	Amount	% of provision	Amount	Amount	% of provision
Within 1 year	205,726,020	-	-	184,447,071	-	-
Between 1 and 2 years	20,146,760	2,014,676	10%	51,412,495	5,141,250	10%
Between 2 and 3 years	21,104,998	4,221,000	20%	39,669,268	7,933,854	20%
Over 3 years	11,468,524	4,587,410	40%	28,006,021	11,202,408	40%
	<u>258,446,302</u>	<u>10,823,086</u>	<u>4%</u>	<u>303,534,855</u>	<u>24,277,512</u>	<u>8%</u>

- (e) The provision of bad debt recognised in the current year was RMB35,046,068. The provision collected or reversed in the current year was RMB14,094,778. No material provision was collected or reversed in the current year.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(4) Accounts receivable (Cont'd)**

(f) During the year ended 31 December 2017, write-off of accounts receivable amounted to RMB3,544,124. No material individual balance was written-off in the current year.

(g) As at 31 December 2017, amounts due from top five customers are summarised as below:

	Amounts	Bad Debt Provision	% of total balance
Due from top five customers in total	101,776,587	12,995,094	13%

**(5) Advances to suppliers**

(a) Ageing analysis of other receivables is as following:

	31 December 2017		31 December 2016	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	220,351,543	98%	61,260,940	93%
Between 1 and 2 years	4,447,395	2%	4,617,449	7%
Between 2 and 3 years	415,093	0%	330,733	0%
Over 3 years	423,637	0%	203,016	0%
	<u>225,637,668</u>	<u>100%</u>	<u>66,412,138</u>	<u>100%</u>

As at 31 December 2017, advance to suppliers with ageing over one year amounted to RMB5,286,198 (31 December 2016: RMB5,151,198), mainly comprising the prepayments for raw materials for which the Group is still reconciling the balances with the suppliers.

(b) As at 31 December 2017, advances to top five suppliers analysis are as below:

	Amounts	% of total balance
Advances to top five suppliers in total	118,317,851	52%

**(6) Other receivables**

	31 December 2017	31 December 2016
Deposits	325,439,358	140,914,141
Advances to third-party companies	74,574,250	46,065,226
Advances to staff	6,926,409	6,514,110
Others	35,807,551	41,649,509
	<u>442,747,568</u>	<u>235,142,986</u>
Less: bad debt provision	62,960,877	23,381,004
	<u>379,786,691</u>	<u>211,761,982</u>



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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(6) Other receivable (Cont'd)**

(a) Ageing analysis of other receivables is as following:

	31 December 2017	31 December 2016
Within 1 year	185,436,924	77,046,107
Between 1 and 2 years	64,386,809	35,038,830
Between 2 and 3 years	28,356,936	51,206,610
Over 3 years	164,566,899	71,851,439
	<u>442,747,568</u>	<u>235,142,986</u>

As at 31 December 2017, overdue other receivables but not impaired amounted to RMB30,000,000 (31 December 2016: RMB30,000,000). Based on analysis of the financial position of the counter party and the litigation, management is of the view that the amounts can be collected and no provision for impairment is necessary. The ageing analysis of overdue receivables is as below:

	31 December 2017	31 December 2016
Over 3 years	<u>30,000,000</u>	<u>30,000,000</u>

(b) Other receivables classified by category:

	31 December 2017				31 December 2016			
	Carrying Amount		Bad Debt Provisions		Carrying Amount		Bad Debt Provisions	
	Amount	%	Bad debt provision	% of provision	Amount	%	Bad debt provision	% of provision
Debtors with significant balance	55,477,758	13%	48,113,758	87%	48,577,758	21%	14,151,510	29%
Debtors grouped by credit risk								
Group 3	321,612,460	72%	-	-	141,877,717	60%	-	-
Group 4	30,150,513	7%	3,173,531	11%	36,103,863	15%	2,465,623	7%
Items with insignificant balance but assessed individually	35,506,837	8%	11,673,588	33%	8,583,648	4%	6,763,871	79%
	<u>442,747,568</u>	100%	<u>62,960,877</u>	14%	<u>235,142,986</u>	100%	<u>23,381,004</u>	10%

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(6) Other receivable (Cont'd)**

- (c) As at 31 December 2017, the other receivables that are individually significant and the related provision for bad debt is made on the individual basis are analysed as follows:

	Carrying amount	Bad debt provisions	% of provision	Reason of provision
Client F	27,027,341	27,027,341	100%	Recoverability is doubt due to long ageing
Client G	16,510,417	16,510,417	100%	Recoverability is doubt due to long ageing
Client H	7,700,000	2,880,000	37%	Recoverability is doubt due to long ageing
Other	4,240,000	1,696,000	40%	Recoverability is doubt due to long ageing
	<u>55,477,758</u>	<u>48,113,758</u>		

- (d) The group of other receivables of which bad debt provision is assessed basing on ageing analysis is as following:

	31 December 2017			31 December 2016		
	Carrying Amount	Bad Debt Provision		Carrying Amount	Bad Debt Provision	
	Amount	Amount	% of provision	Amount	Amount	% of provision
Within 1 year	19,566,069	-	-	23,563,362	-	-
Between 1 and 2 years	3,141,644	314,164	10%	5,392,783	539,277	10%
Between 2 and 3 years	588,765	117,753	20%	4,663,706	932,741	20%
Over 3 years	6,854,035	2,741,614	40%	2,484,012	993,605	40%
	<u>30,150,513</u>	<u>3,173,531</u>	<u>11%</u>	<u>36,103,863</u>	<u>2,465,623</u>	<u>7%</u>

Provision made for the year amounted to RMB41,099,981. Provision collected or reversed in the current year was RMB585,988. No material provision was reversed in the current year.

- (e) During the year ended 31 December 2017, write-off of other receivable is RMB934,120. There is no significant amount being written-off in the current year.
- (f) As at 31 December 2017, amounts due from top five debtors are analysed as below:

	Relationship with the Group	Amount	Ageing	% of total balance	Bad debt provision
Client I	Third party	38,927,223	Within 1 year	9%	-
Client J	Third party	32,483,804	Over 3 years	7%	-
Client K	Third party	30,000,000	Over 3 years	7%	-
Client F	Third party	27,027,341	Over 3 years	6%	27,027,341
Client L	Third party	20,811,200	Over 3 years	5%	-
		<u>149,249,568</u>		<u>34%</u>	<u>27,027,341</u>

- (g) As at 31 December 2017, no receivable related to government grants was recognised.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(7) Inventories**

(a) Inventories classified by nature:

	31 December 2017			31 December 2016		
	Book value	Provision for write-down	Net book value	Book value	Provision for write-down	Net book value
Raw materials	559,959,938	2,426,954	557,532,984	344,239,561	-	344,239,561
Work in progress	308,187,595	165,122	308,022,473	252,592,451	-	252,592,451
Finished goods	377,050,927	-	377,050,927	299,227,210	77,743	299,149,467
Revolving materials	51,066,002	-	51,066,002	62,415,354	-	62,415,354
Auxiliary materials	130,667,075	14,242,570	116,424,505	78,875,775	8,832,849	70,042,926
Spare parts	244,105,111	32,719,257	211,385,854	174,848,141	29,025,936	145,822,205
	<u>1,671,036,648</u>	<u>49,553,903</u>	<u>1,621,482,745</u>	<u>1,212,198,492</u>	<u>37,936,528</u>	<u>1,174,261,964</u>

(b) Provisions for write-down of inventories are analysed as below:

	31 December 2016	Increase		Decrease		31 December 2017
		Provision	Reverse	Write-off		
Raw material	-	2,658,107	231,153	-	-	2,426,954
Work in progress	-	165,122	-	-	-	165,122
Finished goods	77,743	-	-	77,743	-	-
Auxiliary materials	8,832,849	5,409,721	-	-	-	14,242,570
Spare parts	29,025,936	3,693,321	-	-	-	32,719,257
	<u>37,936,528</u>	<u>11,926,271</u>	<u>231,153</u>	<u>77,743</u>		<u>49,553,903</u>

The provisions for write-down of auxiliary materials and space parts is made based on the latest purchase price, stock ageing and obsolescence.

**(8) Other current assets**

	31 December 2017	31 December 2016
Deductible value-added-tax	99,241,327	92,859,109
Prepaid income tax	15,392,058	11,987,972
Prepaid other taxes	8,292,825	11,825,397
	<u>122,926,210</u>	<u>116,672,478</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(9) Available-for-sale financial assets**

Items	31 December 2017			31 December 2016		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Measured at fair value						
- Available-for-sale equity instruments	38,418,708	-	38,418,708	29,267,459	-	29,267,459
- Available-for-sale debt instruments	21,055,500	-	21,055,500	28,255,500	-	28,255,500
Measured at cost						
- Available-for-sale equity instruments	14,500,266	2,775,600	11,724,666	14,500,266	2,775,600	11,724,666
	<u>73,974,474</u>	<u>2,775,600</u>	<u>71,198,874</u>	<u>72,023,225</u>	<u>2,775,600</u>	<u>69,247,625</u>

(a) Available-for-sale financial assets related information is as follows:

Available-for-sale financial assets measured at fair value:

	31 December 2017	31 December 2016
Available-for-sale equity instruments		
—Fair value	38,418,708	29,267,459
—Cost	3,861,725	3,861,725
—Accumulative other comprehensive income	34,556,983	25,405,734
—Accumulative provision	-	-
Available-for-sale debt instruments		
—Fair value	21,055,500	28,255,500
—Cost	21,055,500	28,255,500
—Accumulative other comprehensive income	-	-
—Accumulative provision	-	-
Total		
—Fair value	59,474,208	57,522,959
—Cost	24,917,225	32,117,225
—Accumulative other comprehensive income	34,556,983	25,405,734
—Accumulative provision	-	-

Available-for-sale financial assets measured at cost:

	31 December 2016 and 31 December 2017		Equity interest in investee	Dividend
	Carrying amount	Provision		
Available-for-sale equity instruments				
—The investee A	11,724,466	-	1.4988%	781,541
—Others	2,775,800	2,775,600		-
	<u>14,500,266</u>	<u>2,775,600</u>		<u>781,541</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(9) Available-for-sale financial assets (Cont'd)**

(b) The information related to available-for-sale financial assets' provision is as following:

	Available-for-sale equity instruments	Available-for-sale debt instruments	Total
31 December 2016	2,775,600	-	2,775,600
Increase	-	-	-
Includes: transferred from other comprehensive income	-	-	-
Decrease	-	-	-
Includes: fair value increased subsequently	Not applicable	-	-
31 December 2017	<u>2,775,600</u>	<u>-</u>	<u>2,775,600</u>

(c) The available-for-sale financial assets measured at cost method held by the Group are mainly unlisted equity instruments. There is no active market for these instruments. And as the estimation of inputs fluctuated violently and the probability of inputs is hard to be measured, the fair value cannot be measured reliably.

(d) The available-for-sale liability instruments represented the investments with fixed investment return (10-18%) based on the investment amount.

**(10) Long-term equity investments**

	31 December 2017	31 December 2016
Associates (Note (a))	435,003,431	387,513,512
Less: Provision for impairment of long- term equity investments	-	-
	<u>435,003,431</u>	<u>387,513,512</u>

The Group doesn't have significant limitation on turning long-term equity investments into cash.

(a) Associates

	31 December 2016	Movement		31 December 2017	Impairment balance
		Share of gain or loss of the associates	Declared dividend		
Tibet high-tech building materials group co. Ltd.	219,497,518	101,576,446	-51,600,000	269,473,964	-
Shanghai Wan'an Huaxin Cement Co., Ltd.	165,525,237	-2,906,285	-	162,618,952	-
Zhangjiajie Tianzi Concrete Co., Ltd.	<u>2,490,757</u>	<u>419,758</u>	<u>-</u>	<u>2,910,515</u>	<u>-</u>
	<u>387,513,512</u>	<u>99,089,919</u>	<u>-51,600,000</u>	<u>435,003,431</u>	<u>-</u>

The related equity information of joint ventures is disclosed in Note IX (2).

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(11) Fixed assets**

	Buildings	Machinery and equipment	Office equipment	Motor vehicles	Total
<b>Cost</b>					
31 December 2016	10,926,915,790	13,852,371,872	299,469,311	531,442,624	25,610,199,597
Addition	1,192,848,702	1,110,494,293	28,228,552	40,953,478	2,372,525,025
Purchase	42,023,134	60,206,203	4,840,602	18,991,658	126,061,597
Transferred from construction in progress	289,840,166	188,398,561	4,912,443	7,297,439	490,448,609
Business combination	860,985,402	861,889,529	18,475,507	14,664,381	1,756,014,819
Reduction	192,448,725	272,733,839	11,461,993	29,414,405	506,058,962
Disposal	55,481,424	108,040,539	10,311,350	25,253,621	199,086,934
Currency translation differences	-136,967,301	-164,693,300	-1,150,643	-4,160,784	-306,972,028
31 December 2017	11,927,315,767	14,690,132,326	316,235,870	542,981,697	27,476,665,660

**Accumulated depreciation**

31 December 2016	2,591,908,763	6,942,411,860	216,199,629	419,719,894	10,170,240,146
Addition	375,175,827	985,094,187	25,992,449	44,186,584	1,430,449,047
Provision	375,175,827	985,094,187	25,992,449	44,186,584	1,430,449,047
Reduction	6,976,854	94,513,658	8,822,394	23,059,040	133,371,946
Disposal	3,983,607	66,772,644	8,302,626	21,129,055	100,187,932
Currency translation differences	-2,993,247	-27,741,014	-519,768	-1,929,985	-33,184,014
31 December 2017	2,960,107,736	7,832,992,389	233,369,684	440,847,438	11,467,317,247

**Provision for impairment losses**

31 December 2016	39,079,047	57,060,001	-	-	96,139,048
Increase this year	88,042,496	106,254,042	73,548	-	194,370,086
Provision	88,042,496	106,254,042	73,548	-	194,370,086
Decrease this year	13,523,481	24,578,849	-	-	38,102,330
Disposal	13,523,481	24,578,849	-	-	38,102,330
31 December 2017	113,598,062	138,735,194	73,548	-	252,406,804

**Net book value**

31 December 2017	8,853,609,969	6,718,404,743	82,792,638	102,134,259	15,756,941,609
31 December 2016	8,295,927,980	6,852,900,011	83,269,682	111,722,730	15,343,820,403

- (a) As at 31 December 2017, buildings and equipment with net book value of RMB450,978,811 (original cost of RMB1,087,108,133) (31 December 2016: net book value of RMB708,160,836, original cost of RMB1,214,686,526), have been pledged to the banks as security for the Group's borrowings (Note VII (19)(a)(i), Note VII (29)(a)(i)).

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(11) Fixed assets (Cont'd)**

- (b) Depreciation charges for the years ended 31 December 2017 and 2016 recognised in the following items of the income statement.

	2017	2016
Cost of sales	1,305,772,818	1,303,528,989
General and administrative expenses	61,302,415	59,241,181
Selling and distribution expenses	63,373,814	67,159,140
	<u>1,430,449,047</u>	<u>1,429,929,310</u>

- (c) In 2017, the transfer from construction in progress to fixed assets amounted to RMB490,448,609 (2016: RMB1,893,690,885)

- (d) As at 31 December 2017, the fixed asset of which the net book value of RMB215,682,632, original cost of RMB300,000,000 was held under finance lease (31 December 2016: net book value of RMB127,200,000 , original cost of RMB150,000,000) (Note XIII). Detailed analysis is as follows:

	Original cost	Accumulated depreciation	Provision for impairment	Net book value
31 December 2017 Machinery and equipment	<u>300,000,000</u>	<u>46,559,423</u>	<u>37,757,945</u>	<u>215,682,632</u>
31 December 2016 Machinery and equipment	<u>150,000,000</u>	<u>22,800,000</u>	<u>-</u>	<u>127,200,000</u>

- (e) Fixed assets pending for ownership certificate:

	Carrying amount	Reason of pending ownership certificate
Buildings	<u>928,160,627</u>	In progress

- (f) The fixed assets in some subsidiaries of the Group have impairment indicator due to the unsatisfactory operating condition. The Group recognised impairment provision of RMB69,533,215 for buildings and impairment of RMB81,597,858 for machinery and equipment during the year.

