Dongwu Cement International Limited
東吳水泥國際有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 695)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "**Board**") of directors (the "**Directors**") of Dongwu Cement International Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 (the "**Reporting Period**") prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), together with the relevant comparative figures for the corresponding period of 2016.

FINANCIAL HIGHLIGHTS

- During the Reporting Period, the Group's turnover amounted to approximately RMB136,863,000, representing an increase of approximately RMB32,163,000 or 30.7% from approximately RMB104,700,000 for the six months ended 30 June 2016.

- The consolidated gross profit margin of the Group increased to 13.7% during the Reporting Period from 3.7% for the corresponding period last year. The increase was mainly attributable to the increase in both sales volume and price of cement products during the Reporting Period, resulting in an increase in revenue.

- Profit/(loss) attributable to equity holders of the Company increased to profit attributable to equity holders of the Company of approximately RMB7,726,000 during the Reporting Period from loss of approximately RMB4,301,000 for the six months ended 30 June 2016.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June **2017** ***RMB'000*** **(Unaudited)**	 2016 *RMB'000* (Unaudited)
Revenue	*6*	**136,863**	104,700
Cost of sales		**(118,054)**	(100,810)
Gross profit		**18,809**	3,890
Distribution expenses		**(1,338)**	(1,177)
Administrative expenses		**(14,069)**	(11,447)
Other income		**6,302**	4,854
Other gain/(loss)		**5,085**	(32)
Operating profit/(loss)		**14,789**	(3,912)
Finance income		**521**	352
Finance expenses		**(1,467)**	(1,692)
Financial expenses – net		**(946)**	(1,340)
Profit/(loss) before income tax (expense)/credit	*8*	**13,843**	(5,252)
Income tax (expense)/credit	*7*	**(6,117)**	951
Profit/(loss) and total comprehensive income for the period		**7,726**	(4,301)
Profit/(loss) and total comprehensive income for the period attributable to:			
– Owners of the Company		**8,322**	(4,301)
– Non-controlling interests		**(596)**	–
		7,726	(4,301)
Earnings/(loss) per share			
– Basic and diluted (RMB per share)	*14*	**0.015**	(0.008)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	**30 June 2017** ***RMB'000*** **(Unaudited)**	31 December 2016 *RMB'000* (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		**105,525**	111,441
Land use rights		**15,902**	16,104
Goodwill		**9,396**	9,396
Intangible assets		**5,985**	6,894
Deposit for potential investment	*9*	**1,387**	–
Prepayment	*9*	**3,470**	–
Interest in associate		**24,000**	–
Amount due from grantor for contract work	*9*	**6,372**	6,372
Total non-current assets		**172,037**	150,207
Current assets			
Available-for-sale financial assets		**–**	2,898
Inventories		**30,787**	22,703
Trade and other receivables	*9*	**322,810**	282,133
Short-term bank deposits		**920**	31,000
Cash and cash equivalents		**18,697**	18,949
Total current assets		**373,214**	357,683
Current liabilities			
Trade and other payables	*11*	**76,307**	55,956
Income tax payable		**7,137**	3,388
Borrowings	*12*	**57,167**	54,000
Total current liabilities		**140,611**	113,344
Net current assets		**232,603**	244,339
Total assets less current liabilities		**404,640**	394,546
Non-current liabilities			
Deferred tax liabilities		**8,882**	6,514
Total non-current liabilities		**8,882**	6,514
NET ASSETS		**395,758**	388,032
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*13*	**4,490**	4,490
Other reserves		**323,009**	323,009
Retained earnings		**53,726**	45,404
Non-controlling interests		**14,533**	15,129
TOTAL EQUITY		**395,758**	388,032

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital *RMB'000* *(Note 13)*	**Other reserves** *RMB'000*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2017 (audited)	**4,490**	**323,009**	**45,404**	**372,903**	**15,129**	**388,032**
Profit and total comprehensive income for the period	**–**	**–**	**8,322**	**8,322**	**(596)**	**7,726**
At 30 June 2017 (unaudited)	**4,490**	**323,009**	**53,726**	**381,225**	**14,533**	**395,758**
At 1 January 2016 (audited)	4,490	322,558	36,769	363,817	–	363,817
Loss and total comprehensive income for the period	–	–	(4,301)	(4,301)	–	(4,301)
At 30 June 2016 (unaudited)	4,490	322,558	32,468	359,516	–	359,516

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash used in operations	**(33,962)**	(22,844)
Tax refund	**–**	9
Interest paid	**(1,467)**	(1,692)
Net cash used in operating activities	**(35,429)**	(24,527)
Cash flows from investing activities		
Interest received	**521**	352
Interest received from loans to Dongtong	**19,470**	–
Proceeds from disposal of property, plant and equipment	**50**	28
Purchase of property, plant and equipment	**(1,233)**	(2,516)
Prepayment for purchase of property, plant and equipment	**(3,470)**	–
Proceeds from disposal of available-for-sale financial assets	**8,000**	–
Investment in an associate	**(24,000)**	–
Deposit paid for potential investment	**(1,387)**	–
Decrease in short-term bank deposits	**30,080**	–
Net cash generated from/(used in) investing activities	**28,031**	(2,136)
Cash flows from financing activities		
Proceeds from borrowings	**57,167**	59,000
Repayment for borrowings	**(54,000)**	(60,000)
Advance from a non-controlling shareholder of a subsidiary	**3,979**	–
Net cash generated from/(used in) financing activities	**7,146**	(1,000)
Net decrease in cash and cash equivalents	**(252)**	(27,663)
Cash and cash equivalents at the beginning of the period	**18,949**	52,099
Cash and cash equivalents at end of the period	**18,697**	24,436