The recoverable amounts are determined by using the estimated discounted cash flows forecast prepared based on the financial budgets approved by management. Key assumptions applied in discounted cash flows forecast are as follows:

Growth rate	3%-5%
Gross margin	24%-26%
Discount rate	15.8%

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(12) Construction in progress**

	31 December 2017			31 December 2016		
	Book value	Provision for impairment	Net book value	Book value	Provision for impairment	Net book value
Huaxin Environment Engineering Projects	679,409,200	-	679,409,200	415,529,977	-	415,529,977
Huaxin Cement( Tibet) Co., Ltd.3000 TPD Tibet Phase III Cement Production Project	89,240,326	-	89,240,326	-	-	-
Huaxin Narayani Cement Co., Ltd.2800TPD Cement Clinker Production Project	41,206,235	-	41,206,235	-	-	-
Huaxin Cement( Zhaotong) Co., Ltd. Raw Material Grinding Roller Press Project	26,137,928	-	26,137,928	-	-	-
Huaxin Cement( Chibi) Co., Ltd. Raw Material Grinding Rolling Mill Project	24,850,000	-	24,850,000	-	-	-
Huaxin Cement( Zhaotong) Co., Ltd. Cement Raw Material Grinding Roller Press Project	24,500,000	-	24,500,000	-	-	-
Huaxin Cement( Zigui) Co., Ltd. Raw Material Grinding Mill Modification Project	21,725,082	-	21,725,082	-	-	-
Huaxin Concrete Co., Ltd. RMX Station Project	24,993,612	8,341,290	16,652,322	22,287,872	7,401,126	14,886,746
Kunming Chongde Cement Co., Ltd.4000TPD Luquan Phase II Production Project	11,753,981	-	11,753,981	-	-	-
Others	313,605,774	996,019	312,609,755	340,653,224	-	340,653,224
	<u>1,257,422,138</u>	<u>9,337,309</u>	<u>1,248,084,829</u>	<u>778,471,073</u>	<u>7,401,126</u>	<u>771,069,947</u>



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#### VII Notes to the significant items in the consolidated financial statements (Cont'd)

##### (12) Construction in progress (Cont'd)

###### (a) Movement of significant construction in progress:

Project name	Budget	31 December 2016	Business Combination	Addition	Transferred to fixed assets	Provision of assets impairment	31 December 2017	Cost incurred out of budget	Progress	Accumulated capitalized exchange gain or loss and borrowing	Borrowing cost and exchange gain or loss capitalized in the current year	Weighted interest rate	Source of fund
Huaxin Environment Engineering Projects	1,393,703,685	415,529,977	-	513,099,705	-249,220,482	-	679,409,200	77%	77%	54,005,255	22,293,543	5.03%	Working capital and borrowings
Huaxin Cement( Tibet) Co., Ltd.3000 TPD Tibet Phase III Cement Production Project	460,000,000	-	-	89,240,326	-	-	89,240,326	19%	19%	-	-	-	Working capital
Huaxin Narayani Cement Co., Ltd.2800TPD Cement Clinker Production Project	135,180,000	-	-	41,206,235	-	-	41,206,235	30%	30%	-	-	-	Working capital
Huaxin Cement( Zhaotong) Co., Ltd. Raw Material Grinding Roller Press Project	30,500,000	-	-	26,137,928	-	-	26,137,928	86%	86%	-	-	-	Working capital
Huaxin Cement( Chibi) Co., Ltd. Raw Material Grinding Rolling Mill Project	25,000,000	-	-	24,850,000	-	-	24,850,000	99%	99%	-	-	-	Working capital
Huaxin Cement( Zhaotong) Co., Ltd. Cement Raw Material Grinding Roller Press Project	29,000,000	-	-	24,500,000	-	-	24,500,000	84%	84%	-	-	-	Working capital
Huaxin Cement( Zigui) Co., Ltd. Raw Material Grinding Mill Modification Project	29,000,000	-	-	21,725,082	-	-	21,725,082	75%	75%	-	-	-	Working capital
Huaxin Concrete Co., Ltd. RMX Station Project	634,808,200	14,886,746	-	14,846,199	-12,140,459	-940,164	16,652,322	76%	76%	-	-	-	Working capital
Kunming Chongde Cement Co., Ltd.4000TPD Luquan Phase II Production Project	750,150,000	-	-	11,753,981	-	-	11,753,981	2%	2%	-	-	-	Working capital
Huaxin Cement( Yangxin) Co., Ltd. Cement Stone Brick Production Project	41,670,000	-	-	32,516,035	-32,516,035	-	-	100%	100%	-	-	-	Working capital
Huaxin Cement( Xiangyang) Co., Ltd. – RDF Kiln Project	22,000,000	-	-	22,000,000	-22,000,000	-	-	100%	100%	-	-	-	Working capital
Others		340,653,224	22,575,772	124,948,411	-174,571,633	-996,019	312,609,755			-	-	-	-
		<u>771,069,947</u>	<u>22,575,772</u>	<u>946,823,902</u>	<u>-490,448,609</u>	<u>-1,936,183</u>	<u>1,248,084,829</u>			<u>54,005,255</u>	<u>22,293,543</u>		

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(12) Construction in progress (Cont'd)**

**(b) Impairment provision for construction in progress**

	31 December 2016	Addition	Reduction	31 December 2017	Reason
Huaxin Concrete RMX Station (Chenzhou) Station and (Lengshuijiang) Station Project	7,401,126	940,164	-	8,341,290	The management decided to terminate the project.
Others	-	996,019	-	996,019	The management decided to terminate the project
	<u>7,401,126</u>	<u>1,936,183</u>	<u>-</u>	<u>9,337,309</u>	

**(13) Construction materials**

	31 December 2017	31 December 2016
Machinery and equipment	<u>54,877,711</u>	<u>36,837,335</u>

**(14) Intangible assets**

	Land use rights	Mining rights	Mine restoration fees	Computer software and others	Total
Original cost					
31 December 2016	1,913,324,056	584,439,741	156,578,598	218,372,383	2,872,714,778
Addition	622,553,864	171,881,312	30,155,411	3,807,792	828,398,379
Purchase	25,250,768	30,383,704	9,054,955	1,458,539	66,147,966
Business combination	597,303,096	141,497,608	21,100,456	2,349,253	762,250,413
Reduction	-	-	-	241,647	241,647
Disposal	-	-	-	241,647	241,647
31 December 2017	2,535,877,920	756,321,053	186,734,009	221,938,528	3,700,871,510

	Land use rights	Mining rights	Mine restoration fees	Computer software and others	Total
Accumulated amortisation					
31 December 2016	281,343,398	106,356,684	43,946,485	145,818,110	577,464,677
Addition	36,966,679	33,175,772	8,480,468	18,250,256	96,873,175
Provision	36,966,679	33,175,772	8,480,468	18,250,256	96,873,175
Reduction	-	-	-	219,826	219,826
Disposal	-	-	-	219,826	219,826
31 December 2017	318,310,077	139,532,456	52,426,953	163,848,540	674,118,026

	Land use rights	Mining rights	Mine restoration fees	Computer software and others	Total
Provision for Impairment					
31 December 2016	-	-	-	-	-
31 December 2017	-	-	-	-	-

	Land use rights	Mining rights	Mine restoration fees	Computer software and others	Total
Net book value					
31 December 2017	2,217,567,843	616,788,597	134,307,056	58,089,988	3,026,753,484
31 December 2016	1,631,980,658	478,083,057	112,632,113	72,554,273	2,295,250,101

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#### VII Notes to the significant items in the consolidated financial statements (Cont'd)

##### (14) Intangible assets (Cont'd)

- (a) As at 31 December 2017, the land use right with a net book value of RMB15,816,767 (original cost of RMB31,471,127) (31 December 2016: net book value of RMB64,241,264, original cost of RMB89,777,218) have been pledged to the banks as security for the Group's borrowings (Note VII(19)(a)(i), (Note VII(29)(a)(i)).

##### (15) Goodwill

31 December 2016  
and 31 December 2017

Huaxin Cement (Daye) Co., Ltd.	189,057,605
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	101,685,698
Success Eagle Cement (Hong Kong) Limited and its subsidiaries	69,557,768
Huaxin Cement (E'zhou) Co., Ltd.	21,492,135
Huaxin Cement (Nantong) Co., Ltd.	9,469,146
Cambodian Cement Chakrey Ting Factory Co., Ltd	125,767,908
	<hr/>
	517,030,260
Less: Provision -	
Success Eagle Cement (Hong Kong) Limited and its subsidiaries	69,557,768
	<hr/>
	447,472,492

The recoverable amounts are determined by using the discounted cash flow forecast prepared based on the five-year financial budgets approved by management. The cash flows beyond the five-year period are calculated based on the following estimated growth rates.

The key assumptions applied in discounted cash flows forecast are as follows:

Growth rate	0.5%-2%
Gross margin	19%-41%
Discount rate	17.2%-18.5%

The weighted average growth rates used by management are consistent with the industry forecast report, which does not exceed the long-term average growth rate for each product. Management determines budgeted gross margin and growth rates based on experiences and forecast on future market development. The discount rates used by management are the pre-tax interest rates that are able to reflect the risks specific to the related CGU and group of CGUs. The above assumptions are used to assess the recoverable amount of CGU.

##### (16) Long-term prepaid expenses

	31 December 2016	Addition	Reduction	31 December 2017
Mine development cost	326,969,155	23,428,478	81,883,301	268,514,332
Others	8,472,207	7,153,318	3,078,424	12,547,101
	<hr/>	<hr/>	<hr/>	<hr/>
	335,441,362	30,581,796	84,961,725	281,061,433

**HUAXIN CEMENT CO., LTD.**

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(17) Deferred tax assets and liabilities**

**(a) Deferred tax assets without taking into consideration of the offsetting of balances**

	31 December 2017		31 December 2016	
	Deductible temporary differences and tax losses	Deferred tax assets	Deductible temporary differences and tax losses	Deferred tax assets
Provision for assets impairment	97,002,639	23,142,335	80,846,902	19,722,116
Difference between fair value of net identifiable assets and tax base in business combination	581,922,794	118,306,293	-	-
Temporary difference in accrued expenses	323,579,396	77,486,642	324,808,400	79,068,507
Unrealized profit arising from elimination of intra-group transactions	217,934,712	54,483,678	207,264,320	51,816,080
Tax losses	461,916,599	100,865,201	739,795,995	138,765,973
Provision for employee benefits	96,503,042	21,718,305	32,799,426	7,214,778
Others	1,722,340	258,351	2,066,812	310,022
	<u>1,780,581,522</u>	<u>396,260,805</u>	<u>1,387,581,855</u>	<u>296,897,476</u>
Includes:				
Expected to utilise within 1 year (including 1 year)		81,639,426		84,565,899
Expected to utilise after 1 year		<u>314,621,379</u>		<u>212,331,577</u>
		<u>396,260,805</u>		<u>296,897,476</u>

**(b) Deferred tax liabilities without taking into consideration of the offsetting of balances**

	31 December 2017		31 December 2016	
	Taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
Capitalization of borrowing cost	65,684,060	16,421,015	60,385,652	15,096,413
Change in fair value of available-for-sale financial assets	34,556,983	8,639,246	25,405,734	6,351,433
Temporary difference in overseas subsidiaries	480,215,853	80,348,143	481,982,515	70,454,083
Valuation up of assets in business combination	210,217,626	50,459,243	263,605,583	65,825,923
Others	1,451,184	362,797	1,451,184	362,797
	<u>792,125,706</u>	<u>156,230,444</u>	<u>832,830,668</u>	<u>158,090,649</u>
Includes:				
Expected to crystallise within 1 year (including 1 year)		6,855,319		10,121,869
Expected to crystallise after 1 year		<u>149,375,125</u>		<u>147,968,780</u>
		<u>156,230,444</u>		<u>158,090,649</u>

**HUAXIN CEMENT CO., LTD.**

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(17) Deferred tax assets and liabilities (Cont'd)**

- (c) Deductible temporary differences and tax losses that are not recognised as deferred tax assets are analysed as below:

	31 December 2017	31 December 2016
Deductible temporary differences	2,795,021,106	225,610,394
Tax losses	1,017,662,564	771,965,815
	<u>3,812,683,670</u>	<u>997,576,209</u>

The unrecognised deductible temporary difference and tax loss in 2017 are mainly in the subsidiaries being acquired during the year of which there is no sufficient future taxable income based on management's estimate and forecast.

- (d) The tax losses for which deferred tax assets are not recognised will expire in the following years:

	31 December 2017	31 December 2016
2017	-	57,748,882
2018	76,137,894	57,858,422
2019	191,489,655	173,759,864
2020	269,468,083	269,468,083
2021	291,735,251	213,130,564
2022	188,831,681	-
	<u>1,017,662,564</u>	<u>771,965,815</u>

- (e) Net amounts of deferred tax assets and liabilities taking into consideration the offsetting of balances are set out as follows:

	31 December 2017		31 December 2016	
	Offsetting amount	Deferred tax assets or liabilities	Offsetting amount	Deferred tax assets or liabilities
Deferred tax assets, net	18,218,354	378,042,451	11,745,091	285,152,385
Deferred tax liabilities, net	18,218,354	138,012,090	11,745,091	146,345,558

**(18) Provision for impairment of assets**

	31 December 2016	Addition	Deduction		31 December 2017
		Provision	Reverse	Write off	
Bad debt provision	130,852,628	76,146,049	14,680,766	4,478,244	187,839,667
-Accounts receivable	107,471,624	35,046,068	14,094,778	3,544,124	124,878,790
-Other receivables	23,381,004	41,099,981	585,988	934,120	62,960,877
Write-down of inventories	37,936,528	11,926,271	231,153	77,743	49,553,903
Impairment provision for available-for-sale financial assets	2,775,600	-	-	-	2,775,600
Impairment provision for construction in progress	7,401,126	1,936,183	-	-	9,337,309
Impairment provision for fixed assets	96,139,048	194,370,086	-	38,102,330	252,406,804
Impairment provision for goodwill	69,557,768	-	-	-	69,557,768
	<u>344,662,698</u>	<u>284,378,589</u>	<u>14,911,919</u>	<u>42,658,317</u>	<u>571,471,051</u>

## HUAXIN CEMENT CO., LTD.

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#### VII Notes to the significant items in the consolidated financial statements (Cont'd)

##### (19) Short-term borrowings

(a) Short-term borrowings classified by nature:

	Currency	31 December 2017	31 December 2016
Pledged bank borrowings(Note (i))	RMB	81,000,000	71,000,000
Unsecured bank borrowings (Note (ii))	RMB	950,500,000	708,000,000
Guaranteed bank borrowings (Note (iii))	RMB	110,000,000	125,000,000
		<u>1,141,500,000</u>	<u>904,000,000</u>

(i) As at 31 December 2017, parts of buildings, machinery and equipment (Note VII(11)) and land use rights (Note VII(14)) of the Group are the collateral of the pledged bank borrowings of RMB81,000,000 (2016: RMB71,000,000).

(ii) As at 31 December 2017, certain bank borrowings of the Group's subsidiaries amounting to RMB492,000,000 (31 December 2016: RMB404,000,000) were guaranteed by the Company.

(iii) As at 31 December 2017, bank borrowings of RMB60,000,000 (31 December 2016: RMB60,000,000) were guaranteed by Yunnan Hongta Dianxi Cement Co., Ltd. and the Company in proportion of 49% and 51% respectively.

As at 31 December 2017, bank borrowings of RMB50,000,000 (31 December 2016:nil) were guaranteed by Wuhan Huayu Building Material Group Co., Ltd. and the Company in proportion of 30% and 70% respectively.

(b) As at 31 December 2017, the interest rate of short-term borrowings ranges from 4.30% to 4.79% per annum (31 December 2016: from 2.35% to 4.79% per annum)

##### (20) Notes payable

	31 December 2017	31 December 2016
Bank acceptances	14,450,000	148,486,170
Trade acceptances	-	415,918
	<u>14,450,000</u>	<u>148,902,088</u>

**HUAXIN CEMENT CO., LTD.**

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(21) Accounts payable**

	31 December 2017	31 December 2016
Payables for raw materials	2,720,640,435	2,055,941,429
Payables for construction and equipment	1,033,498,258	852,866,970
Payables for transportation costs	199,782,333	98,024,763
Payables for utility charges	72,781,671	28,294,602
Others	112,872,518	97,267,021
	<u>4,139,575,215</u>	<u>3,132,394,785</u>

As at 31 December 2017, accounts payable with ageing over one year amounted to RMB551,115,064 (31 December 2016: RMB471,180,872), which mainly comprised of payables for construction projects and purchase of equipment and retention fee. The amounts were not yet settled as the retention period not yet expires.