1 GENERAL INFORMATION

Dongwu Cement International Limited (the "Company") is a limited liability company incorporated in the Cayman Islands on 29 November 2011. The address of its registered office is at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investing holding company. The Company and its subsidiaries are collectively referred to as the "Group". The Group is principally engaged in the production and sales of cement and provision of sewage and sludge treatment operation and construction services. The principal place of the Group's business is Fenhu Economic Development Zone, Wujiang, Jiangsu Province, the People's Republic of China (the "PRC").

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 13 June 2012.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information (the "Financial Information") for the six months ended 30 June 2017 (the "Period") has been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Financial Information was approved by the Board of Directors (the "Board") for issue on 18 August 2017.

The Financial Information has been prepared with the same accounting policies adopted in the 2016 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2017 and those accounting policies are set out in note 3.

The Financial Information is presented in Renminbi ("RMB"), unless otherwise stated. The Financial Information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The Financial Information does not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") and should be read in conjunction with the 2016 consolidated financial statements.

The Financial Information has been prepared under the historical cost convention, except that certain financial assets and liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the adoption of the following new standards and interpretations as of 1 January 2017 and the policies stated in 3.1 below:

Amendments to HKAS 7, Disclosure Initiative
Amendments to HKAS 12, Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle, Disclosure of Interests in Other Entities

Amendments to HKAS 7, Disclosure Initiative

Amendments to HKAS 7 requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosures to be provided in the Group's annual financial statements. The Group is not required to provide the additional disclosures in these condensed consolidated interim financial statements.

Amendments to HKAS 12, Recognition of Deferred Tax Assets for Unrealised Losses

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situation. The amendments clarify that an entity, when assessing whether taxable profit will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Amendments to HKFRS 12, Clarification of the scope of disclosure requirements in HKFRS 12

The amendments clarify that the disclosure requirements of HKFRS 12, other than for those in paragraphs B10-B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5.

The adoption of the above new standards and interpretations has no significant impact to the Group's results of operations and financial position.

3.1 Current income tax

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

3.2 Other new HKAS, amendments and interpretations

The Group has not applied any new HKFRSs or amendments that is not yet effective for the current accounting period.

4 USE OF JUDGEMENTS AND ESTIMATES

The preparation of Financial Information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this Financial Information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016, with the exception of changes in estimates that are required in determining the provision for income taxes.

5 SEGMENT REPORTING

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The segments are managed separately as each business offers different products and services and requires different business strategies. The Board has identified the Group's product and service lines as reportable operating segments as follow:

(i) Production and sales of cements;

(ii) Provision of sewage and sludge treatment operation and construction services.

All of the revenue from external customers and most of the non-current assets of the Group are derived from activities or located in the PRC. Accordingly, no geographical information is presented.

For the six months ended 30 June 2017 (unaudited)

	Production and sales of cements *RMB'000*	**Provision of sewage and sludge treatment operation and construction services** *RMB'000*	**Total** *RMB'000*
Segment revenue	136,821	42	136,863
Segment results	21,697	(2,582)	19,115
Unallocated income			–
Unallocated expenses			(5,272)
Income tax (expenses)/credit	(6,331)	214	(6,117)
Profit for the period			7,726
As at 30 June 2017 (unaudited)			
Segment assets	467,998	73,698	541,696
Unallocated assets			3,555
Total assets			545,251
Segment liabilities	121,013	26,188	147,201
Unallocated liabilities			2,292
Total liabilities			149,493

For the six months ended 30 June 2016 (unaudited)

	Production and sales of cements *RMB'000*	Provision of sewage and sludge treatment operation and construction services *RMB'000*	Total *RMB'000*
Segment revenue	100,980	3,720	104,700
Segment results	986	(3,999)	(3,013)
Unallocated income			–
Unallocated expenses			(2,239)
Income tax (expense)/credit	(104)	1,055	951
Loss for the period			(4,301)
As at 30 June 2016 (unaudited)			
Segment assets	420,610	68,578	489,188
Unallocated assets			7,809
Total assets			496,997
Segment liabilities	95,070	42,411	137,481
Unallocated liabilities			–
Total liabilities			137,481

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both period. The revenue derived from one of the external customers amounted to 12.10% of the Group's revenue for the period (30 June 2016: 20.47%).

6 REVENUE

The Company is an investment holding company. Its subsidiaries in the PRC are principally engaged in the manufacture and sale of cement and provision of sewage and sludge treatment operation and construction services. The Group's revenue is analysed as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Ordinary Portland cement strength class 42.5	**75,445**	56,179
Composite Portland cement strength class 32.5	**61,376**	44,801
Sewage and sludge treatment operation and construction services	**42**	3,720
	136,863	104,700

7 INCOME TAX (EXPENSE)/CREDIT

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax	**(3,749)**	9
Deferred tax on origination and reversal of temporary differences	**(2,368)**	942
	(6,117)	951

Pursuant to the rules and regulations of Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in those jurisdictions.