**(22) Advances from customers**

	31 December 2017	31 December 2016
Advances for sales of goods	556,730,942	298,719,717
Advances for construction contracts (Note (a))	5,974,440	9,089,785
	<u>562,705,382</u>	<u>307,809,502</u>

**(a) Balance of advanced payment from construction contract:**

Item	31 December 2017	31 December 2016
Settled amount	506,597,684	452,835,393
Less: Accumulated cost incurred	478,025,748	412,787,743
Accumulated gross margin recognised	22,597,496	30,957,865
Advanced payment from customers	<u>5,974,440</u>	<u>9,089,785</u>

**(b) As at 31 December 2017, advances from customers with ageing over one year amounted to RMB25,561,949 (31 December 2016: RMB25,244,295), which are mainly advances for sales of cement products. As the customers have not taken up the goods, the advances were not yet been settled.**

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(23) Employee benefits payable**

	31 December 2016	Business combination	Addition	Reduction	31 December 2017
Short-term employee benefits payable (Note (a))	140,728,647	47,495,092	1,740,644,628	1,671,818,822	257,049,545
Post-retirement benefit payable (Note (b))	7,346,047	4,240,087	178,456,339	179,058,350	10,984,123
Termination benefits payable (Note (c))	7,019,626	6,513,959	13,053,736	13,533,585	13,053,736
	<u>155,094,320</u>	<u>58,249,138</u>	<u>1,932,154,703</u>	<u>1,864,410,757</u>	<u>281,087,404</u>

**(a) Short-term employee benefits**

	31 December 2016	Business combination	Addition	Reduction	31 December 2017
Salaries, bonuses and allowances	124,999,382	42,248,369	1,363,835,920	1,306,513,608	224,570,063
Staff welfare	4,500	140,848	131,529,418	128,694,780	2,979,986
Social insurance	855,575	688,529	110,700,800	105,006,936	7,237,968
-Medical insurance	192,897	558,359	94,388,070	89,420,850	5,718,476
-Employment injury	501,333	79,122	11,825,802	11,321,260	1,084,997
-Maternity insurance	161,345	51,048	4,486,928	4,264,826	434,495
Housing fund	7,595,930	1,964,167	97,082,364	95,610,757	11,031,704
Labour union funds and employee education fee	7,273,260	2,453,179	37,496,126	35,992,741	11,229,824
	<u>140,728,647</u>	<u>47,495,092</u>	<u>1,740,644,628</u>	<u>1,671,818,822</u>	<u>257,049,545</u>

**(b) Pension obligations**

	31 December 2016	Business combination	Addition	Reduction	31 December 2017
Defined contribution plans					
Pension	3,982,537	1,078,490	168,299,632	169,257,668	4,102,991
Unemployment insurance	1,730,067	120,531	5,408,342	5,126,173	2,132,767
Defined beneficial plans					
Retired staff compensation payable (Current portion) (Note VII(34))	1,633,443	3,041,066	4,748,365	4,674,509	4,748,365
	<u>7,346,047</u>	<u>4,240,087</u>	<u>178,456,339</u>	<u>179,058,350</u>	<u>10,984,123</u>



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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(23) Employee benefits payable (Cont'd)**

(c) Termination benefit

	31 December 2017	31 December 2016
Early retirement benefits payable (Current portion)(Note VII(34))	<u>13,053,736</u>	<u>7,019,626</u>

**(24) Taxes payable**

	31 December 2017	31 December 2016
Corporate income tax payable	240,690,380	93,563,317
Value-added-tax payable	197,828,619	73,258,129
Flood prevention fee payable	18,517,288	24,679,784
Resource tax payable	8,078,067	12,060,075
Others	<u>42,830,867</u>	<u>42,142,161</u>
	<u>507,945,221</u>	<u>245,703,466</u>

**(25) Interests payable**

	31 December 2017	31 December 2016
Interest for debenture	105,342,960	136,876,752
Interest for long-term borrowings	6,363,814	6,615,834
Interest for short-term borrowings	<u>1,464,414</u>	<u>1,270,568</u>
	<u>113,171,188</u>	<u>144,763,154</u>

**(26) Dividends payable**

	31 December 2017	31 December 2016
Ordinary share (Note (a))	29,581,522	576,325
Minority interests		
--Tibet Changsheng Road & Bridge Construction Co., Ltd	75,518,957	2,018,956
--Gayur Liability Limited Company	<u>69,208,759</u>	<u>63,516,953</u>
.	<u>174,309,238</u>	<u>66,112,234</u>

(a) The dividend payable of ordinary share includes payables to Holchin B.V. amounting to RMB29,005,197 and other individual shareholders of the Company totalling RMB576,325. As the contacts of other individual shareholders are unavailable, the payments were not yet made.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(27) Other payables**

	31 December 2017	31 December 2016
Payables for acquisition of equity interests	259,792,200	131,832,055
Amounts due to minority interests	131,175,859	136,657,089
Deposits	111,557,555	89,218,298
Collected or paid for others	30,274,096	25,572,919
Amounts due to government	10,474,167	11,800,000
Others	79,645,353	58,801,011
	<u>622,919,230</u>	<u>453,881,372</u>

As at 31 December 2017, other payables with ageing over one year amounted to RMB417,316,403 (31 December 2016: RMB333,060,952), which mainly comprised the amounts due to minority interests and deposits of major construction contracts. As the final account of construction were not completed, the payable were not yet settled.

**(28) Current portion of non-current liabilities**

	31 December 2017	31 December 2016
Current portion of long-term borrowings (Note VII(29)(a))	700,032,324	1,196,462,455
Current portion of corporate debentures payable (Note VII(30))	799,866,667	3,037,395,000
Current portion of long-term payables (Note VII(31))	182,834,591	8,581,795
	<u>1,682,733,582</u>	<u>4,242,439,250</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(29) Long-term borrowings**

(a) Classification of long-term borrowings:

	Currency	31 December 2017	31 December 2016
Pledged bank borrowings (Note (i))	RMB	160,500,000	246,000,000
Guaranteed bank borrowings (Note (ii))	DKK	4,914,604	3,193,148
Unsecured bank borrowings (Note (iii))	RMB	3,050,610,210	2,574,930,000
Unsecured bank borrowings (Note (iii))	USD	930,466,631	1,610,626,938
Mortgaged bank borrowings (Note (iv))	RMB	612,500,000	396,660,000
		<u>4,758,991,445</u>	<u>4,831,410,086</u>
Less: Current portion of long-term borrowings			
Pledged bank borrowings (Note (i))	RMB	53,500,000	84,500,000
Guaranteed bank borrowings (Note (ii))	DKK	1,404,173	1,294,036
Unsecured bank borrowings (Note (iii))	RMB	328,867,580	369,540,000
Unsecured bank borrowings (Note (iii))	USD	227,260,571	403,468,419
Mortgaged bank borrowings (Note (iv))	RMB	89,000,000	337,660,000
		<u>700,032,324</u>	<u>1,196,462,455</u>
		<u>4,058,959,121</u>	<u>3,634,947,631</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(29) Long-term borrowings (Cont'd)**

- (a) Classification of long-term borrowings (Cont'd)
- (i) As at 31 December 2017, parts of buildings, machinery and equipment (Note VII(11)) and land use rights (Note VII(14)) of the Group are the collateral of the pledged bank borrowings of RMB160,500,000 (2016:RMB246,000,000).
- (ii) As at 31 December 2017, guaranteed long-term bank borrowings in Danish krona of RMB4,914,604 (31 December 2016: RMB3,193,148) were guaranteed by Hubei Construction Bank and Hubei Planning Committee, of which the principals are to be repaid in batches in the period from 2018 to 2021.
- (iii) As at 31 December 2017, unsecured RMB denominated long-term borrowings of RMB495,810,000 (31 December 2016: RMB475,430,000), USD denominated long-term borrowings of RMB930,466,631 (31 December 2016: RMB1,610,626,938) were guaranteed by the Company, of which the principals are to be repaid in batches in the period from 2018 to 2022.
- (iv) As at 31 December 2017, long-term mortgage bank borrowings of RMB612,500,000 (31 December 2016: RMB396,660,000) were secured by the equity interest of subsidiaries of the Group, of which the principals are to be repaid in batches in the period from 2018 to 2024.
- (b) As at 31 December 2017, the interest rate of long-term borrowings ranges from 2.77% to 6.65% per annum (31 December 2016: from 2.64% to 6.64% per annum).

## HUAXIN CEMENT CO., LTD.

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#### VII Notes to the significant items in the consolidated financial statements (Cont'd)

##### (30) Debentures payable

	31 December 2016	Reversal from current portion	Amortisation of issuance costs	Reclassified to current portion (Note VII(28))	31 December 2017	Interest recognised
2012 Issued Corporate Bonds I (Note (a))	-	999,550,000	450,000	-	1,000,000,000	56,500,000
2012 Issued Corporate Bonds II (Note (a))	-	1,098,845,000	1,155,000	-	1,100,000,000	64,900,000
2015 Issued Private Bonds I (Note (b))	798,266,667	-	1,600,000	799,866,667	-	46,400,000
2016 Issued Corporate Bonds I (Note (c))	1,194,378,930	-	1,226,416	-	1,195,605,346	57,480,000
	<u>1,992,645,597</u>	<u>2,098,395,000</u>	<u>4,431,416</u>	<u>799,866,667</u>	<u>3,295,605,346</u>	<u>225,280,000</u>

Related information of corporate bonds and private bonds are listed as below:

	Par Value	Issue date	Period	Maturity date	Amount
2012 Issued Corporate Bonds I	1,000,000,000	17/05/2012	5 Years	17/05/2017	1,000,000,000
2012 Issued Corporate Bonds I	1,000,000,000	17/05/2012	7 Years	17/05/2019	1,000,000,000
2012 Issued Corporate Bonds II	1,100,000,000	09/11/2012	7 Years	09/11/2019	1,100,000,000
2015 Issued Private Bonds I	800,000,000	12/02/2015	3 Years	12/02/2018	800,000,000
2016 Issued Corporate Bonds I	1,200,000,000	19/08/2016	5 Years	19/08/2021	1,200,000,000

- (a) Pursuant to the relevant approval ([2012] 615) from China Securities Regulatory Commission, the Company issued two batches of corporate bonds on 17 May 2012 and 9 November 2012 respectively.

On 17 May 2012, the Company issued 5.35% interest, five-year tenure corporate bonds with principal of RMB1,000,000,000 ("2012 Issued Corporate Bonds I"). The bond holders have an early redemption option and the issuer has an option to increase interest rate at the end of the third year. The Company redeemed part of bonds of RMB61,000,000 on 17 May 2015. The remaining balance of RMB939,000,000 was paid off on 15 May 2017.

On 17 May 2012, the Company issued another 5.65% interest, seven-year tenure corporate bonds with principal of RMB1,000,000,000 ("2012 Issued Corporate Bonds I"). The bond holders have an early redemption option and the issuer has an option to increase interest rate at the end of the fifth year. It was reclassified to current liabilities in 2016 due to early redemption option. On 5 May 2017, no bond holder executed the redemption option and the bond has been reclassified to non-current liabilities.

On 9 November 2012, the Company issued 5.90% interest, seven-year tenure corporate bonds with principal of RMB1,100,000,000 ("2012 Issued Corporate Bonds II"). The bond holders have an early redemption option and the issuer has an option to increase interest rate at the end of the fifth year. It was reclassified to current liabilities in 2016 due to the early redemption option. On 9 November 2017, no investors executed the early redemption option and the bond has been reclassified to non-current liabilities.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(30) Debenture payables (Cont'd)**

- (b) Pursuant to the relevant approval ([2013] PPN201) from China National Association of Financial Market Institutional Investors (NAFMII), the Company issued 5.80% interest, three-year tenure private bonds with principal of RMB800,000,000 on 12 February 2015 ("2015 Issued Private Bonds I"). The bond was reclassified to current liabilities during the year as it will mature on 12 February 2018.
- (c) Pursuant to the relevant approval ([2016] 1255) from China Securities Regulatory Commission(CSRC), the Company issued 4.79% interest, five-year tenure corporate bonds with principal of RMB1,200,000,000 on 19 August 2016 ("2016 Issued Corporate Bonds I").

**(31) Long-term payables**

	31 December 2017	31 December 2016
Payable for the finance lease	280,718,912	147,294,007
Others	1,501,100	1,553,541
Less: current portion of payable for the finance lease	182,834,591	8,581,795
	<u>99,385,421</u>	<u>140,265,753</u>

As at 31 December, 2017, payables for the finance lease amounted to RMB145,831,059 and were secured by pledge of notes receivable of RMB165,802,127(Note VII (3)) and bank deposit of RMB1,776,686(Note VII (1)).

Payables for finance lease represents the minimum lease payments less unrecognised finance charges (Note XIII).

**(32) Provisions**

	31 December 2016	Business combination	Addition	Reduction	31 December 2017
Provision for mine restoration	114,016,848	39,586,820	11,930,699	3,162,619	162,371,748
Provision for pending litigation	899,814	-	-	378,014	521,800
	<u>114,916,662</u>	<u>39,586,820</u>	<u>11,930,699</u>	<u>3,540,633</u>	<u>162,893,548</u>

**(33) Deferred income**

	31 December 2016	Business combination	Addition	Reduction	31 December 2017	Nature
Government grants (a)	195,239,747	33,628,406	55,948,210	32,669,941	252,146,422	Government grants related to assets

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(33) Deferred income (Cont'd)**

(a) Government grants

Government grants	31 December 2016	Business combination	Addition	The amount recognised as non-operating income	31 December 2017	Related to assets earnings
Cement kiln line infrastructure	107,538,333	17,703,702	55,408,210	21,971,424	158,678,821	Related to assets
Energy saving technological transformation	87,701,414	15,924,704	540,000	10,698,517	93,467,601	Related to assets
	<u>195,239,747</u>	<u>33,628,406</u>	<u>55,948,210</u>	<u>32,669,941</u>	<u>252,146,422</u>	

**(34) Long-term employee benefits payable**

	31 December 2016	Business combination	Addition	Reduction	31 December 2017
Retired staff compensation payable (Note (a))	8,009,025	36,425,490	14,049,523	7,765,232	50,718,806
Early-retired employee benefits payable (Note (b))	28,234,908	23,268,512	10,957,060	12,188,270	50,272,210
Long-term employee benefits payable (Note (d))	-	-	13,164,742	-	13,164,742
Less: To be paid in one year	8,653,069	9,555,025	-17,802,101	-18,208,094	17,802,101
	<u>27,590,864</u>	<u>50,138,977</u>	<u>20,369,224</u>	<u>1,745,408</u>	<u>96,353,657</u>

Early-retired employee benefits payable to be paid in one year is shown in employee benefits payable.

(a) Retired staff compensation

Pension scheme: Pursuant to the Group's policies, the Company and its certain subsidiaries are obliged to pay basic pension insurance, allowances and material and supplementary medical insurance to certain retired employees until they pass away.

Management determine the provision for employee benefits based on the related discounted future cash flows.

At the balance sheet date, the key assumptions for the Group's retired staff compensation are as follows:

	31 December 2017	31 December 2016
Discount rate	3.79%-4.23%	2.65%-3.24%
Annual increase rate of salary rate	10%	10%
Anticipated average life expectancy	77	70

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(34) Long-term employee benefits payable (Cont'd)**

(b) Early-retired employee benefits

Employee benefit plans for early-retired employee: Pursuant to the Group's policies, the Company and certain subsidiaries are obliged to pay the basic wage and social insurance payments for eligible early-retired employees, until the employee reached the statutory retirement age.

(c) Retired benefits accrual in profit or loss:

	2017	2016
General and administration expenses	25,006,583	24,813,909

(d) Cash-settled share-based payment

Long-term employee benefits payable represents a long-term incentive plan with three-years tenure (2017-2019) for core management. The amount of awards granted to the core management under this incentive plan is based on the virtual shares of the Company.

According to the achievement of performance target of the Group in the designated period under the incentive plan, the core management would be granted certain number of virtual shares of the Company. At the end of the third years after grant date ("the settlement date"), the core management can receive a cash bonus calculated by the share price at the settlement date multiplied by the number of the granted virtual shares. If the share price at the settlement date is over 200% of the share price of the grant date, the cash bonus should be capped at the 200% of share price of the grant date; if the share price at the settlement date is lower than 50% of the share price at the grant date, the cash bonus should be calculated at the minimum price i.e. the 50% of share price at the grant date.

For the year ended 31 Decembe 2017, the Group has accrued the staff benefits of this incentive plan based on the actual achievement of the performance target of the year, which would be paid out in the year 2020.

	2017	2016
The measurement on the liability incurred by the Group that is calculated and determined on the basis of the shares	The fair value is determined by share price of the Company on settlement date	Not applicable
The accumulated amount of liabilities of cash-settled share-based payment	13,164,742	-
Incurred expenses for cash-settled share-based payment	13,164,742	-



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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(35) Share capital**

	31 December 2016	Increase/decrease in the year		31 December 2017
		Transfer from reserve	Others	
Listed shares without restriction of trading				
A shares listed	972,771,325	-	-	972,771,325
B shares listed	524,800,000	-	-	524,800,000
Total share capital	<u>1,497,571,325</u>	<u>-</u>	<u>-</u>	<u>1,497,571,325</u>

	31 December 2015	Increase/decrease in the year		31 December 2016
		Transfer from reserve	Others	
Listed shares without restriction of trading				
A shares listed	972,771,325	-	-	972,771,325
B shares listed	524,800,000	-	-	524,800,000
Total share capital	<u>1,497,571,325</u>	<u>-</u>	<u>-</u>	<u>1,497,571,325</u>

**(36) Capital surplus**

	31 December 2016	Addition	Reduction	31 December 2017
Other capital surplus				
Share option	4,146,565	-	-	4,146,565
Transfer of capital surplus recognised under the previous accounting system	44,878,740	498,563	-	45,377,303
Compensation from government for plant relocation	7,553,919	-	-	7,553,919
Government grants	42,818,800	-	-	42,818,800
	<u>2,509,753,457</u>	<u>498,563</u>	<u>-</u>	<u>2,510,252,020</u>

	31 December 2015	Addition	Reduction	31 December 2016
Other capital surplus				
Share option	6,823,372	-	2,676,807	4,146,565
Transfer of capital surplus recognised under the previous accounting system	44,380,173	498,567	-	44,878,740
Compensation from government for plant relocation	7,553,919	-	-	7,553,919
Government grants	42,818,800	-	-	42,818,800
	<u>2,508,997,954</u>	<u>3,432,310</u>	<u>2,676,807</u>	<u>2,509,753,457</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(37) Other comprehensive income**

	Other comprehensive income on Balance sheet			2017 Other comprehensive income on Income statements				
	31 December 2016	Attributable to the Company after tax	31 December 2017	Amount for the year before tax	Less: previously recognised in other comprehensive income transferred to profit or loss this year	Less: Income tax expense	Attributable to the Company after tax	Attributable to the minority interest after tax
Items that may be subsequently reclassified to profit or loss								
Change in value of available-for-sale financial assets	19,054,301	6,863,436	25,917,737	9,151,249	-	2,287,813	6,863,436	-
Currency translation differences	-16,164,654	-29,806,830	-45,971,484	-58,582,702	-	-	-29,806,830	-28,775,872
	<u>2,889,647</u>	<u>-22,943,394</u>	<u>-20,053,747</u>	<u>-49,431,453</u>	<u>-</u>	<u>2,287,813</u>	<u>-22,943,394</u>	<u>-28,775,872</u>
	Other comprehensive income on Balance sheet			2016 Other comprehensive income on Income statements				
	31 December 2015	Attributable to the Company after tax	31 December 2016	Amount for the year before tax	Less: previously recognised in other comprehensive income transferred to profit or loss this year	Less: Income tax expense	Attributable to the Company after tax	Attributable to the minority interest after tax
Items that may be subsequently reclassified to profit or loss								
Change in value of available-for-sale financial assets	20,642,590	-1,588,289	19,054,301	-2,117,719	-	-529,430	-1,588,289	-
Currency translation differences	-29,629,142	13,464,488	-16,164,654	15,939,111	-	-	13,464,488	2,474,623
	<u>-8,986,552</u>	<u>11,876,199</u>	<u>2,889,647</u>	<u>13,821,392</u>	<u>-</u>	<u>-529,430</u>	<u>11,876,199</u>	<u>2,474,623</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(38) Surplus reserve**

	31 December 2016	Addition	Reduction	31 December 2017
Statutory surplus reserve	525,064,824	172,819,749	-	697,884,573
Discretionary surplus reserve	63,580,329	-	-	63,580,329
	<u>588,645,153</u>	<u>172,819,749</u>	<u>-</u>	<u>761,464,902</u>

  

	31 December 2015	Addition	Reduction	31 December 2016
Statutory surplus reserve	491,220,550	33,844,274	-	525,064,824
Discretionary surplus reserve	63,580,329	-	-	63,580,329
	<u>554,800,879</u>	<u>33,844,274</u>	<u>-</u>	<u>588,645,153</u>

In accordance with the Company Law of the PRC, the Company's Articles of Association and the resolution of board of directors of the Company, appropriations of 10% of net profit should be made to the statutory surplus reserve, after offsetting accumulated losses from prior years, until the accumulated statutory surplus reserve reaches 50% of the share capital. Statutory surplus reserve can be used to make up losses or to increase share capital. Pursuant to the resolution of board of directors of the Company, the Company appropriated RMB172,819,749, 10% of net profit for the year ended 31 December 2017 to the statutory surplus reserve (2016: 10% of net profit, RMB33,844,274).