Hong Kong profits tax rate is calculated by applying the estimated weighted average income tax rate expected for the full financial year of 16.5% (2016: 16.5%) to the six months ended 30 June 2017. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries. The Group is not subject to Hong Kong profits tax as it has no assessable income arising in and derived from Hong Kong during the period (30 June 2016: Nil).

Pursuant to the relevant laws and regulations in the PRC, the PRC enterprise income tax rate of all the PRC subsidiaries was 25% on their taxable profits for the six months ended 30 June 2017 except for subsidiary Shanghai Biofit Environmental Technology Co., Limited charged at 15% as it obtained the "National High Technology Enterprise" status and the applicable PRC enterprise income tax rate was 15% for the period (30 June 2016: 15%).

Tax loss incurred by Suzhou Dongwu Cement Co., Ltd. ("**Suzhou Dongwu**") can be carried forward for five accounting years.

8 PROFIT/(LOSS) BEFORE INCOME TAX (EXPENSE)/CREDIT

The Group's profit/(loss) before income tax (expense)/credit is arrived at after charging/(crediting):

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**118,007**	97,049
Depreciation	**7,082**	8,109
Amortisation	**1,111**	1,134
Research and development expenses	**44**	425
Employee expenses (including directors' remuneration)		
– wages and salaries	**7,798**	5,492
– pension scheme contribution	**1,444**	1,387
Auditor remuneration	**124**	120
Operating lease rental expenses	**2,295**	387
Gain on disposal of available-for-sale financial assets	**(5,102)**	–
Provision of doubtful debts *(Note 9)*	**130**	802
Recovery of doubtful debts *(Note 9)*	**(70)**	–

9 TRADE AND OTHER RECEIVABLES

	As at	
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade and bills receivables due from third parties	**204,978**	156,196
Less: provision for impairment of trade receivables *(note (ii))*	**(2,278)**	(2,218)
Trade and bills receivables, net *(note (i))*	**202,700**	153,978
Amounts due from customers for construction work *(Note 10)*	**30,783**	32,534
Amount due from grantor for contract work	**7,651**	7,431
Prepayments	**19,082**	10,604
Loans to Suzhou Dongtong Construction and Development Co. Ltd ("Dongtong") *(note (iii))*	**66,400**	66,400
Advance to suppliers	**2,000**	2,489
Other receivables	**5,981**	15,627
Less: provision for impairment of other receivables, prepayment, deposits and other receivables	**(558)**	(558)
Prepayments, deposits and other receivables	**92,905**	94,562
Total trade and other receivables	**334,039**	288,505
Less: non-current portion		
– Amount due from grantor for contract work	**(6,372)**	(6,372)
– Deposit for potential investment *(Note 17)*	**(1,387)**	–
– Prepayment	**(3,470)**	–
	(11,229)	(6,372)
Trade and other receivables – current portion	**322,810**	282,133

As at 30 June 2017 and 31 December 2016, no bills receivable was pledged for the borrowings. All non-current receivables are due within five years from the end of the period/year.

(i) Trade and bills receivables

The credit terms for most of the customers range from 30 to 90 days. One of the top five customers is granted a credit term of 180 days. For ready-mixed concrete stations customers, depending on their business relationships with the Group and their creditworthiness, the Group may grant them the following credit terms: (i) a revolving credit limit of between RMB1 million and RMB50 million with a credit period of up to 365 days, and (ii) any outstanding payables in excess of the said revolving credit limit with a credit period of between 0 to 30 days.

At 30 June 2017 and 31 December 2016, the aging analyses of the trade and bills receivables (net of impairment losses) were as follows:

	As at	
	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**72,650**	76,394
From 91 days to 180 days	**111,921**	17,726
From 181 days to 1 year	**7,488**	34,196
From 1 year to 2 years	**5,748**	20,052
Over 2 years	**4,893**	5,610
	202,070	153,978

Most of the Group's trade and other receivables are denominated in RMB.

The carrying values of the Group's trade and other receivables approximate to their fair values.

(ii) Movements of the provision for impairment of trade receivables are as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Opening balance	**2,218**	1,366
Provision for the period *(Note 8)*	**130**	802
Balance recovered for the period *(Note 8)*	**(70)**	–
Closing balance at 30 June	**2,278**	2,168

(iii) Loans to Dongtong

The effective interest rates on loans to Dongtong were as follows:

	30 June 2017 (Unaudited)	31 December 2016 (Audited)
Loans to Dongtong	**10.45%**	10.45%

The fixed annual income (which is interest income) is receivable on 31 December each year and the loan principal of RMB60,000,000 is to be repaid on 31 December 2017. As at 30 June 2017, interest receivables of RMB nil (31 December 2016: RMB6,458,000) were past due over 1 year.

10 AMOUNTS DUE FROM CUSTOMERS FOR CONSTRUCTION WORK

	As at	
	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracts in progress at the end of period/year:		
Contract cost incurred	**48,938**	48,896
Recognised profits less recognised losses	**17,497**	17,497
	66,435	66,393
Progress billings	**(35,652)**	(33,859)
	30,783	32,534

11 TRADE AND OTHER PAYABLES

	As at	
	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**48,583**	44,795
Advances from customers	**13,004**	3,394
Salary payables	**617**	1,955
Other tax payables	**2,996**	3,257
Other payables	**11,107**	2,555
	76,307	55,956

The credit period granted by the Group's principal suppliers is 30 to 90 days. Most of the Group's trade and other payables are denominated in RMB.

The carrying value of the Group's trade and other payables approximate to their fair values.

An aging analysis of trade payables is as follows:

	As at	
	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Below 30 days	**23,812**	24,158
From 31 days to 90 days	**10,827**	10,975
From 91 days to 180 days	**2,034**	3,986
From 181 days to 1 year	**1,034**	1,375
From 1 year to 2 year	**9,406**	3,502
Over 2 years	**1,470**	799
	48,583	44,795

12 BORROWINGS

Borrowings from banks and independent third party were approximately RMB55,000,000 (31 December 2016: RMB54,000,000) and RMB2,167,000 (31 December 2016: RMB nil) respectively. Bank borrowings of approximately RMB5,000,000 was secured by personal guarantees from the Director, Mr. Ling Chao and his close family member as at 30 June 2017 (31 December 2016: RMB4,000,000).

Interest expense on borrowings for the period was approximately RMB1,467,000 (30 June 2016: RMB1,692,000).

The carrying amounts of the Group's borrowings approximated to their fair values as at 30 June 2017 and 31 December 2016.

The Group's borrowings are denominated in RMB and HK$ as at 30 June 2017.

13 SHARE CAPITAL

	Number of ordinary shares *(thousands)*	Nominal value of ordinary shares *HK$'000*	Equivalent nominal value of ordinary shares *RMB'000*
Authorised:			
Ordinary shares of HK$0.01 each as at 31 December 2016 and 30 June 2017	10,000,000	100,000	81,520
Issued and fully paid:			
At 31 December 2016 and 30 June 2017	552,000	5,520	4,490

14 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue for the Period.

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company *(RMB'000)*	**8,322**	(4,301)
Weighted average number of ordinary shares in issue *(thousand shares)*	**552,000**	552,000
Basic and diluted earnings/(loss) per share *(RMB)*	**0.015**	(0.008)

As there were no dilutive options and other dilutive potential shares in issue during the six months ended 30 June 2017 and 2016, diluted earnings/(loss) per share is the same as basic earnings/(loss) per share.

15 RELATED-PARTY TRANSACTIONS

Key management remuneration

Key management includes directors (executive and non-executive) and senior management. The remuneration paid or payables to key management for employees service is shown below:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Basic salaries and benefit in kind	**2,650**	603

Save as key management remuneration disclosed above, there are no transactions among the Group and its related parties for the six months ended 30 June 2017 (30 June 2016: Nil).

16 CAPITAL COMMITMENTS

	As at 30 June 2017	As at 31 December 2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Commitments for the acquisition of:		
Property, plant and equipments	**3,450**	–
	3,450	–

17 EVENTS AFTER THE REPORTING PERIOD

On 2 August 2017, (i) a direct wholly-owned subsidiary of the Company (as the purchaser); (ii) third parties independent of the Company and its connected persons (as defined under the Listing Rules) (as the vendors); and the Company (as the guarantor) entered into a conditional sale and purchase agreement for a proposed acquisition of the entire issued share capital in a target company which is licensed to carry out Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance at a total consideration of HK$16,000,000 subject to consideration adjustments determined by the net asset value of the target company as at the date of completion of the sale and purchase agreement.

As at 30 June 2017, an amount of approximately RMB1,387,000 has been paid as a deposit (Note 9). The details of this acquisition are set out in the Company's announcement dated 2 August 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview

Cement Segment

From January to June 2017, macro-economic indicators showed that the economic growth rate in China was basically stable. During the Reporting Period, the gross domestic product recorded an increase of 6.9%, as compared to 6.7% for the corresponding period last year, and the fixed asset investment recorded a nominal growth of 8.6% year on year during the Reporting Period, as compared to a growth of 9% for the corresponding period last year. (Source: National Bureau of Statistics)

From January to June 2017, the domestic cement production in China recorded an increase of 0.4% year on year to 1,113 million tonnes, as compared to an increase of 3.25% for the corresponding period last year. For the first half of 2017, the economy growth in China remained stable as in 2016, in which investments in infrastructure closely related to the needs of cement continued to operate in a high level and the growth of investments in real estate recorded a slight slow-down, resulting in the flat demands of cement in the first half of 2017 as compared with the corresponding period of last year. Both gross profit margin and the sales profit of the cement industry as a whole increased significantly in the first half of 2017 as compared with the corresponding period in 2016. (Source: Digital Cement Net)