The amount of appropriation to the discretionary surplus reserve should be proposed by the board of directors of the Company and approved by general meeting of shareholders. Discretionary surplus reserve can be used to make up losses or to increase share capital after certain approval. The Company has not made any appropriation to discretionary surplus reserves in 2017 (2016: nil).

**(39) Retained earnings**

	2017		2016	
	Amount	%	Amount	%
Beginning balance of retained earnings (before adjustment)	5,396,004,651		5,053,285,645	
Beginning balance of retained earnings (after adjustment)	5,396,004,651		5,053,285,645	
Add: Net profit attributable to the shareholders of the Company	2,077,640,568		451,940,413	
Less: Appropriation of statutory surplus reserve	172,819,749	10%	33,844,274	10%
Dividends (Note (a))	149,757,133	RMB1.00 per 10 shares	74,878,566	RMB0.50 per 10 shares
Others	498,563		498,567	
Ending balance of retained earnings	<u>7,150,569,774</u>		<u>5,396,004,651</u>	

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(39) Retained earnings (Cont'd)**

- (a) Pursuant to the resolution at the Annual General Meeting on 20 April 2017, cash dividends in respect of 2016 of RMB149,757,133 (RMB1.00 per 10 shares) were paid based on the issued shares of 1,497,571,325.

Pursuant to the resolution of board of directors of the Company on 22 March 2018, cash dividends in respect of 2017 of RMB419,319,971 (RMB 2.80 per 10 shares) was proposed based on the issued shares of 1,497,571,325. This proposed dividend is subject to the approval of the Annual General Meeting.

**(40) Sales and cost of sales**

	2017	2016
Main operation income	20,781,741,749	13,426,153,998
Other operation income	107,550,241	99,605,492
	<u>20,889,291,990</u>	<u>13,525,759,490</u>
	2017	2016
Main operation costs	14,642,772,283	9,903,087,034
Other operation costs	73,720,315	67,913,693
	<u>14,716,492,598</u>	<u>9,971,000,727</u>

- (a) Revenue and cost of main operations

Revenue and cost of main operations analysed by product are set out below:

	2017		2016	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Sales of cement	17,791,012,105	12,495,638,933	11,357,445,468	8,311,699,109
Sales of concrete	942,026,198	739,484,598	709,341,698	529,604,313
Sales of clinker	737,738,807	613,771,575	555,117,208	529,862,894
Sales of aggregate	513,278,808	242,647,625	247,914,559	155,008,895
Others	797,685,831	551,229,552	556,335,065	376,911,823
	<u>20,781,741,749</u>	<u>14,642,772,283</u>	<u>13,426,153,998</u>	<u>9,903,087,034</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(40) Sales and cost of sales (Cont'd)**

**(b) Other operating income and expenses**

	2017		2016	
	Other operating income	Other operating expenses	Other operating income	Other operating expenses
Sales of materials	42,303,997	28,058,035	9,599,328	3,302,092
Rental income	22,213,943	16,712,779	10,844,209	5,380,872
Clinker outsourcing	15,159,679	14,340,576	305,898	315,824
Business entrusting income	-	-	61,276,970	54,111,941
Others	27,872,622	14,608,925	17,579,087	4,802,964
	<u>107,550,241</u>	<u>73,720,315</u>	<u>99,605,492</u>	<u>67,913,693</u>

**(41) Taxes and surcharges**

	2017	2016	Standard
Resource tax	106,287,155	81,594,005	6%
Civil infrastructure maintenance and construction fee	61,555,490	36,230,947	1%, 5% or 7%
Land holding tax	58,678,078	17,154,154	RMB0.67-12/m <sup>2</sup>
Education fee	34,907,115	23,119,115	3%
Property tax	30,485,211	17,504,708	1.20%
Others	39,898,202	31,956,986	
	<u>331,811,251</u>	<u>207,559,915</u>	

**(42) Selling and distribution expenses**

	2017	2016
Transportation, carriage and outsourced labour expenses	436,674,378	267,372,221
Material costs	431,430,031	395,506,022
Staff costs	264,804,513	201,334,313
Depreciation and amortisation expenses	64,680,956	68,307,670
Utilities expenses	62,564,611	54,921,233
Entertainment expenses	37,999,726	27,486,703
Traveling expenses	21,712,269	15,678,306
Rental expenses	6,745,701	6,341,129
Others	75,507,215	48,531,058
	<u>1,402,119,400</u>	<u>1,105,521,093</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(43) General and administrative expenses**

	2017	2016
Staff costs	619,817,111	475,475,965
Depreciation and amortisation	109,747,249	89,173,144
Pollution expenses	82,304,380	50,738,232
Entertainment expenses	38,720,366	29,849,450
Traveling expenses	34,807,793	26,945,176
Outsourced labour expenses	34,047,729	24,072,342
Advisory and audit fees	30,708,788	34,254,474
Office and meeting expenses	25,196,434	16,888,026
Transportation expenses	24,772,629	20,028,229
Utilities expenses	23,054,417	23,129,081
Property insurance expenses	14,047,935	6,566,161
Rental expenses	12,987,527	6,435,667
Fire security expenses	12,803,466	9,153,680
Communication expenses	11,545,187	9,739,189
Services fees	6,391,748	6,471,845
Others	123,066,562	110,360,767
	<u>1,204,019,321</u>	<u>939,281,428</u>

**(44) Financial expenses**

	2017	2016
Interest expenses	555,488,877	522,439,884
Less: capitalised interest	22,293,543	25,634,172
government grants	8,000,000	-
Interest expense	<u>525,195,334</u>	<u>496,805,712</u>
Less: interest income	28,503,838	21,905,723
Exchange losses (Note (a))	143,010,038	75,136,118
Others	20,928,681	19,363,465
	<u>660,630,215</u>	<u>569,399,572</u>

(a) Exchange losses mainly arose from the USD denominated borrowings of Huaxin Gayur Cement LLC. and its subsidiary whose functional currency is Somoni.

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(45) Expenses by nature**

Categories by nature of cost of main operations, selling and distribution expenses and general and administrative expenses are set out as follows:

	2017	2016
Changes in inventories of finished goods and work in progress	-46,765,907	27,053,736
Raw materials and consumables used	4,997,092,451	3,060,127,390
Employee benefit expense	1,931,451,637	1,492,375,792
Depreciation and amortisation	1,612,283,947	1,580,236,540
Utility expenses	7,581,087,506	4,903,787,315
Transportation, carriage and outsourced labour expenses	715,181,862	512,550,362
Other expenses	532,299,823	439,672,113
	<u>17,322,631,319</u>	<u>12,015,803,248</u>

**(46) Changes in fair value recognised in profit or loss**

	2017	2016
Financial assets at fair value through profit or loss —		
Monetary fund	2,923,248	589,797
Others	-225,653	272,273
	<u>2,697,595</u>	<u>862,070</u>

**(47) Asset impairment losses**

	2017	2016
Provision of impairment on fixed assets	194,370,086	-
Provision of bad debts	61,465,283	30,463,606
Provision of write-down of inventory	11,695,118	5,161,095
Provision of impairment on construction in progress	1,936,183	-
	<u>269,466,670</u>	<u>35,624,701</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(48) Investment income**

	2017	2016
Share of profits in equity method of long-term equity investments (Note VII(10))	99,089,919	77,974,415
Income from disposal of financial asset at fair value through profit or loss	6,179,934	4,206,986
Income from available-for-sale financial assets	3,139,769	8,700,895
Others	-	-5,370,705
	<u>108,409,622</u>	<u>85,511,591</u>

There is no significant restriction on the remittance of investment income to the Group.

**(49) Losses on disposal of assets**

	2017	2016	Non-routine items in 2017
Losses on disposal of fixed assets	1,576,103	82,948,942	1,576,103
Losses on disposal of intangible assets	-	15,909,944	-
	<u>1,576,103</u>	<u>98,858,886</u>	<u>1,576,103</u>

**(50) Other income**

	2017	2016	Related to assets/ income
Tax refunds from sales of goods having utilized waste natural materials	105,168,817	-	Related to income
Amortisation of deferred income	32,669,941	-	Related to assets
Others government grants	27,380,528	-	Related to income
	<u>165,219,286</u>	<u>-</u>	

(a) Other income in non-routine items amounted to RMB60,050,469 in 2017



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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(51) Non-operating income**

	2017	2016	Non-routine items in 2017
Government grants	100,000	141,867,966	100,000
Negative goodwill (Note VIII(1))	257,243,520	-	257,243,520
Others	14,966,674	10,988,863	14,966,674
	<u>272,310,194</u>	<u>152,856,829</u>	<u>272,310,194</u>

**(a) Government grants**

	2017	2016	Related to assets/ income
Tax refunds from sales of goods having utilized waste natural materials	-	64,441,607	Related to income
Subsidies from government	-	12,243,241	Related to income
Amortisation of deferred income	-	26,887,180	Related to assets
Others	100,000	38,295,938	Related to income
	<u>100,000</u>	<u>141,867,966</u>	

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(52) Non-operating expenses**

	2017	2016	Non-routine items in 2017
Losses on disposal of non-current assets	10,176,198	10,139,778	10,176,198
Includes: Losses on disposal of fixed assets	10,154,377	10,139,778	10,154,377
Losses on disposal of intangible assets	21,821	-	21,821
Donations	10,890,064	6,199,362	10,890,064
Others	18,712,356	14,409,034	18,712,356
	<u>39,778,618</u>	<u>30,748,174</u>	<u>39,778,618</u>

**(53) Income tax expenses**

	2017	2016
Current income tax based on tax law and related regulation	503,649,984	209,831,158
Deferred income tax	96,626,299	-23,668,386
	<u>600,276,283</u>	<u>186,162,772</u>

The reconciliation from income tax calculated based on applicable tax rates and total profits presented in the consolidated financial statements to the income tax expenses is as follows:

Item	2017	2016
Profit before tax	2,812,034,511	806,995,484
Income tax calculated at applicable tax rates	675,334,779	177,996,940
Effect of preferential tax rates applicable to subsidiaries	-47,903,774	-49,252,453
Withholding income tax	17,934,300	23,236,794
Profits not subject to tax	-24,997,480	-25,703,443
Negative goodwill	-64,310,880	-
Tax exemption	-39,185,336	-36,863,226
Reversed recoverable tax losses recognised in prior periods	56,762,008	32,467,863
Unrecognised temporary differences for deferred tax assets and tax losses	-8,386,155	57,370,203
Expenses not deductible for tax purposes	35,028,821	6,910,094
Income tax expenses	<u>600,276,283</u>	<u>186,162,772</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)****(54) Earnings per share****(a) Basic earnings per share**

Basic earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue:

	2017	2016
Consolidated net profit attributable to shareholders of the Company	2,077,640,568	451,940,413
Weighted average number of ordinary shares in issue	<u>1,497,571,325</u>	<u>1,497,571,325</u>
Basic earnings per share	<u>1.39</u>	<u>0.30</u>

**(b) Diluted earnings per share**

Diluted earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by the adjusted weighted average number of ordinary shares in issue. There were no dilutive potential ordinary shares in 2017 (2016: nil). Hence, diluted earnings per share equals basic earnings per share.

**(55) Notes to consolidated cash flow statement****(a) Cash received from other operating activities**

	2017	2016
Receipt of deposits	33,378,771	76,744,774
Receipt of government grants	27,480,528	38,295,938
Interest income	28,503,838	21,905,723
Others	17,260,009	12,550,625
	<u>106,623,146</u>	<u>149,497,060</u>

**(b) Cash paid for other operating activities**

	2017	2016
Traveling and transportation expenses	106,195,496	73,744,850
Deposits	95,434,770	29,791,911
Pollution expenses	82,304,380	50,738,232
Entertainment expenses	76,720,092	57,336,153
Advisory and audit fees	58,292,608	41,954,990
Low value consumables	50,215,156	34,253,067
Environmental maintenance expenses	37,924,458	21,954,090
Office and meeting expenses	31,322,261	19,623,934
Communication expenses	14,730,470	12,443,870
Others	132,771,258	76,126,138
	<u>685,478,949</u>	<u>417,967,235</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(55) Notes to consolidated cash flow statement (Cont'd)**

(c) Cash received from other investing activities

	2017	2016
Receipt of government grants related to asset projects	55,948,210	9,102,216
Receipt of companies	26,565,875	28,355,353
Others	1,013,942	4,711,754
	<u>83,528,027</u>	<u>42,169,323</u>

(d) Cash received from other financing activities

	2017	2016
Receipt of consideration and deposit for sales and lease back of fixed assets	175,477,409	106,395,344
Cash advances from non-financial enterprises	34,474,167	47,800,000
Receipt of government grants	8,000,000	-
	<u>217,951,576</u>	<u>154,195,344</u>

(e) Cash payments for other financing activities

	2017	2016
Repayments of cash advances to non-financial enterprises	449,690,279	52,598,160
Repayments for principal and deposit of finance lease	16,200,000	1,200,000
Payments for acquiring minority interests	13,907,738	22,080,000
Payments of expenses for bond offering, raising of bank borrowings and finance leases	3,180,000	3,155,791
	<u>482,978,017</u>	<u>79,033,951</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(56) Supplementary information of cash flow statements**

(a) Supplementary information of cash flow statements

Reconciliation of net profit to cash flows from operating activities:

	2017	2016
Net profit	2,211,758,228	620,832,712
Add: Provision for asset impairment	269,466,670	35,624,701
Depreciation of fixed assets	1,430,449,047	1,429,929,310
Amortisation of intangible assets	96,873,175	78,723,177
Amortisation of long-term prepaid expenses	84,961,725	71,584,053
Amortisation of deferred income	-32,669,941	-26,887,180
Net loss on disposal of non-current assets	1,576,103	-98,858,886
Net loss on retirement of non-current assets	10,176,198	-10,139,778
Investment income	-108,409,622	-85,511,591
Changes in fair value recognised in profit	-2,697,595	-862,070
Finance expenses	641,177,255	572,314,498
Stock option incentive	-	-3,652,627
Negative goodwill	-257,243,520	-
(Increase)/Decrease Deferred income tax asset	112,434,236	-40,255,702
Increase/(Decrease) Deferred income tax liability	-15,807,937	16,587,316
(Increase)/Decrease in inventories	-99,139,064	-32,094,309
(Increase)/Decrease in operating receivables	-464,112,692	65,485,716
Increase/(Decrease) in operating payables	25,283,782	285,334,219
Net cash flows from operating activities	<u>3,904,076,048</u>	<u>3,096,150,887</u>

Net change in cash

	2017	2016
Ending balance of cash	3,532,308,895	3,642,286,117
Less: beginning balance of cash	<u>3,642,286,117</u>	<u>1,862,478,104</u>
Increase/(Decrease) in cash and cash equivalent	<u>-109,977,222</u>	<u>1,779,808,013</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(56) Supplementary information of cash flow statements (Cont'd)**

(b) Acquisition or disposal of subsidiaries

(i) Acquisition of subsidiaries

	2017	2016
Cash and cash equivalents paid for business combination in this year	1,375,000,000	-
Including: The target companies (Note V(1))	1,375,000,000	-
Less: Cash and cash equivalents held by the target companies at the date of acquisition	350,974,137	-
Including: The target companies (Note V(1))	350,974,137	-
Add: Cash and cash equivalents paid for in business combination previous years	20,000,000	95,802,486
Including: Huaxin cement (Daye) Co., Ltd.	20,000,000	71,930,211
Huaxin cement (E'zhou) Co., Ltd.	-	20,415,555
Success Eagle Cement (Hong Kong) Limited	-	3,456,720
Net cash paid to acquisition of subsidiaries	<u>1,044,025,863</u>	<u>95,802,486</u>
Consideration of the acquisition of subsidiaries in 2017		
The target companies (Note V(1))		<u>1,375,000,000</u>
Consideration of the acquisition of subsidiaries in prior periods		
Huaxin cement (Daye) Co., Ltd.		420,100,753
Huaxin cement (E'zhou) Co., Ltd.		99,437,031
Success Eagle Cement (Hong Kong) Limited		<u>179,429,466</u>
		<u>698,967,250</u>
Net asset of subsidiaries acquired		2017
Current assets		1,432,236,166
Non-current assets		2,746,165,306
Current liabilities		2,379,452,293
Non-current liabilities		<u>133,154,280</u>
		<u>1,665,794,899</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(56) Supplementary information of cash flow statements (Cont'd)**

(b) Acquisition or disposal of subsidiaries (Cont'd)

(i) Disposal of subsidiaries

	2017	2016
Cash and cash equivalent received from disposal of subsidiaries in current year	-	4,290,000
Including: Huaxin Cement (Shishou) Co., Ltd.	-	4,290,000
Less: Cash and cash equivalents of the subsidiaries at the date of disposal	-	2,698
Including: Huaxin Cement (Shishou) Co., Ltd.	-	2,698
Add: Cash and cash equivalents received from disposal of subsidiaries in prior years	-	-
Including: Huaxin Cement (Shishou) Co., Ltd.	-	-
Net cash received from disposal of subsidiaries	<u>-</u>	<u>4,287,302</u>
Consideration of the disposal of subsidiaries in prior periods Huaxin Cement (Shishou) Co., Ltd.		<u>4,290,000</u>

(c) Cash

	31 December 2017	31 December 2016
<b>Cash</b>		
Including: Cash in hand	2,581,513	1,039,813
Cash at bank without restriction	3,529,727,382	3,641,246,304
Other cash and cash equivalents without restriction	-	-
<b>Cash equivalents</b>		
Including : Bonds investment matured within three months	-	-
Cash and cash equivalents balance in year end	<u>3,532,308,895</u>	<u>3,642,286,117</u>

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**VII Notes to the significant items in the consolidated financial statements (Cont'd)**

**(57) Foreign currency monetary items**

	31 December 2017		
	Foreign currency balance	Exchange rate	RMB balance
<b>Cash at bank and in hand —</b>			
USD	54,300,081	6.5342	354,807,587
TJS	104,532,131	0.7383	77,176,072
NPR	35,951,821	0.0637	2,290,131
			<u>434,273,790</u>
<b>Other receivables —</b>			
USD	1,008,815	6.5342	<u>6,591,799</u>
<b>Accounts payable —</b>			
USD	10,583,433	6.5342	69,154,266
TJS	34,222,265	0.7383	25,266,298
			<u>94,420,564</u>
<b>Other payables —</b>			
HKD	136,094,856	0.8359	113,761,690
TJS	8,332,257	0.7383	6,151,705
			<u>119,913,395</u>
<b>Interests payable —</b>			
USD	177,455	6.5342	<u>1,159,526</u>
<b>Long-term borrowings —</b>			
DKK	3,349,968	1.0479	3,510,431
USD	107,619,305	6.5342	703,206,060
			<u>706,716,491</u>
<b>Current portion of Long-term borrowings —</b>			
DKK	1,339,988	1.0479	1,404,173
USD	34,780,168	6.5342	227,260,571
			<u>228,664,744</u>

The monetary items presented above refer to all categories of currency except RMB (The scope of foreign currency monetary items is different from those presented in note XIV(1) (a)).



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#### VIII Changing scope of consolidation

##### (1) Business combination not under common control

###### (a) Business combination not under common control occur this year

On 30 November 2016, the Company signed the equity acquisition agreement with Lafarge China Cement Limited ("Lafarge China") and its wholly-owned subsidiaries Prime Allied Enterprises Ltd. and TH industry II Ltd. to acquire certain businesses of Lafarge China in South-Western China at consideration of RMB1,375,000,000, which includes 100% equity interest of Yunnan Lafarge Construction Material Investment Holding Ltd. (subsequently renamed as "Yunnan Huaxin Construction Materials Investment Holding Ltd."), 97.27% equity interest of Chongqing Lafarge Shui On Diwei Cement Co., Ltd. (subsequently renamed as "Chongqing Huaxin Diwei Cement Co., Ltd."), 80% equity interest of Chongqing Lafarge Shui On Special Cement Co., Ltd. (subsequently renamed as "Chongqing Huaxin Yanjing Cement Co., Ltd."), and 100% equity interest of Sommerset Investment Limited, Chongqing Lafarge Concrete Co., Ltd. (subsequently renamed as "Chongqing Huaxin Tiancheng Concrete Co., Ltd.") and Chongqing Lafarge Phoenix Lake Concrete Co., Ltd. (subsequently renamed as "Chongqing Huaxin Phoenix Lake Concrete Co., Ltd."). These acquired entities are collectively referred to as "the target companies".

On 24 January 2017, the acquisition was completed with the confirmation by the Company, Lafarge China, Prime Allied Enterprises Ltd. and TH industry II Ltd.

Acquiree	Acquisition cost	Payment method	The acquisition date	Determinant of the acquisition date
The target companies	1,375,000,000	Cash	24 January 2017	Date of control transfer
Acquiree	Revenue of acquiree till year end	Net profit of acquiree till year end	Cash flow from operating activities of acquiree till year end	Net cash flow of acquiree till year end
The target companies	4,322,648,857	613,380,624	705,303,751	-25,229,023

###### (b) Cost of acquisition and goodwill recognised:

	The target companies
Acquisition cost—	
Cash	1,375,000,000
Total cost	1,375,000,000
Less: fair value of net identifiable asset	1,632,243,520
Goodwill/ (Negative goodwill)	-257,243,520

## HUAXIN CEMENT CO., LTD.

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#### VIII Changing scope of consolidation (Cont'd)

##### (1) Business combination not under common control (Cont'd)

(c) Assets and liabilities of the target companies at the acquisition date are as below

(i) The target companies

	Fair value on Acquisition date	Book value on Acquisition date
Cash at bank and in hand	350,974,137	350,974,137
Receivables	594,571,219	594,571,219
Advances to suppliers	126,003,107	126,003,107
Inventories	359,776,835	359,776,835
Other current assets	910,868	910,868
Fixed assets	1,756,014,819	1,756,014,819
Construction in progress	22,575,772	22,575,772
Intangible assets	762,250,413	492,781,289
Deferred tax assets	205,324,302	205,324,302
Less: Short-term borrowings	542,622,534	542,622,534
Payables	1,688,454,531	1,688,454,531
Advances from customers	90,126,090	90,126,090
Employee benefits payable	108,388,115	108,388,115
Long-term borrowings	4,613,421	4,613,421
Deferred tax liabilities	5,186,656	-
Other non-current liabilities	73,215,226	73,215,226
Net Asset	<u>1,665,794,899</u>	<u>1,401,512,431</u>
Less: Minority interests	<u>33,551,379</u>	<u>19,514,333</u>
Asset acquired	<u>1,632,243,520</u>	<u>1,381,998,098</u>

The Group applied valuation techniques to determine the fair value of asset acquired and liabilities assumed. The valuation method of major asset and key assumptions are as below:

The valuation method of fixed asset is replacement cost method: the asset's fair value will be its replacement cost at the moment deducting all other loss of value, the basic calculation formula equals to replacement full price multiply by the residual ratio;

Intangible assets mainly include land use rights and mining rights. Fair value of land use rights is determined by using benchmark land price method. To determine the prices of land use rights, the benchmark land price set by local governments is adjusted by considering land usage period, regional factors, company specific factors and marketable factors. Fair value of mining rights is determined by discount cash flow method. To determine the present value of future cash flow, management estimated the selling price and exploitation cost of mining resources, operating expenses and applicable discount rate of the forecast period.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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### IX Equity interests in other entities

#### (1) Equity interests in subsidiaries

##### (a) Components of the Group

Significant subsidiaries	Place of business	Place of registration	Principal activities	% of ownership interest		Acquisition mode
				Directly	Indirectly	
Huaxin Cement (Yichang) Co., Ltd.	Yichang	Yichang	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Enshi) Co., Ltd.	Enshi	Enshi	Production and sale of cement	67%	33%	Set up/Invest
Huaxin Cement (Zhaotong) Co., Ltd.	Zhaotong	Zhaotong	Production and sale of cement	60%	40%	Set up/Invest
Huaxin Cement (Tibet) Co., Ltd.	Tibet	Tibet	Production and sale of cement	79%	0%	Set up/Invest
Huaxin Cement (Yangxin) Co., Ltd.	Yangxin	Yangxin	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Nantong) Co., Ltd.	Nantong	Nantong	Production and sale of cement	85%	0%	Set up/Invest
Wuhan Wugang Huaxin Cement Co., Ltd. (Note (i))	Wuhan	Wuhan	Production and sale of cement and scoria	50%	0%	Set up/Invest
Huaxin Aggregate (Wuxue) Co., Ltd.	Wuxue	Wuxue	Production and sale of aggregate	0%	100%	Set up/Invest
Huaxin Cement (Xiangyang) Co., Ltd.	Xiangyang	Xiangyang	Production and sale of cement	100%	0%	Set up/Invest
Hunan Huaxin Xianggang Cement Co., Ltd.	Xiangtan	Xiangtan	Production and sale of cement	60%	0%	Set up/Invest
Huaxin Cement (Wuxue) Co., Ltd.	Wuxue	Wuxue	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Concrete (Jingmen) Co., Ltd.	Jingmen	Jingmen	Production and sale of concrete	0%	100%	Business combination
Huaxin Cement (Chibi) Co., Ltd.	Chibi	Chibi	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Henan Xinyang) Co., Ltd.	Xinyang	Xinyang	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Environment Engineering Co., Ltd.	Wuhan	Wuhan	Production and sale of cement additives and tune coagulant	100%	0%	Set up/Invest
Huaxin Environment Engineering (Wuxue) Co., Ltd.	Wuxue	Wuxue	Production and sale of cement additives and tune coagulant	0%	100%	Set up/Invest
Huaxin Cement Technology Management (Wuhan) Co., Ltd.	Wuhan	Wuhan	R&D and consulting service	100%	0%	Set up/Invest
Huaxin Cement (Hefeng) National Materials Co., Ltd.	Hefeng	Hefeng	Production and sale of cement	51%	0%	Business combination
Huaxin Cement (Macheng) Co., Ltd.	Macheng	Macheng	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Kunming Dongchuan) Co., Ltd.	Kunming	Kunming	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Huangshi) Equipment Manufacturing Co., Ltd.	Huangshi	Huangshi	Manufacturing, maintenance and installation of mechanical & electrical tools	0%	100%	Set up/Invest
Huaxin Cement (Zigui) Co., Ltd.	Zigui	Zigui	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Zhuzhou) Co., Ltd.	Zhuzhou	Zhuzhou	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Chenzhou) Co., Ltd.	Chenzhou	Chenzhou	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Quxian) Co., Ltd.	Quxian	Quxian	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement Chongqing Fuling Co., Ltd.	Fuling	Fuling	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement Xiangyang Xiangcheng Co., Ltd.	Xiangyang	Xiangyang	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Daoxian) Co., Ltd.	Daoxian	Daoxian	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Cement (Diqing) Co., Ltd.	Diqing	Diqing	Production and sale of cement	69%	0%	Business combination
Huaxin Cement (Wanyuan) Co., Ltd.	Wanyuan	Wanyuan	Production and sale of cement	100%	0%	Set up/Invest
Huaxin Hongta Cement (Jinghong) Co., Ltd.	Jinghong	Jinghong	Production and sale of cement	51%	0%	Business combination
Huaxin Cement (Lengshuijiang) Co., Ltd.	Lengshuijiang	Lengshuijiang	Production and sale of cement	90%	0%	Set up/Invest
Huaxin Aggregate (Yangxin) Co., Ltd.	Yangxin	Yangxin	Production and sale of aggregate	0%	100%	Set up/Invest
Huaxin Cement (Changyang) Co., Ltd.	Changyang	Changyang	Production and sale of cement	100%	0%	Business combination
Hunan Huaxiang Environmental Industry Development Co., Ltd.	Xiangtan	Xiangtan	Production and sale of mineral powder	0%	60%	Set up/Invest
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	Yunxian	Yunxian	Production and sale of cement	80%	0%	Business combination
Huaxin Cement (Fangxian) Co., Ltd.	Fangxian	Fangxian	Production and sale of cement	70%	0%	Business combination
Huaxin Hong Kong (Central Asia) Investment Limited (Note (ii))	Hongkong	Hongkong	Investment in construction materials engineering and designing of cement project	0%	51%	Set up/Invest
Huaxin Gayur Cement Limited Liability Company (Note (ii))	Tajikistan	Tajikistan	Production and sale of cement	0%	38%	Set up/Invest

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### IX Equity interests in other entities (Cont'd)

#### (1) Equity interests in subsidiaries (Cont'd)

##### (a) Components of the Group (Cont'd)

Significant subsidiaries	Place of business	Place of registration	Principal activities	% of ownership interest		Acquisition mode
				Directly	Indirectly	
Huaxin Gayur (Sogd) Cement Limited Liability Company (Note (ii))	Tajikistan	Tajikistan	Production and sale of cement	0%	36%	Set up/Invest
Huaxin Cement (Sangzhi) Co., Ltd.	Zhangjiajie	Zhangjiajie	Production and sale of cement	80%	0%	Set up/Invest
Huaxin Equipment Engineering Co., Ltd.	Wuhan	Wuhan	Manufacturing, maintenance and installation of mechanical & electrical tools	100%	0%	Set up/Invest
Huaxin (Hong Kong) International Holdings Limited	Hongkong	Hongkong	Investment in construction materials engineering and designing of cement project	100%	0%	Set up/Invest
Cambodia Cement Charkrey Ting Factory Co., Ltd.	Cambodia	Cambodia	Production and sale of cement	0%	68%	Business combination
Huaxin Cement (Daye) Co., Ltd.	Daye	Daye	Production and sale of cement	70%	0%	Business combination
Huaxin Cement (E'zhou) Co., Ltd.	Ezhou Enping	Ezhou Enping	Production and sale of cement	70%	0%	Business combination
Huaxin Cement (Enping) Co., Ltd.			Production and sale of cement	0%	65%	Business combination
Chongqing Huaxin Diwei Cement Co., Ltd.	Chongqing	Chongqing	Production and sale of cement	97%	0%	Business combination
Chongqing Huaxin Yanjing Cement Co., Ltd.	Chongqing	Chongqing	Production and sale of cement	80%	0%	Business combination
Yunnan Huaxin Construction Materials Investment Holding Ltd.	Kunming	Kunming	Production and sale of building material	100%	0%	Business combination
Huaxin Cement (Lijiang) Co., Ltd.	Lijiang	Lijiang	Production and sale of cement	0%	100%	Business combination
Huaxin Cement (Jianchuan) Co., Ltd.	Jianchuan	Jianchuan	Production and sale of cement	0%	100%	Business combination
Huaxin Cement (Yunlong) Co., Ltd.	Dali	Dali	Production and sale of cement	0%	100%	Business combination
Huaxin Cement (Fumin) Co., Ltd.	Fumin	Fumin	Production and sale of cement	100%	0%	Business combination
Huaxin Cement (Dongjun) Co., Ltd.	Kunming	Kunming	Production and sale of cement	0%	100%	Business combination
Huaxin Cement (Honghe) Co., Ltd.	Honghe	Honghe	Production and sale of cement	0%	100%	Business combination
Huaxin Cement (Lincang) Co., Ltd.	Lincang	Lincang	Production and sale of cement	0%	100%	Business combination
Sommerset Investment Ltd.	Mauritius	Mauritius	Investment	100%	0%	Business combination
Huaxin Guizhou Dingxiao Special Cement Co., Ltd.	Dingxiao	Dingxiao	Production and sale of cement	0%	100%	Business combination
Guizhou Shuicheng Shui On Cement Co., Ltd.	Shuicheng	Shuicheng	Production and sale of cement	0%	70%	Business combination

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#### IX Equity interests in other entities (Cont'd)

##### (1) Equity interests in subsidiaries (Cont'd)

###### (a) Components of the Group (Cont'd)

- (i) Wuhan Wugang Huaxin Cement Co., Ltd. is included in the scope of consolidation since the Company has the right to govern the financial and operating policies.
- (ii) Huaxin Gayur Cement LLC and Huaxin Gayur (Sogd) Cement LLC, subsidiaries of the Group in Tajikistan, should comply with local foreign exchange management policy. According to the local policy, Huaxin Gayur Cement Limited Liability Company and Huaxin Gayur (Sogd) Cement Limited Liability Company should obtain the approval from local administration of foreign exchange for paying cash dividends out of Tajikistan.