Given less vicious pricing competition in the industry through self-discipline, and the improvement of the relationship between supply and demands by the decease of supply resulting from objective factors such as staggering production and environmental supervision, the Eastern China region, where the Group operated, saw significant increase in price of cement in the first half of 2017 as compared with the corresponding period last year. Take the prices of cement in the capital cities of the Group's main sales zone (such as Jiangsu Province, Zhejiang Province and Shanghai City) as examples, from January to June 2017, the average price of cement in all of the above three provinces/cities has substantially increased since March but then decreased slightly in June. Take the prices in June as examples, the average prices of PO42.5 cement in Nanjing (capital of Jiangsu Province), Hangzhou (capital of Zhejiang Province) and Shanghai were RMB370 per tonne, RMB380 per tonne and RMB380 per tonne respectively, representing an increase of 54.2%, 50.5% and 49.0% respectively as compared with the corresponding period last year. (Source: Digital Cement Net)

Affected by the overall performance of stable volumes and rising price in national cement industry, the sales volume, operating revenue and gross profit margin of the Group in the first half of 2017 have increased as compared with the corresponding period last year. The cement segment of the Group recorded a profit of approximately RMB15,366,000 in the first half of 2017.

Environmental Protection Segment

The PRC government and all parties from the society are paying more and more attention to environmental protection issues, and have listed the environmental protection industry as one of the strategic industries for long term development. With the publication of the Action Plan on Prevention and Control of Water Pollution (the "Ten Measures for Water Pollution") by the State Council on 16 April 2015, it is proposed that by 2020, China's water environment quality will gradually improve, the quality of drinking water will be safeguarded and the underground water pollution will be under strict control. It is expected that the external investment on environmental protection industry will increase rapidly. The "13th Five-year Plan" intends to invest up to RMB6 trillion on air, water and soil environment protection, representing an increase of RMB1 trillion as compared to RMB5 trillion during the "12th Five-year Plan" period, among which, RMB4.6 trillion is to be invested in the prevention and control of water pollution. It is intended to implement overall control on the total amount of pollutants such as the total nitrogen and phosphorus in the key areas, including areas around rivers, lakes and coastal sea area and in the key industries. The environmental protection industry in the PRC will continue to expand in the near future, with sewage and sludge treatment as the focus of environment improvements, thereby generating more investment gains.

According to the annual report issued by the United Nations on 20 March 2015, 40% of the countries and regions around the world will face drought issues by 2030. China is a country that lacks water resources, with average ownership per capita only accounts for one-fourth of the average level of the world, ranking one of the 13 most water-deficient countries in the world. Therefore, advocating scientific water consumption is urgent. With the continuous development of the economy, increase in population, and the urbanization progress, emission of sewage and sludge in China has been increasing in successive years. Industries related to traditional fossil energy and water-usage intensive industries usually consume plenty of water resources and cause pollution accordingly. The development of these industries provides good opportunities for the development of the market of sewage and sludge.

In recent years, China has set up high standards for sewage and sludge treatment, strictly monitoring environmental pollution and protection while increasing environmental protection subsidy for enterprises, as a result, sewage and sludge treatment in cities and towns is currently in a stage of rapid development. At this stage, with the increase of investment in projects and the promotion by national strategy, enterprises merchants and investors in capital markets are paying more and more attention to the environmental protection industry.

Future Prospect

In the second half of 2017, the Group will continue to promote the internal management to effectively lower costs as well as provide in-depth services to customers to expand the shares in the market and improve the profitability of products.

As disclosed in the Company's announcement dated 5 June 2017, the Board intended to seek suitable investment opportunities from time to time to diversify its revenue source by investing in businesses with growth potential and broaden its source of income. The Board has commenced looking into possible acquisitions of the licensed corporation(s) to carry out financial services and investment businesses and the property development and property investment businesses. Apart from the proposed acquisition of the Target Company as stated in the section headed "Material Acquisitions and Disposals of Subsidiaries and Associated Companies", the Group is in advance stage of a possible acquisition of land parcels and the Group has engaged external professional parties to perform feasibility studies and due diligence. The Company will make further announcement(s) in respect of the proposed acquisition as and when appropriate in accordance with the Listing Rules.

Business and Financial Review

Turnover

During the Reporting Period, the Group's turnover amounted to approximately RMB136,863,000, representing an increase of approximately RMB32,163,000 or 30.7% from approximately RMB104,700,000 in the corresponding period in 2016.

Turnover of the cement segment amounted to approximately RMB136,821,000, representing an increase of approximately RMB35,841,000 or 35.5% from approximately RMB100,980,000 in the corresponding period in 2016. The increase was primarily attributable to the increase in both sales volume and price of cement products.

The table below sets forth the analysis of the Group's turnover by product type:

	For the six months ended 30 June					
	2017			2016		
	Sales Volume *Thousand tonnes*	**Average Selling Price** *RMB/ tonne*	**Turnover** *RMB'000*	Sales Volume *Thousand tonnes*	Average Selling Price *RMB/ tonne*	Turnover *RMB'000*
PO 42.5 Cement	307.9	245.03	75,445	297.9	188.58	56,179
PC 32.5 Cement	291.3	210.70	61,376	261.7	171.19	44,801

By product, the sales volume of the Group's cement products during the Reporting Period amounted to approximately 599.2 thousand tonnes, representing an increase of approximately 7.1% year on year, while the sales revenue of cement products increased by approximately 35.5% year on year to approximately RMB136,821,000.