The Group effectively holds 51% equity interest of Huaxin Hongkong (Central Asia) Investment Limited, Huaxin Hongkong (Central Asia) Investment Limited effectively holds 75% and 48% equity interest of Huaxin Gayur Cement LLC and its subsidiary Huaxin Gayur (Sogd) Cement LLC respectively. Hence the Group effectively holds their equity interest with the proportion of 38.25% and 36.34% respectively. The approval mechanism of the board of directors of Huaxin Gayur Cement LLC and Huaxin Gayur (Sogd) Cement LLC are simple majority, the Group is eligible to assign three out of the four directors and thus holds 75% voting right. Hence, the Group obtains control of Huaxin Gayur Cement LLC and Huaxin Gayur (Sogd) Cement LLC.

###### (b) Subsidiaries with significant minority interests

Subsidiaries	% of minority shareholders' equity interest	Profits or losses attributable to the minority shareholders in 2017	Dividends to minority shareholders in 2017	Minority interest of 31 December 2017
Huaxin Gayur Cement Limited Liability Company	61.75%	16,682,131	33,001,131	281,105,870
Cambodia Cement Charkrey Ting Factory Co., Ltd	32%	28,460,544	-	168,868,858
Huaxin Cement (Tibet) Co., Ltd.	21%	46,870,504	105,000,000	162,245,915
Huaxin Hongta Cement (Jinghong) Co., Ltd.	49%	40,154,215	32,484,541	140,308,131
Huaxin Cement (Daye) Co., Ltd.	30%	17,912,512	-	131,065,486
Hunan Huaxin Xianggang Cement Co., Ltd.	40%	3,278,255	-	127,701,754
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	20%	10,351,279	6,000,000	77,198,038

## HUAXIN CEMENT CO., LTD.

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#### IX Equity interests in other entities (Cont'd)

##### (1) Equity interests in subsidiaries (Cont'd)

##### (b) Subsidiaries with significant minority interests (Cont'd)

Main financial information of the above significant subsidiaries is as follows:

	31 December 2017					
	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities
Huaxin Gayur Cement Limited Liability Company	169,987,325	1,126,508,624	1,296,495,949	781,841,279	427,839,009	1,209,680,288
Cambodia Cement Charkrey Ting Factory Co., Ltd.	97,932,249	702,451,875	800,384,124	171,258,920	101,410,024	272,668,944
Huaxin Cement (Tibet) Co., Ltd.	521,966,039	495,129,079	1,017,095,118	275,232,746	6,700,889	281,933,635
Huaxin Hongta Cement (Jinghong) Co., Ltd.	98,441,970	358,587,092	457,029,062	158,160,049	8,201,447	166,361,496
Huaxin Cement (Daye) Co., Ltd.	248,426,358	461,555,572	709,981,930	248,310,323	24,786,655	273,096,978
Hunan Huaxin Xianggang Cement Co., Ltd.	187,206,403	307,723,189	494,929,592	173,859,142	1,816,066	175,675,208
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	280,972,797	286,412,235	567,385,032	166,641,756	14,753,084	181,394,840

  

	2017			
	Sales	Net profit	Total comprehensive income	Net cash flows from operating activities
Huaxin Gayur Cement Limited Liability Company	641,942,447	12,874,584	-21,468,228	234,682,968
Cambodia Cement Charkrey Ting Factory Co., Ltd.	514,844,106	88,939,200	58,864,191	204,810,104
Huaxin Cement (Tibet) Co., Ltd.	762,091,304	220,761,215	220,761,215	275,058,114
Huaxin Hongta Cement (Jinghong) Co., Ltd.	396,002,241	81,947,377	81,947,377	142,023,359
Huaxin Cement (Daye) Co., Ltd.	617,308,477	59,708,374	59,708,374	97,503,821
Hunan Huaxin Xianggang Cement Co., Ltd.	264,672,568	8,195,637	8,195,637	34,450,126
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	460,846,398	51,756,397	51,756,398	87,463,056

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#### IX Equity interests in other entities (Cont'd)

##### (1) Equity interests in subsidiaries (Cont'd)

##### (b) Subsidiaries with significant minority interests (Cont'd)

	31 December 2016					
	Current Assets	Non-current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Total Liabilities
Huaxin Gayur Cement Limited Liability Company	270,445,676	1,432,986,623	1,703,432,299	733,544,737	723,424,209	1,456,968,946
Cambodia Cement Charkrey Ting Factory Co., Ltd.	87,209,731	803,413,891	890,623,622	216,702,060	205,070,573	421,772,633
Huaxin Cement (Tibet) Co., Ltd.	813,331,203	466,952,898	1,280,284,101	258,902,823	6,981,011	265,883,834
Huaxin Hongta Cement (Jinghong) Co., Ltd.	53,220,478	373,406,106	426,626,584	142,837,582	8,773,833	151,611,415
Huaxin Cement (Daye) Co., Ltd.	171,124,360	525,065,024	696,189,384	263,189,706	55,823,104	319,012,810
Hunan Huaxin Xianggang Cement Co., Ltd.	171,899,276	341,987,729	513,887,005	201,337,726	1,490,533	202,828,259
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	168,962,366	323,182,813	492,145,179	107,120,592	20,790,791	127,911,383

	2016			
	Sales	Net profit	Total comprehensive income	Net cash flows from operating activities
Huaxin Gayur Cement Limited Liability Company	654,090,067	164,701,758	158,992,079	412,481,066
Cambodia Cement Charkrey Ting Factory Co., Ltd.	430,580,847	42,851,597	73,509,943	161,979,710
Huaxin Cement (Tibet) Co., Ltd.	719,964,276	278,506,092	278,506,092	384,586,765
Huaxin Hongta Cement (Jinghong) Co., Ltd.	314,868,904	54,671,543	54,671,543	100,056,382
Huaxin Cement (Daye) Co., Ltd.	378,747,197	-15,642,105	-15,642,105	73,335,331
Hunan Huaxin Xianggang Cement Co., Ltd.	143,228,027	-10,451,004	-10,451,004	1,083,870
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	335,553,731	19,078,224	19,078,224	51,624,304

##### (2) Equity interests in associates

##### (a) Basic information of significant associates

Associates –	Place of business	Place of registration	Principal activities	Strategic to the Group	% of ownership interest	
					Directly	Indirectly
Tibet High-Tech building materials Co., Ltd.	Tibet	Tibet	Production and sale of cement	Yes	43.00%	0%
Shanghai wan'an Huaxin Cement Co., Ltd.	Shanghai	Shanghai	Production and sale of cement	Yes	49.00%	0%

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#### IX Equity interests in other entities (Cont'd)

##### (2) Equity interests in associates and joint ventures (Cont'd)

###### (b) Main financial information of significant associates

	31 December 2017		31 December 2016	
	Tibet High-Tech building materials Co., Ltd.	Shanghai Wan'an Huaxin Cement Co., Ltd.	Tibet High-Tech building materials Co., Ltd.	Shanghai Wan'an Huaxin Cement Co., Ltd.
Current assets	575,270,193	235,412,395	414,373,441	239,350,971
Non-current assets	508,010,659	106,500,021	512,683,107	108,844,490
<b>Total assets</b>	<b>1,083,280,852</b>	<b>341,912,416</b>	<b>927,056,548</b>	<b>348,195,461</b>
Current liabilities	267,089,290	7,621,081	144,893,057	6,714,021
Non-current liabilities	96,349,367	2,415,922	191,663,492	3,674,834
<b>Total liabilities</b>	<b>363,438,657</b>	<b>10,037,003</b>	<b>336,556,549</b>	<b>10,388,855</b>
Minority interests	93,158,557	-	80,040,655	-
Equity interest attributable to the shareholders of the Company	626,683,638	331,875,413	510,459,344	337,806,606
Net assets based on the share proportion (Note (i))	269,473,964	162,618,952	219,497,518	165,525,237
Book values of equity investment in associates	269,473,964	162,618,952	219,497,518	165,525,237
	2017		2016	
	Tibet High-Tech building materials Co., Ltd.	Shanghai wan' an Huaxin Cement Co., Ltd.	Tibet High-Tech building materials Co., Ltd.	Shanghai wan 'an Huaxin Cement Co., Ltd.
Sales	742,611,260	13,777,880	622,930,429	17,916,665
Net profit/(loss) attributable to the Company (Note (i))	236,224,294	-5,931,193	243,117,071	-20,713,592
Other comprehensive income attributable to the Company	-	-	-	-
Total comprehensive income attributable to the Company	236,224,294	-5,931,193	243,117,071	-20,713,592
Dividends from associates in the current period	51,600,000	-	6,880,000	-

- (i) The share of net assets of associates is calculated based on share proportion and equity attributable to the shareholders of the Company in consolidated financial statements. The consolidation of equity attributable to the shareholders of the Company has included the impact of the fair value of net assets of associates acquired and unification of accounting policy.



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**IX Equity interests in other entities (Cont'd)**

**(2) Equity interests in in associates and joint ventures (Cont'd)**

(c) Summarised information of non-significant associates

	2017	2016
Associates		
Investment book values	2,910,515	2,490,757
Total amounts calculated based on share proportion are as follows:		
Net profit/(loss) (Note (i))	419,758	-46,052
Total comprehensive income	419,758	-46,052

(i) Net profit and other comprehensive income included impacts from the fair value of net assets acquired and unification of accounting policy.

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#### X Related party relationships and significant related party transactions

##### (1) Major shareholders of the Company

###### (a) General information of major shareholders of the Company

	Legal status	Registered address	Relationship with the Company	Legal representative	Organization code	Principal business
Holchin B.V.	Limited company	Amsterdam, Holland	The first major shareholder	N/A	N/A	Investment holdings
Huaxin Group Co., Ltd.	Limited company	Huangshi City, the PRC	The second major shareholder	Liu Fengshan	17843892-3	Production and sales of cement, related machinery and spare parts, real estate development, trading and rendering of service etc.

Holchin B.V. is an investment holding company and its ultimate holding shareholder is Lafarge Holcim Ltd.

###### (b) Registered capital and changes in registered capital of major shareholders of the Company

	31 December 2017 and 31 December 2016
Holchin B.V.	EUR 100,000
Huaxin Group Co., Ltd.	RMB 340,000,000

###### (c) Interest and voting rights held by the major shareholders

	31 December 2017		31 December 2016	
	% of equity interests	% of voting right	% of equity interests	% of voting right
Holchin B.V. (including shares held by parties acting in concert)	41.84%	41.84%	41.84%	41.84%
Huaxin Group Co., Ltd. (including shares held on behalf of the State)	16.01%	16.01%	15.79%	15.79%

## HUAXIN CEMENT CO., LTD.

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#### X Related party relationships and significant related party transactions (Cont'd)

##### (2) Subsidiaries of the Company

The general background and other related information of the subsidiaries are set out in Note IX(1).

##### (3) Associates and joint ventures

The general background and other related information of Associates and joint ventures are set out in Note IX(2).

##### (4) Other related parties

	Relationship with the Group
LafargeHolcim Ltd.	Ultimate holding company of Holchin B.V.
LafargeHolcim Energy Solutions S.A.S.	Controlled by Lafarge Holcim Ltd.
Holcim Technology Ltd.	Controlled by Lafarge Holcim Ltd.
Holcim Philippines, Inc.	Controlled by Lafarge Holcim Ltd.
Prime Allied Ltd.	Controlled by Lafarge Holcim Ltd.
TH Industry II Ltd.	Controlled by Lafarge Holcim Ltd.
LAFARGE ASIA SDN BHD	Controlled by Lafarge Holcim Ltd.
Lafarge Holcim Construction Material (China) Co., Ltd.	Controlled by Lafarge Holcim Ltd.
Lafarge Holcim (Beijing) Technology Service Co., Ltd.	Controlled by Lafarge Holcim Ltd.
Chongqing Lafarge Shui On Cantian Cement Co., Ltd.	Controlled by Lafarge Holcim Ltd.
Lafarge China	Controlled by Lafarge Holcim Ltd.
Tibet Shigatse High-tech Xuelian Cement Co., Ltd.	Controlled by a joint venture, Tibet High-Tech building materials Co., Ltd.

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**X Related party relationships and significant related party transactions (Cont'd)**

**(5) Related party transactions**

**(a) Sales/purchase of goods and services provided/ received**

Related Party	Nature of transaction	Pricing policies	2017		2016	
			Amount	% of similar transaction	Amount	% of similar transaction
<b>Sales</b>						
Tibet Shigatse High-tech Xuelian Cement Co.,Ltd.	Sales of accessories	Per contract	4,135,971	10%	5,885,551	7%
Chongqing Lafarge Shui On Cantian Cement Co., Ltd.	Sales of materials	Per contract	8,666,082	20%	-	-
<b>Render services</b>						
Lafarge Holcim Construction Material (China) Co., Ltd.	Technology service charge	Per contract	-	-	451,132	48%
Tibet Shigatse High-tech Xuelian Cement Co.,Ltd.	Technology service charge	Per contract	1,709,490	100%	484,033	52%
Lafarge Holcim (Beijing) Technology Service Co., Ltd. and its related parties	Entrusted operating service	Per contract	-	-	61,276,970	38%
Holcim Philippines, Inc.	Construction contract	Per contract	USD1,828,668	31%	-	-
<b>Procurement</b>						
LafargeHolcim Energy Solutions S.A.S.	Fuel procurement	Per contract	USD24,912,249	3%	-	-
<b>Receive services</b>						
Huaxin Group Co. Ltd.	Comprehensive service charge	Per contract	-	-	-	-
Holcim Technology Ltd.	Technology service charge	Per contract	6,391,748	100%	6,471,845	100%
Lafarge Holcim Construction Material (China) Co., Ltd.	Management and technology service charge	Per contract	USD1,100,000	100%	USD 1,100,000	100%
Lafarge Holcim (Beijing) Technology Service Co., Ltd.	Management and technology service charge	Per contract	795,547	100%	795,547	6%
			-	-	11,769,050	94%
<b>Equity Acquisition</b>						
Lafarge China, Prime Allied Ltd., and TH Industry II Ltd.	Equity acquisition	Per contract	1,375,000,000	100%	-	-

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**X Related party relationships and significant related party transactions (Cont'd)**

**(5) Related party transactions (Cont'd)**

(b) Salaries of key management

	2017	2016
Payment of salaries of key management	<u>34,955,634</u>	<u>32,437,736</u>

**(6) Receivables from and payables to related parties**

		31 December 2017	31 December 2016
Account receivables	Tibet Shigatse High-tech Xuelian Cement Co., Ltd.	2,109,286	4,563,326
	Shanghai Wan'an Huaxin Cement Co., Ltd.	7,429,916	7,429,916
	Lafarge Holcim (Beijing) Technology Service Co., Ltd. and its related parties	-	40,469,725
	Holcim Philippines, Inc.	5,974,440	-
	Chongqing Lafarge Shui On Cantian Cement Co., Ltd.	<u>10,139,316</u>	-
		<u>25,652,958</u>	<u>52,462,967</u>
Other receivables	Lafarge China	<u>18,907,764</u>	-
Account payables	Huaxin Group Co., Ltd.	550,000	550,000
	Lafarge Holcim (Beijing) Technology Service Co., Ltd	-	11,769,050
	Holcim Technology Ltd.	7,187,620	7,575,150
	LafargeHolcim Energy Solutions S.A.S.	<u>33,639,368</u>	-
		<u>41,376,988</u>	<u>19,894,200</u>
Other payables	Lafarge China	5,810,894	-
	LAFARGE ASIA SDN BHD	<u>1,181,666</u>	-
		<u>6,992,560</u>	-
Dividend payables	Holchin B.V.	<u>29,005,197</u>	-

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#### X Related party relationships and significant related party transactions (Cont'd)

##### (7) Commitments in relation to related parties

The commitments in relation to related parties contracted for at the balance sheet date but not recognised in the balance sheet are analysed as follows:

	Currency	31 December 2017	31 December 2016
-Guarantee commitments			
Tibet Shigatse High-tech Xuelian Cement Co.,Ltd. (Note (a))	RMB	130,000,000	150,000,000
Huaxin Cement (Lijiang) Co., Ltd. (Note (b))	RMB	-	25,000,000
		<u>130,000,000</u>	<u>175,000,000</u>

As at 31 December 2017, the guarantee commitments for related parties of the Group are listed below:

- (a) Huaxin Cement (Tibet) Co., Ltd. ("Huaxin Tibet"), the partially owned subsidiary of the Group (79% of ownership), and the Bank of China Shigatse Branch ("BOC Shigatse Branch") have entered into a guarantee contract on 31 August 2013 in relation to a loan of RMB200,000,000 that BOC Shigatse Branch granted to Tibet Shigatse High-Tech Xuelian Cement Co., Ltd. ("High-Tech Xuelian", the subsidiary of a joint venture of the Group). The loan is specifically for financing a construction project of High-Tech Xuelian. Huaxin Tibet provides full guarantee to the loan during the period of production line construction in High-Tech Xuelian. And High-tech Xuelian provides back up guarantees to Huaxin Tibet with all its assets. High-tech Xuelian drew down the loan of RMB200,000,000 in February 2014 from BOC Shigatse Branch. As at 31 December 2017, the balance of High-Tech Xuelian's loan and Huaxin Tibet's guarantee commitment is RMB130,000,000.
- (b) The Company and China Construction Bank Huaping Branch ("CCB Huaping Branch") have entered into a guarantee contract on 27 December 2016 in relation to batched liabilities including loans, bank acceptance, letter of credit contract, letter of guarantee and other legal documents between Huaxin Cement (Lijiang) Cement Co., Ltd. (A subsidiary of Yunnan Huaxin Construction Materials Investment Holding Ltd., named "Huaxin Lijiang") and CCB Huaping Branch. The Company provides full guarantee to Huaxin Lijiang during the contracted period from 27 December 2016 to 26 December 2019 with the limit amounted to RMB55,000,000. Huaxin Lijiang has become a subsidiary of the Group through business combination not under common control.

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#### XI Contingencies and Commitments

##### (1) Contingencies

- (a) In August 2012, Hubei Guoxin Real Estate Co., Ltd. filed a lawsuit against Huaxin Concrete (Wuhan) Co., Ltd. ("Wuhan Concrete"), a subsidiary of the Company, and pursued a compensation amounting to RMB36,381,674 due to the low quality of concrete provided by Wuhan Concrete. In September 2016, Hubei Wuhan intermediate court judged Wuhan Concrete to compensate RMB22,372,810. Both parties raised appeals in September 2016. Hubei Higher People's Court judged that first trial was not well argued and thus revoked the judgement of first trial and remanded for retrial on December 21 2016. The retrial was proceed in April 2017. As of the reporting date, the case was still in process. Based on the status and lawyer's advice, management considered that the result cannot be reliably estimated at this stage, no accrued liability is needed.
- (b) On 9 July 2013, the Company acquired Enping Success Eagle Cement (Hong Kong) Limited ("Enping Jinying", subsequently renamed to Huaxin Cement (Enping) Co., Ltd. ("Huaxin Enping")). On 20 April 2011, Enping Jinying entered a contract with Northern Heavy Industries Group Co., Ltd. ("Northern Heavy") to engage Northern Heavy to carry out a production line technical upgrade project. During the construction period, Enping Jinying and Northern Heavy had disputes on the quality of project and payments of construction fee, resulting in the delay of project progress.

On 21 November 2013, Northern Heavy filed a lawsuit against Huaxin Enping and request Huaxin Enping to settle the outstanding construction fee and related interest totalling RMB253,048,884 and compensation of RMB5,457,926. As at 13 August 2015, Jiangmen Intermediate People's Court judged Huaxin Enping should settle outstanding construction fee and interest of RMB39,109,411 to Northern Heavy, and rejected other claims by Northern Heavy. Northern Heavy did not agree the judgement and has applied for hearing of higher court. On October 31 2016, Guangdong Higher People's Court heard the case and judged that the first trial was not well argued therefore revoking the judgement for first trial and remanding it for retrial. As of the reporting date, the retrial is not opened yet. The Group had recognised the construction fee payable base on the optimal estimation. According to the current situation and lawyer's advice, management considered that the result cannot be reliably estimated at this stage, no adjustment of the accrued liability is needed.

##### (2) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in balance sheet are analysed as follows:

	31 December 2017	31 December 2016
Buildings, machinery and equipment	<u>189,402,688</u>	<u>98,074,157</u>

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#### XII Events after balance sheet date

##### (1) Significant non-adjustment items

Pursuant to the relevant approval ([2018]MTN12 and [2018]MTN13) from NAFMII, the Company registers medium term notes amounted to RMB2,500,000,000 and RMB2,000,000,000 respectively on 10 January 2018.

##### (2) Profit distribution after balance sheet date

Pursuant to the resolution of board of directors of the Company on 22 March 2018, cash dividends in respect of RMB419,319,971 were proposed. The above appropriation is subject to the approval of the Annual General Meeting.

#### XIII Leasing

The Group acquired certain fixed assets through finance lease (Note VII(11) (d)), the rent to be paid in the future is as follows:

	31 December 2017	31 December 2016
Within 1 year	182,834,591	8,581,795
Between 1 and 2 years	114,052,617	148,517,775
Between 2 and 3 years	-	-
More than 3 years	-	-
	<u>296,887,208</u>	<u>157,099,570</u>

As at 31 December 2017, the balance of unrecognised financing charge amounted to RMB16,168,296 (31 December 2016: RMB9,805,563).



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#### XIV Financial risk

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to reduce potential adverse effects on the Group's financial performance.

##### (1) Market risk

###### (a) Foreign exchange risk

The Group's major operation is carried out in Mainland China and majority of its transactions are denominated in RMB. Huaxin Gayur Cement Co., Ltd. and Huaxin Gayur (Sogd) Cement Co., Ltd., two of the Group's subsidiaries, operate in Tajikistan and their transactions are mainly through Somoni. Cambodian Cement Chakrey Ting Factory Co., Ltd., one of the Group's subsidiaries, operate in Cambodia and its transactions are mainly through USD. The Group is exposed to foreign exchange risk arising from assets and liabilities nominated in foreign currencies, primarily in USD. Headquarter of financial department is responsible for monitoring foreign currency transactions and the scale of foreign currency assets and liabilities of the Group, to minimize the foreign exchange risk. In 2017 and 2016, the Group did not use any forward contracts or hedging instruments to mitigate the foreign exchange risk.

As at 31 December 2017 and 31 December 2016, the functional currency value of financial assets and liabilities in foreign currency of the Group has been listed as follow:

	31 December 2017		
	USD	Other	Total
Financial assets denominated in foreign currency -			
Cash at bank and in hand	298,683,494	2,365,531	301,049,025
	<u>298,683,494</u>	<u>2,365,531</u>	<u>301,049,025</u>
Financial liabilities denominated in foreign currency -			
Accounts payable	67,240,515	-	67,240,515
Other payables	-	14,235,831	14,235,831
Current portion of long-term borrowings	127,096,041	1,404,173	128,500,214
Long-term borrowings	637,864,060	3,510,431	641,374,491
Interest payables	920,766	-	920,766
	<u>833,121,382</u>	<u>19,150,435</u>	<u>852,271,817</u>
	31 December 2016		
	USD	Other	Total
Financial assets denominated in foreign currency -			
Cash at bank and in hand	460,111,452	100,670	460,212,122
	<u>460,111,452</u>	<u>100,670</u>	<u>460,212,122</u>
Financial liabilities denominated in foreign currency -			
Accounts payable	38,596,884	-	38,596,884
Current portion of long-term borrowings	-	16,107,592	16,107,592
Long-term borrowings	264,728,419	1,294,036	266,022,455
Interest payables	1,031,449,359	1,899,112	1,033,348,471
	<u>1,527,906</u>	<u>-</u>	<u>1,527,906</u>
	<u>1,336,302,568</u>	<u>19,300,740</u>	<u>1,355,603,308</u>

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**XIV Financial risk (Cont'd)**

**(1) Market risk (Cont'd)**

**(a) Foreign exchange risk (Cont'd)**

As at 31 December 2017, the Group held various financial assets and liabilities denominated in USD. If RMB had strengthened or weakened by 10% against USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB5,590,955 higher or lower (31 December 2016: approximately RMB8,567,686 higher or lower). If Somoni strengthened or weakened by 10% against USD while all other variables had been held constant, the Group's net profit for the year would have been approximately RMB40,010,589 higher or lower (31 December 2016: approximately RMB66,290,112 higher or lower).

**(b) Interest rate risk**

The Group's interest rate risk mainly arises from long-term interest bearing borrowings including long-term borrowings and debentures payable. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts according to the prevailing market conditions. As at 31 December 2017, the Group's interest bearing RMB-denominated and USD-denominated borrowings with floating rates, amounted to RMB4,055,448,690(31 December 2016: RMB3,633,048,519)(Note VII (29)).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2017 and 2016, the Group did not enter into any interest rate swap agreements.

As at 31 December 2017, if interest rates on the floating rate borrowings increased or decreased 50BP while all other variables had been held constant, the Group's interest expenditure would have increased or decreased by approximately RMB20,277,243 (31 December 2016: approximately RMB18,165,243 ).

**(2) Credit risk**

Credit risk is managed on a Group basis. Credit risk mainly arises from cash at bank and cash in hand, accounts receivable, other receivables, notes receivable, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, availability of guarantee from third parties, their credit history and other factors such as current market conditions. The Group regularly monitors the credit history of the customers. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is within a controllable extent.

## HUAXIN CEMENT CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### XIV Financial risk (Cont'd)

##### (3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows

	31 December 2017				Total
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
Short-term borrowings	1,168,191,923	-	-	-	1,168,191,923
Notes payable	14,450,000	-	-	-	14,450,000
Accounts payable	4,139,575,215	-	-	-	4,139,575,215
Interests payable	113,171,188	-	-	-	113,171,188
Dividends payable	174,309,238	-	-	-	174,309,238
Other payables	622,919,230	-	-	-	622,919,230
Long-term borrowings	921,869,742	2,207,555,367	1,754,532,754	393,260,589	5,277,218,452
Debentures payable	1,118,073,790	2,234,340,822	1,289,463,099	-	4,641,877,711
Long-term payables	182,834,591	114,052,617	-	-	296,887,208
	<u>8,455,394,917</u>	<u>4,555,948,806</u>	<u>3,043,995,853</u>	<u>393,260,589</u>	<u>16,448,600,165</u>

  

	31 December 2016				Total
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
Short-term borrowings	924,915,804	-	-	-	924,915,804
Notes payable	148,902,088	-	-	-	148,902,088
Accounts payable	3,132,394,785	-	-	-	3,132,394,785
Interests payable	144,763,154	-	-	-	144,763,154
Dividends payable	66,112,234	-	-	-	66,112,234
Other payables	453,881,372	-	-	-	453,881,372
Long-term borrowings	1,442,323,402	1,070,485,898	2,662,857,081	136,691,395	5,312,357,776
Debentures payable	3,283,258,233	862,893,333	1,353,280,000	-	5,499,431,566
Long-term payables	8,581,795	148,517,775	-	-	157,099,570
	<u>9,605,132,867</u>	<u>2,081,897,006</u>	<u>4,016,137,081</u>	<u>136,691,395</u>	<u>15,839,858,349</u>

At the balance sheet date, the maximum guaranteed amount of the Group presented by the earliest date for repayment as below:

	31 December 2017				Total
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
Guarantee contract	<u>5,000,000</u>	<u>40,000,000</u>	<u>85,000,000</u>	<u>-</u>	<u>130,000,000</u>

  

	December 31 2016				Total
	Within 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	
Guarantee contract	<u>45,000,000</u>	<u>5,000,000</u>	<u>110,000,000</u>	<u>15,000,000</u>	<u>175,000,000</u>

## HUAXIN CEMENT CO., LTD.

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#### XV Fair value

Based on the lowest level input that is significant to the fair value measurement in its entirety, the fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

#### (1) Financial instruments measured at fair value

As at 31 December 2017, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss--				
Monetary fund	-	453,513,045	-	453,513,045
Others	477,362	-	-	477,362
Available-for-sale financial assets--				
Available-for-sale debt instruments	-	-	21,055,500	21,055,500
Available-for-sale equity instruments	38,418,708	-	-	38,418,708
Total assets	<u>38,896,070</u>	<u>453,513,045</u>	<u>21,055,500</u>	<u>513,464,615</u>

As at 31 December 2016, the financial assets measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss--				
Monetary fund	-	800,589,796	-	800,589,796
Others	965,772	-	-	965,772
Available-for-sale financial assets--				
Available-for-sale debt instruments	-	-	28,255,500	28,255,500
Available-for-sale equity instruments	29,267,459	-	-	29,267,459
Total assets	<u>30,233,231</u>	<u>800,589,796</u>	<u>28,255,500</u>	<u>859,078,527</u>

**HUAXIN CEMENT CO., LTD.**

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**XV Fair value (Cont'd)**

**(1) Financial instruments measured at fair value (Cont'd)**

The Group considers the date of events leading the conversion between different levels as the conversion recognizing date. In 2016, there was no conversion between Level 1 and Level 2.

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market.

The movement of level 3 financial asset is presented as follows:

	Available for-sale securities		Total
	Available-for-sale debt instruments	Available-for-sale equity instruments	
1 January 2017	28,255,500	-	28,255,500
Purchase	-	-	-
Redemption	7,200,000	-	7,200,000
31 December 2017	<u>21,055,500</u>	-	<u>21,055,500</u>

The measurement for fair value of level 3 is presented as follow

	Fair Value at 31 December 2017	Valuation technique	Input			
			Item	Range	Relation with fair value	Observable/unobservable
Financial assets - Available-for-sale debt instruments	<u>21,055,500</u>	Discounted cash flow	Interest rate	10%-18%	Negative	Unobservable
	<u>21,055,500</u>					

  

	Fair Value at 31 December 2016	Valuation technique	Input			
			Item	Range	Relation with fair value	Observable/unobservable
Financial assets - Available-for-sale debt instruments	<u>28,255,500</u>	Discounted cash flow	Interest rate	10%-18%	Negative	Unobservable
	<u>28,255,500</u>					

**(2) Assets and Liabilities not measured but presented at fair value**

As at 31 December 2017, the available-for-sale financial assets amounted to RMB11,724,666(31 December 2016: RMB11,724,666) has no quoted price in the active market and the fair values cannot be measured reliably. The available-for-sale financial assets are measured at historical cost.

Financial assets and liabilities measured at amortized cost mainly represent receivables, short-term borrowings, payables, long-term borrowing, debentures payable and long-term payables.

The carrying amount of the financial assets and liabilities not measured at fair value is an immaterial approximation of their fair value.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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#### XVI Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Total capital of the Group is the total equity in the consolidated balance sheet. The Group monitors capital on the basis of the gearing ratio without restrictions of external compulsive capital requirement. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents (Note VII(1)). Total borrowings includes short-term borrowings (Note VII(19)), current portion of non-current liabilities (Note VII(28)), long-term borrowings (Note VII(29)), debentures payable (Note VII(30)), and long-term payables (Note VII(31)).

The gearing ratios at 31 December 2017 and 2016 were as follows:

	31 December 2017	31 December 2016
Total borrowings	10,273,268,866	10,914,298,231
Less: Cash at bank and in hand	3,606,246,276	3,719,378,221
Net debt	<u>6,667,022,590</u>	<u>7,194,920,010</u>
Shareholders' equity	<u>13,155,571,132</u>	<u>11,370,044,800</u>
Leverage ratios	<u>51%</u>	<u>63%</u>

#### XVII Segment reporting

Sales, expenses, assets and liabilities of the Group are primarily attributable to manufacturing and sales of cement and related products. No segment information of the Group is presented considering the internal organization and management structure, the system of internal financial reporting to key management personnel, and similar business nature among various subsidiaries in the Group.

More than 10% of the Group's consolidated operating results are attributable to the market outside the PRC. The domestic and overseas sales transaction and non-current assets excluding financial assets and deferred tax asset are as follows:

Sales by district	2017	2016
China	19,732,505,437	12,441,088,576
Tajikistan	641,942,447	654,090,067
Cambodia	514,844,106	430,580,847
	<u>20,889,291,990</u>	<u>13,525,759,490</u>
Non-current assets	31 December 2017	31 December 2016
China	19,422,955,803	17,386,235,698
Tajikistan	1,126,508,624	1,432,986,623
Cambodia	702,451,875	798,310,751
	<u>21,251,916,302</u>	<u>19,617,533,072</u>

The Group has no significant reliance on individual customer in current year.

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**XVIII Notes to the material items in the Company financial statements**

**(1) Accounts receivable**

	31 December 2017	31 December 2016
Accounts receivable	351,140,658	348,779,661
Less: bad debt provision	9,117,390	7,754,485
	<u>342,023,268</u>	<u>341,025,176</u>

(a) The ageing of accounts receivable is analysed below:

	31 December 2017	31 December 2016
Within 1 year	190,511,116	176,626,098
Between 1 and 2 years	136,228,981	158,961,167
Between 2 and 3 years	15,372,958	6,891,018
Over 3 years	9,027,603	6,301,378
	<u>351,140,658</u>	<u>348,779,661</u>

As to 31 December 2017, overdue accounts receivable but not impaired amounted to RMB35,572,995 (31 December 2016: RMB10,388,994). Based on analysis of the financial position and credit history of client, no objective evidence indicates that the accounts receivable cannot be collected. The ageing analysis is as below:

	31 December 2017	31 December 2016
Within 1 year	<u>35,572,995</u>	<u>10,388,994</u>

(b) Accounts receivable classified by different creditability grouping:

	31 December 2017				31 December 2016			
	Carrying amount		Bad debt provision		Carrying amount		Bad debt provision	
	Amount	%	Amount	% of provision	Amount	%	Amount	% of provision
Debtors with significant balance	-	-	-	-	3,653,909	1%	1,461,563	40%
Debtors grouped by credit risk								
Group 1	318,921,350	91%	-	-	310,984,720	90%	-	-
Group 2	21,003,061	6%	1,912,186	9%	29,236,682	8%	1,388,572	5%
Others with insignificant balance but assessed individually	11,216,247	3%	7,205,204	64%	4,904,350	1%	4,904,350	100%
	<u>351,140,658</u>	<u>100%</u>	<u>9,117,390</u>	<u>3%</u>	<u>348,779,661</u>	<u>100%</u>	<u>7,754,485</u>	<u>2%</u>

(c) As at 31 December 2017, there is no provision for bad debt for accounts receivables that are individually significant.