The table below sets forth an analysis of the Group's turnover by geographical region:

	For the six months ended 30 June			
	2017		2016	
	Turnover *RMB'000*	**% of total turnover**	Turnover *RMB'000*	% of total turnover
Jiangsu Province	116,771	85.3%	87,406	86.6%
Wujiang District	110,216	80.5%	75,744	75.0%
Suzhou (excluding Wujiang District)	6,555	4.8%	11,662	11.6%
Zhejiang Province	15,312	11.2%	10,529	10.4%
Southern Zhejiang Province (Taizhou, Zhoushan and Ningbo)	14,178	10.4%	10,529	10.4%
Jiaxing	1,134	0.8%	–	N/A
Shanghai	4,738	3.5%	3,045	3.0%
Total	136,821	100.0%	100,980	100.0%

During the Reporting Period, due to the reasons as stated in the section headed "Industry Overview – Cement Segment" above, both sales volume and price of the Group's cement products have increased. Except for Suzhou (excluding Wujiang District), the sales amount of respective regions have recorded different extents of increase as compared to the corresponding period last year.

As to the environmental protection segment, Shanghai Biofit Environmental Technology Co., Ltd. ("**Shanghai Biofit**") is mainly devoted to niches such as sludge treatment and disposal market, reclaimed water treatment market, and dyeing wastewater treatment market.

As of 30 June 2017, a total of three projects are in progress. Two new projects have been initiated since 31 December 2016. Among the three uncompleted projects on hand, one has 0.0% work finished, one has 1.0% of its work finished and one has 68% of its work finished.

Shaoxing XiangYu Environmental Technology Co., Ltd.* (紹興祥禹環保科技有限公司), a company affiliated to Shanghai Biofit, is a third-party professional operator committed to industrial park environment, with a focus on the professional third-party operation of facilities for wastewater treatment in the dyeing industry, and receives services fees through providing third-party operation services.

During the Reporting Period, the environmental protection segment achieved turnover of approximately RMB42,000, representing a decrease of approximately RMB3,678,000 or 98.9% as compared to approximately RMB3,720,000 in the corresponding period of 2016, which was mainly because the revenue was recognised based on the percentage of completion of works while most of works will be commenced and the revenue will be recognised accordingly in the second half of the year.

* *For identification purpose only*

Gross Profit and Gross Profit Margin

During the Reporting Period, the gross profit of cement segment business amounted to approximately RMB18,814,000, representing an increase of approximately RMB14,883,000 or 378.6% as compared to the gross profit approximately RMB3,931,000 in the corresponding period last year, while the gross profit margin amounted to approximately 13.8%, as compared to approximately 3.9% in the corresponding period last year. The increase was mainly attributable to less vicious pricing competition in the industry through self-discipline, and the increase in both sales volume and price of the cement products resulting from the decease of supply due to objective factors such as staggering production and environmental supervision.

During the Reporting Period, the gross loss of environmental protection segment amounted to approximately RMB5,000, and the gross profit margin amounted to approximately -11.9%. During the corresponding period last year, the gross loss amounted to approximately RMB41,000 and the gross profit margin amounted to approximately -1.1%. The substantial decrease in gross profit margin was mainly attributable to the fact that the revenue from major works have not been recognised based on the percentage of completion of works, whereas some actual expenses such as staff wages have been recognised as costs.

Other Income

During the Reporting Period, the Group's other income amounted to approximately RMB6,302,000, representing an increase of approximately RMB1,448,000 or 29.8% as compared to approximately RMB4,854,000 in the corresponding period last year. The increase was mainly due to the increase in income from tax refunds and subletting income during the Reporting Period.

Sales and Distribution Expenses

During the Reporting Period, the distribution costs of cement segment amounted to approximately RMB1,338,000, representing an increase of approximately RMB161,000 or 13.7% as compared to approximately RMB1,177,000 in the corresponding period last year. The increase was mainly due to the increase in sales volume of cement products during the Reporting Period. Sales and distribution expenses accounted for approximately 1.0% of the consolidated turnover of the Group, which has decreased as compared to approximately 1.1% in the corresponding period last year.

During the Reporting Period, the distribution costs of environmental protection segment amounted to RMB nil, which was in line with the corresponding period last year.

Administrative Expenses

During the Reporting Period, the Group's general and administrative expenses amounted to approximately RMB14,069,000, representing an increase of approximately RMB2,622,000 or 22.9% as compared to approximately RMB11,447,000 in the corresponding period last year.

The general and administrative expenses of cement segment amounted to approximately RMB9,268,000, representing an increase of approximately RMB1,676,000 or 22.1% as compared to approximately RMB7,592,000 in the corresponding period last year. The increase in the administrative expenses was primarily due to the increase in staff costs resulting from the increase of staff wages during the Reporting Period.

The administrative expenses of environmental protection segment amounted to approximately RMB3,520,000, representing a decrease of approximately RMB335,000 or 8.7% as compared to approximately RMB3,855,000 in the corresponding period last year. The decrease in the administrative expenses was primarily due to the decrease in staff costs resulting from the decrease of staff number during the Reporting Period.

Unallocated administrative expenses amounted to approximately RMB1,281,000, representing an increase as compared to approximately RMB nil in the corresponding period last year, which was primarily due to the increase in rental expenses during the Reporting Period.

Income Tax Expense

During the Reporting Period, the Group's income tax expense amounted to approximately RMB6,117,000, representing a significant increase from income tax credit of approximately RMB951,000 in the corresponding period last year, which is mainly attributable to the increase in profits incurred during the Reporting Period.

Details of the Group's income tax are set out in note 7 to the condensed consolidated financial statements in this announcement.

Net Profit Margin

During the Reporting Period, the Group's net profit margin was approximately 5.6%.

The net profit margin of cement segment was approximately 11.2%, representing a significant increase as compared to approximately 0.9% in the corresponding period last year. The increase was mainly attributable to the increase in both sales volume and price of the cement products due to the reasons as described in the section "Gross Profit and Gross Profit Margin" above and gain on disposal of available-for-sale financial assets of approximately RMB5,102,000 recorded upon disposal of equity interest in GinkgoPharma Co. Ltd.. During the Reporting Period, the cement segment achieved a net profit of approximately RMB15,366,000, representing an increase of approximately RMB14,484,000 or 1,642.2% as compared to a net profit of approximately RMB882,000 in the corresponding period last year.

During the Reporting Period, the net loss of the environmental protection segment amounted to approximately RMB2,368,000 and the net profit margin was approximately -5,638.1%, which was mainly because the revenue was recognised based on the percentage of completion of works while most of works will be commenced and revenue will be recognised in the second half of the year. The net loss of the corresponding period last year amounted to approximately RMB2,944,000 and the net profit margin was approximately -79.1%.

Liquidity and Capital Resources

The Group planned to meet its working capital requirements primarily through cash flow from operating activities, bank loans and the use of trade and other payables as well as the proceeds from the IPO of the Company.

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Cash and cash equivalents	**18,697**	18,949
Borrowings	**57,167**	54,000
Debt to equity ratio	**14.4%**	13.9%
Debt to asset ratio	**27.4%**	23.6%

Cash Flow

As at 30 June 2017, the Group's cash and cash equivalents amounted to approximately RMB18,697,000.

As to the cement segment, the cash and cash equivalents amounted to approximately RMB18,480,000, representing a decrease of approximately 2.0% from approximately RMB18,860,000 as at 31 December 2016.

As to the environmental protection segment, the cash and cash equivalents amounted to approximately RMB217,000, representing an increase of approximately 143.8% from approximately RMB89,000 as at 31 December 2016.

Borrowings

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Current:		
Borrowings		
– Cement segment	**50,000**	50,000
– Environmental protection segment	**5,000**	4,000
– Unallocated	**2,167**	–
	57,167	54,000

During the Reporting Period, the borrowings of the Group increased by 5.9% from approximately RMB54,000,000 as at 31 December 2016, which was mainly due to the drawdown of loans during the Reporting Period. Borrowings of the Group as at 30 June 2017, bearing fixed interest rate, amounted to approximately RMB57,167,000, increased compared to that as at 31 December 2016.

As at 30 June 2017 and 31 December 2016, the aforesaid borrowings were not secured, pledged and guaranteed by the Group's property, plant and equipment, land use rights, bill receivables and restricted bank deposits. As at 30 June 2017, bank borrowings of approximately RMB5,000,000 (31 December 2016: approximately RMB4,000,000) was secured by personal guarantees provided by the Director, Mr. Ling Chao and his close family member.

Details of the Group's borrowings due are set out in note 12 to the condensed consolidated interim financial statements.

As at 30 June 2017, the Group had no unutilised bank financing facilities.

Debt to Equity Ratio

As at 30 June 2017, the Group's debt to equity ratio was 14.4%.

Among others, the debt to equity ratio of the cement segment was 14.4%, remained broadly flat compared to 14.8% as at 31 December 2016.

As to the environmental protection segment, the debt to equity ratio was 10.5%, remained broadly flat compared to 8.0% as at 31 December 2016.

The debt to equity ratio is calculated by dividing the borrowings by the difference between total assets and total liabilities.

Capital Expenditure and Capital Commitments

As at 30 June 2017, the Group's capital expenditure amounted to approximately RMB1,233,000.

Among others, the capital expenditure of the cement segment amounted to approximately RMB1,233,000, remained broadly flat compared to approximately RMB1,258,000 in the corresponding period last year.

As to the environmental protection segment, the capital expenditure amounted to approximately RMBnil, representing a notable decrease as compared to approximately RMB1,258,000 during the corresponding period last year.

As at 30 June 2017, details of the Group's capital commitments are set out in note 16 to the condensed consolidated interim financial statements.

Pledge of Assets

As at 30 June 2017, the Group did not pledge any assets during the Reporting Period.

Contingent Liabilities

As at 30 June 2017, the Group had no material contingent liabilities.