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**XVIII Notes to the material items in the Company financial statements (Cont'd)**

**(1) Accounts receivable (Cont'd)**

- (d) The group of accounts receivable of which bad debt provision is assessed basing on ageing analysis is as following:

	31 December 2017			31 December 2016		
	Carrying amount	Bad debt provision		Carrying amount	Bad debt provision	
	Amount	Amount	% of provision	Amount	Amount	% of provision
Within 1 year	10,150,284	-	-	16,833,170	-	-
Between 1 and 2 years	4,287,877	428,787	10%	11,504,209	1,150,421	10%
Between 2 and 3 years	5,712,809	1,142,562	20%	607,851	121,570	20%
Over 3 years	852,091	340,837	40%	291,452	116,581	40%
	<u>21,003,061</u>	<u>1,912,186</u>	<u>9%</u>	<u>29,236,682</u>	<u>1,388,572</u>	<u>5%</u>

- (e) Provision of bad debt made in the current year amounted to RMB1,895,883. The provision collected or reversed in the current year amounted to RMB532,978. No material provision was reversed for individual account in the current year.
- (f) No material individual balance was written-off in the current year.
- (g) As at 31 December 2017, amounts due from top five debtor analysis are as below:

	Amount	Bad debt provision	% of total balance
Total amounts due from top five account	<u>198,637,428</u>	-	<u>57%</u>

**(2) Other receivables**

	31 December 2017	31 December 2016
Amounts due from related parties	5,408,884,745	4,944,283,591
Deposits	45,495,617	38,444,380
Others	1,490,037	2,521,408
	<u>5,455,870,399</u>	<u>4,985,249,379</u>
Less: bad debt provision	<u>46,918,787</u>	<u>46,636,339</u>
	<u>5,408,951,612</u>	<u>4,938,613,040</u>

- (a) The ageing of other receivables is analysed as follows:

	31 December 2017	31 December 2016
Within 1 year	3,813,746,659	3,642,548,641
Between 1 and 2 years	989,666,047	937,633,432
Between 2 and 3 years	305,565,707	173,399,479
Over 3 years	346,891,986	231,667,827
	<u>5,455,870,399</u>	<u>4,985,249,379</u>



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**XVIII Notes to the material items in the Company financial statements (Cont'd)**

**(2) Other receivables (Cont'd)**

(a) The ageing of other receivables is analysed as follows: (Cont'd)

As to 31 December 2017, overdue other receivable but not impaired amounted to RMB30,000,000 (31 December 2016: RMB30,000,000). Based on the analysis of the counter parties' financial situation and the litigation, management is of the view that other receivable can be collected and no provision for impairment is necessary, therefore, bad debt provision has not been made. The ageing analysis is as below:

	31 December 2017	31 December 2016
Over 3 years	30,000,000	30,000,000

(b) Other receivables categorized by nature:

	31 December 2017				31 December 2016			
	Carrying amount		Bad debt provisions		Carrying amount		Bad debt provisions	
	Amount	%	Bad debt provision	% of provision	Amount	%	Bad debt provision	% of provision
Debtors with significant balance	146,883,682	3%	44,383,694	30%	163,344,115	3%	44,383,694	27%
Debtors grouped by credit risk								
Group 3	5,305,660,892	97%	-	-	4,818,889,760	97%	-	-
Group 4	730,733	0%	253,266	35%	958,321	0%	252,127	26%
Others with insignificant balance but assessed individually	2,595,092	0%	2,281,827	88%	2,057,183	0%	2,000,518	97%
	5,455,870,399	100%	46,918,787	1%	4,985,249,379	100%	46,636,339	1%

(c) Receivables that are individually significant and the related provision for bad debt is provided on the individual basis are analysed as below:

	December 31 2017			December 31 2016		
	Carrying amount	Bad debt provisions		Carrying amount	Bad debt provisions	
	Amount	Amount	% of provision	Amount	Amount	% of provision
Huaxin Cement (Wuhan) Co., Ltd. (Note (i))	146,883,682	44,383,694	30%	163,344,115	44,383,694	27%

(i) As Huaxin Cement (Wuhan) Co., Ltd. operates at a loss, the Company assessed Huaxin Cement (Wuhan) Co., Ltd.'s future profitability and recognised provision for bad debt of its other receivables.

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**XVIII Notes to the material items in the Company financial statements (Cont'd)**

**(2) Other receivables (Cont'd)**

(d) Other receivables that bad debt provision prepared by ageing is analysed as follows:

	31 December 2017			31 December 2016		
	Carrying Amount	Bad Debt Provision		Carrying Amount	Bad Debt Provision	
	Amount	Amount	% of provision	Amount	Amount	% of provision
Within 1 year	74,021	-	-	313,002	-	-
Between 1 and 2 years	31,393	3,139	10%	20,000	2,000	10%
Between 2 and 3 years	-	-	-	-	-	-
Over 3 years	625,319	250,127	40%	625,319	250,127	40%
	<u>730,733</u>	<u>253,266</u>	<u>35%</u>	<u>958,321</u>	<u>252,127</u>	<u>26%</u>

(e) The provision of bad debt made in the current year amounted to RMB372,391. Provision collected or reversed in the current year is RMB89,943. There is no material reversal in the current year.

(f) No write-off incurred during the current year. (December 31 2016: nil)

(g) As at 31 December 2017, the top five debtors are analysed as below:

	Relationship with Company	Amount	Ageing	% of total balance	Bad Debt Provision
Chongqing Huaxin Yanjing Cement Co., Ltd.	Subsidiary	567,706,026	Within 1 year	10%	-
Huaxin Cement (Enping) Co., Ltd.	Subsidiary	305,525,707	Between 2 and 3 years	6%	-
Huaxin (Hong Kong) International Holdings Limited	Subsidiary	253,796,874	Within 1 year	5%	-
Huaxin Cement (Zhuzhou) Co., Ltd.	Subsidiary	244,189,423	Between 1 and 2 years	4%	-
Huaxin Cement (Lengshuijiang) Co., Ltd.	Subsidiary	234,662,390	Between 1 and 2 years	4%	-
		<u>1,605,880,420</u>		<u>29%</u>	<u>-</u>

(h) As at 31 December 2017, no government grants recognised in accordance with the amount receivable in the Company.

**(3) Long-term equity investments**

	31 December 2017	31 December 2016
Subsidiaries (Note (a))	9,284,303,237	6,981,679,548
Associates - without quoted price (Note (b))	432,092,916	385,022,755
	<u>9,716,396,153</u>	<u>7,366,702,303</u>
Less: Impairment provision for long-term equity investment (Note (c))	42,000,000	42,000,000
	<u>9,674,396,153</u>	<u>7,324,702,303</u>

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#### XVIII Notes to the material items in the Company financial statements (Cont'd)

##### (3) Long-term equity investments (Cont'd)

###### (a) Subsidiaries

	31 December 2016	Changes		31 December 2017	Impairment provision	Cash dividends in the current year
		Business combination	Increase in impairment			
Huaxin Environment Engineering Co., Ltd.	150,000,000	-	850,000,000	1,000,000,000	-	-
Yunnan Huaxin Construction Materials Investment Holding Ltd.	-	977,000,000	-	977,000,000	-	-
Huaxin Cement (Yangxin) Co., Ltd.	653,713,479	-	-	653,713,479	-	57,000,000
Huaxin Cement (Yichang) Co., Ltd.	505,589,562	-	-	505,589,562	-	132,000,000
Huaxin Cement (Daye) Co., Ltd.	420,100,753	-	-	420,100,753	-	-
Huaxin Jinlong Cement (Yunxian) Co., Ltd.	363,802,268	-	-	363,802,268	-	24,000,000
Huaxin Cement (Zhuzhou) Co., Ltd.	340,000,000	-	-	340,000,000	-	-
Huaxin Cement (Wuxue) Co., Ltd.	300,000,000	-	-	300,000,000	-	105,000,000
Huaxin Aggregate Co., Ltd.	258,100,000	-	-	258,100,000	-	65,328,720
Sommerset Investments Ltd.	-	252,000,000	-	252,000,000	-	-
Huaxin Cement (Zigui) Co., Ltd.	240,000,000	-	-	240,000,000	-	60,000,000
Huaxin Cement (Quxian) Co., Ltd.	240,000,000	-	-	240,000,000	-	-
Huaxin Cement (Chenzhou) Co., Ltd.	220,000,000	-	-	220,000,000	-	54,000,000
Huaxin Cement Chongqing Fuling Co., Ltd.	200,000,000	-	-	200,000,000	-	28,000,000
Huaxin Cement (Henan Xinyang) Co., Ltd.	200,000,000	-	-	200,000,000	-	60,000,000
Huaxin Cement (Changyang) Co., Ltd.	197,590,806	-	-	197,590,806	-	-
Huaxin Equipment Engineering Co., Ltd.	190,000,000	-	-	190,000,000	-	-
Huaxin Cement (Wanyuan) Co., Ltd.	190,000,000	-	-	190,000,000	-	-
Huaxin Cement (Daoxian) Co., Ltd.	180,000,000	-	-	180,000,000	-	4,000,000
Huaxin Cement (Lengshuijiang) Co., Ltd.	180,000,000	-	-	180,000,000	-	19,800,000
Huaxin (Hong Kong) International Holdings Limited	157,935,219	-	-	157,935,219	-	-
Balances carried forward	5,186,832,087	1,229,000,000	850,000,000	7,265,832,087	-	609,128,720

## HUAXIN CEMENT CO., LTD.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in RMB yuan unless otherwise stated)

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#### XVIII Notes to the material items in the Company financial statements (Cont'd)

##### (3) Long-term equity investments (Cont'd)

##### (a) Subsidiaries (Cont'd)

	31 December 2016	Changes		31 December 2017	Impairment provision	Cash dividends in the current year
		Business combination	Increase in impairment			
Balance brought forward	5,186,832,087	1,229,000,000	850,000,000	7,265,832,087	-	609,128,720
Huaxin Cement (Chibi) Co., Ltd.	140,000,000	-	-	140,000,000	-	34,000,000
Huaxin Cement( Xiangyang) Co., Ltd.	140,000,000	-	-	140,000,000	-	267,000,000
Huaxin Cement (Kunming Dongchuan) Co., Ltd.	140,000,000	-	-	140,000,000	-	33,000,000
Huaxin Cement (Sangzhi) Co., Ltd.	120,000,000	-	-	120,000,000	-	12,000,000
Huaxin Central Asia Investment (Wuhan) Co., Ltd.	51,000,000	-	57,623,689	108,623,689	-	-
Huaxin Cement (E'zhou) Co., Ltd.	99,437,031	-	-	99,437,031	-	10,500,000
Huaxin Hongta Cement (Jinghong) Co., Ltd.	91,601,080	-	-	91,601,080	-	33,810,441
Huaxin Cement (Nantong) Co., Ltd.	89,680,203	-	-	89,680,203	-	17,850,000
Hunan Huaxin Xianggang Cement Co., Ltd.	85,500,000	-	-	85,500,000	-	-
Huaxin Concrete (Wuhan) Co., Ltd.	80,502,159	-	-	80,502,159	-	-
Chongqing Huaxin Diwei Cement Co., Ltd.	-	73,000,000	-	73,000,000	-	-
Huaxin Cement (Jingzhou) Co., Ltd.	70,800,000	-	-	70,800,000	-	-
Huaxin Cement (Diqing) Co., Ltd.	65,550,000	-	-	65,550,000	-	31,050,000
Huaxin Cement (Macheng) Co., Ltd.	65,000,000	-	-	65,000,000	-	5,000,000
Huangshi Huaxin Packaging Co., Ltd.	60,229,647	-	-	60,229,647	-	20,000,000
Huaxin Concrete Co., Ltd.	50,000,000	-	-	50,000,000	-	-
Huaxin Cement( Tibet) Co., Ltd.	50,000,000	-	-	50,000,000	-	395,000,000
Huaxin New Building Materials Co., Ltd.	50,000,000	-	-	50,000,000	-	-
Huaxin Cement( Zhaotong) Co., Ltd.	45,000,000	-	-	45,000,000	-	99,000,000
Huaxin Cement( EnShi) Co., Ltd.	40,200,000	-	-	40,200,000	-	24,790,000
Huaxin Cement Xiangyang Xiangcheng Co., Ltd.	40,000,000	-	-	40,000,000	-	32,000,000
ChongqingHuaxin Phoenix Lake Concrete Co., Ltd. PRC	-	40,000,000	-	40,000,000	-	8,000,000
Huaxin Cement (Fangxian) Co., Ltd.	30,124,664	-	-	30,124,664	-	7,000,000
Chongqing Huaxin Tiancheng Concrete Co., Ltd.	-	29,000,000	-	29,000,000	-	-
Chongqing Huaxin Yanjing Cement Co., Ltd.	-	4,000,000	-	4,000,000	-	-
Huaxin Cement (Wuhan) Co., Ltd.	-	-	-	-	-42,000,000	-
Others	148,222,677	-	20,000,000	168,222,677	-	30,473,588
	6,939,679,548	1,375,000,000	927,623,689	9,242,303,237	-42,000,000	1,669,602,749

**HUAXIN CEMENT CO., LTD.**

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(All amounts in RMB yuan unless otherwise stated)  
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**XVIII Notes to the material items in the Company financial statements (Cont'd)**

**(3) Long-term equity investments (Cont'd)**

(b) Joint venture

	December 31 2016	Movement this year		December 31 2017	Balance of provision at year end
		Adjustment of net income or loss base on equity method	Cash dividend or profit declared this year		
Tibet high-tech building materials group Co., Ltd.	219,497,518	101,576,446	-51,600,000	269,473,964	-
Shanghai Wan'an Huaxin Cement Co.,Ltd.	165,525,237	-2,906,285	-	162,618,952	-
	<u>385,022,755</u>	<u>98,670,161</u>	<u>-51,600,000</u>	<u>432,092,916</u>	<u>-</u>

(c) Provision for long-term equity investment

31 December 2016 and 31 December 2017

Subsidiary -

Huaxin Cement (Wuhan) Co., Ltd.

42,000,000

**(4) Sales and cost of sales**

	2017	2016
Main operations income	799,604,018	824,482,177
Other operations income	687,809,660	243,932,883
	<u>1,487,413,678</u>	<u>1,068,415,060</u>
	2017	2016
Main operations costs	623,878,754	666,419,555
Other operations costs	456,231,320	81,068,772
	<u>1,080,110,074</u>	<u>747,488,327</u>

**HUAXIN CEMENT CO., LTD.**

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(All amounts in RMB yuan unless otherwise stated)  
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**XVIII Notes to the material items in the Company financial statements (Cont'd)**

**(4) Sales and cost of sales (Cont'd)**

(a) Revenue and cost of main operations

Analysed by product:

	2017		2016	
	Revenue from main operations	Cost of main operations	Revenue from main operations	Cost of main operations
Sales of cement	578,918,049	438,591,906	446,001,024	375,044,401
Others	220,685,969	185,286,848	378,481,153	291,375,154
	<u>799,604,018</u>	<u>623,878,754</u>	<u>824,482,177</u>	<u>666,419,555</u>

(b) Other operating income and expenses

	2017		2016	
	Other operating income	Other operating expenses	Other operating income	Other operating expenses
Sales of materials	455,533,511	454,644,605	27,533,075	24,616,321
Trade mark charges	226,607,488	-	148,050,345	-
Business entrusting income	-	-	61,276,970	54,522,621
Others	5,668,661	1,586,715	7,072,493	1,929,830
	<u>687,809,660</u>	<u>456,231,320</u>	<u>243,932,883</u>	<u>81,068,772</u>

**(5) Investment income**

	2017	2016
Income from long-term equity investment under cost method	1,669,602,749	395,081,091
Income from long-term equity investment under equity method	98,670,161	77,988,231
Income from disposal of financial asset at fair value through profit or loss	6,179,934	4,206,986
Income from available-for-sale financial assets	1,794,674	4,860,895
(Loss)/Income from disposal of long-term equity investment	-	-6,600,000
	<u>1,776,247,518</u>	<u>475,537,203</u>

There is no significant restriction on the investment income remittance to the Company.

**HUAXIN CEMENT CO., LTD.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

(All amounts in RMB yuan unless otherwise stated)  
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**XIX Supplementary information**

**(1) Non-routine items**

Income is presented as positive and loss is presented as negative.

	2017	2016
Net loss on disposal of non-current assets	-1,576,103	-98,858,886
Net loss on retirement of non-current assets	-10,176,198	-10,139,778
Government grants recognised in profits or losses in the current period	60,150,469	77,426,359
Business entrusting income	-	7,165,029
Reversal of the provision on receivables on an individual assessment basis	14,680,766	15,303,006
Investment income except regular operation	2,697,595	862,070
Negative goodwill	257,243,520	-
Non-operating items other than aforesaid items	-14,635,746	-9,619,533
	308,384,303	-17,861,733
Effect of income tax	-7,601,921	10,084,975
Effect of minority interest (after tax)	-26,662,074	-4,411,338
	274,120,308	-12,188,096

Basis for preparation of statement of non-recurring profits or losses

Under the requirements in Explanatory announcement No. 1 on information disclosure by companies offering securities to the public – non-recurring profits or losses [2008] from CSRC, non-recurring profits or losses refer to those arises from transactions and events that are not directly relevant to ordinary activities, or that are relevant to ordinary activities, but are extraordinary and not expected to recur frequently that would have an influence on users of financial statements making economic decisions on the financial performance and profitability of an enterprise.

**(2) Return on equity and earnings per share**

	Weighted average return on equity (%)		Earnings per share			
			Basic earnings per share		Diluted earnings per share	
	2017	2016	2017	2016	2017	2016
Consolidated net profit attributable to ordinary shareholders of the Company	18.98	4.61	1.39	0.30	1.39	0.30
Consolidated net profit attributable to ordinary shareholders of the Company, excluding non-routine items	16.47	4.74	1.20	0.31	1.20	0.31