Foreign Currency Risk

The Group conducted its business primarily in Mainland China with the majority of its operating expenses and capital accounts denominated in Renminbi, and a small amount denominated in Hong Kong dollars. Foreign exchange debts were primarily a result of the Group's payment of offshore intermediary fees. During the Reporting Period, the Hong Kong dollars of the Company deposited with the offshore banks recorded a foreign exchange loss of approximately RMB69,000 due to the depreciation of Hong Kong dollars.

During the Reporting Period, the Group did not expose to any material currency exchange risks, and therefore the Group did not implement any hedging measures for such risks. As Renminbi is not a freely convertible currency, the future exchange rates of Renminbi could vary significantly from the current or historical levels as a result of any controls that the PRC government may impose. The exchange rates may also be affected by economic developments and political changes in the PRC and/or abroad, as well as the demand and supply of Renminbi. A significant appreciation or devaluation of Renminbi against foreign currencies resulting from the Company's exchange of its remaining balance of IPO net proceeds into Renminbi may have a positive or negative impact on the Company's financial position. The management will closely monitor the foreign exchange exposures and will consider taking appropriate measures on hedging foreign currency risks when necessary.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

During the Reporting Period, the Group did not conduct any material acquisitions or disposals of its subsidiaries or associated companies, except for the (i) establishment of Suzhou Dongtong Environment and Technology Company Limited ("**Dongtong Environment and Technology**") and (ii) proposed acquisition of a corporation licensed to carry out Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**Target Company**") as stated below.

Establishment of a Joint Venture

As disclosed in the announcement of the Company dated 1 March 2017, Suzhou Dongwu Cement Co. Ltd. ("**Suzhou Dongwu**") entered into a joint venture agreement (the "**Joint Venture Agreement**") with Suzhou Dongfang Jiujiu Industry Co., Ltd. ("**Dongfang Jiujiu**"), pursuant to which the parties agreed to establish Dongtong Environment and Technology with a registered capital of RMB50,000,000. Upon the completion of the Joint Venture Agreement, Dongtong Environment and Technology will be owned as to 48% and 52% by Suzhou Dongwu and Dongfang Jiujiu respectively.

As at the date of this announcement, the Joint Venture Agreement has been completed and Dongtong Environment and Technology has been formed.

For details, please refer to the announcement of the Company dated 1 March 2017.

Proposed Acquisition of a Licensed Corporation

On 2 August 2017, (i) a direct wholly-owned subsidiary of the Company (as the purchaser); (ii) third parties independent of the Company and its connected persons (as defined under the Listing Rules) (as the vendors); and the Company (as the guarantor) entered into a conditional sale and purchase agreement for a proposed acquisition of the entire issued share capital in a target company which is licensed to carry out Type 1 (Dealing in securities) regulated activity under the Securities and Futures Ordinance at a total consideration of HK$16,000,000 subject to consideration adjustments determined by the net asset value of the target company as at the date of completion of the sale and purchase agreement.

For details of the above acquisition, please refer to the voluntary announcements of the Company dated 5 June 2017 and 2 August 2017.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 June 2017.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of 246 employees. The total remuneration of our employees amounted to approximately RMB9,242,000 during the Reporting Period. The remuneration levels of employees are commensurate with their responsibilities, performance and contributions and set on the basis of their merits, qualification and competence as well as the opinions from the Remuneration Committee of the Company (if applicable).

OTHER INFORMATION

Share Capital

As at 30 June 2017, the Company's issued share capital was HK$5,520,000, divided into 552,000,000 Shares with a par value of HK$0.01 each.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company or any of its subsidiaries did not purchase, sell or redeem any listed securities of the Company during the Reporting Period.

MATERIAL LITIGATION AND ARBITRATION

So far as is known to the Directors, the Group was not involved in any litigation, arbitration or claims of material importance and there was no litigation or claims of material importance to be pending or threatened by or against the Company during the Reporting Period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to achieving and maintaining high standards of corporate governance. The Board believes that effective corporate governance and disclosure practices are not only crucial to the enhancement of the Company's accountability and transparency and investors' confidence, but also critical to the Group's long-term success. The Company has adopted the code provisions in the Corporate Governance Code ("**Corporate Governance Code**") as set out in Appendix 14 to the Listing Rules as its own code on corporate governance.

The Company has complied with the Corporate Governance Code during the Reporting Period.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiries to all Directors, all Directors have confirmed that they had complied with the required standards as set out in the Model Code during the Reporting Period.

AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") has reviewed the Group's unaudited interim financial report for the six months ended 30 June 2017 and has discussed the financial reporting with the management. The Audit Committee is of the opinion that the preparation of these financial statements within which the appropriate disclosures have been made has complied with the applicable accounting standards and requirements.

By order of the Board
Dongwu Cement International Limited
Xie Yingxia
Chairman

Hong Kong, 18 August 2017

As at the date this announcement, the Board comprises Ms. Xie Yingxia, Mr. Ling Chao, Mr. Peng Cheng, Mr. Wong Hin Shek and Mr. Wang Jun as executive Directors; Mr. Tseung Hok Ming as non-executive Director; and Mr. Cao Guoqi, Mr. Cao Kuangyu and Mr. Lee Ho Yiu Thomas as independent non-executive Directors.