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# WEST CHINA CEMENT LIMITED
# 中國西部水泥有限公司

*(Incorporated in Jersey with limited liability, with registered number 94796)*

**(Stock Code: 2233)**

## 2018 ANNUAL RESULTS ANNOUNCEMENT

**Financial highlights:**

| *RMB' Million (unless otherwise specified)* | **Year ended 31 December 2018** | Year ended 31 December 2017 | % Change |
|---|---|---|---|
| Total Cement and Clinker Sales Volume (million tons) | **18.2** | 19.1 | (4.7%) |
| Cement Sales Volume (million tons) | **18.1** | 18.7 | (3.2%) |
| Revenue | **5,911.7** | 4,760.0 | 24.2% |
| Gross Profit | **1,985.8** | 1,185.9 | 67.5% |
| EBITDA | **2,637.0** | 1,875.3 | 40.6% |
| Profit Attributable to Owners of the Company | **1,159.4** | 710.8 | 63.1% |
| Basic Earnings Per Share | **21.3 cents** | 13.1 cents | 62.6% |
| Interim Dividend | **1.2 cents** | Nil | 100.0% |
| Proposed Final Dividend | **1.4 cents** | 2.6 cents | (46.2%) |
| Gross Profit Margin | **33.6%** | 24.9% | 8.7 ppt |
| EBITDA Margin | **44.6%** | 39.4% | 5.2 ppt |

| | **31 December 2018** | 31 December 2017 | % Change |
|---|---|---|---|
| Total Assets | **12,392.1** | 11,671.9 | 6.2% |
| Net Debt[(1)] | **1,976.5** | 2,287.7 | (13.6%) |
| Net Gearing[(2)] | **26.0%** | 34.5% | (8.5%) |
| Net Assets Per Share | **140 cents** | 122 Cents | 14.8% |

*Notes:*

(1) Net debt equal to total borrowings, senior notes, and short-term notes less bank balances and cash and restricted bank deposits.

(2) Net gearing is measured as net debt to equity.

The board ("Board") of directors ("Directors") of West China Cement Limited (the "Company") is pleased to announce its annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 together with the comparative figures for the corresponding year of 2017 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2018*

| | *NOTES* | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|---|
| Revenue | *2* | **5,911,744** | 4,760,038 |
| Cost of sales | | **(3,925,988)** | (3,574,129) |
| Gross profit | | **1,985,756** | 1,185,909 |
| Other income | *3* | **343,986** | 226,767 |
| Impairment loss, net of reversal | *4* | **(8,387)** | (50,432) |
| Selling and marketing expenses | | **(54,136)** | (49,401) |
| Administrative expenses | | **(336,745)** | (266,245) |
| Other expenses | | **–** | (9,100) |
| Other gains and losses, net | *5* | **(233,828)** | 136,504 |
| Share of profit of an associate | | **23,683** | 16,021 |
| Interest income | *6* | **140,578** | 33,671 |
| Finance costs | *7* | **(228,796)** | (249,488) |
| Profit before tax | *8* | **1,632,111** | 974,206 |
| Income tax expense | *9* | **(451,648)** | (248,010) |
| Profit and total comprehensive income for the year | | **1,180,463** | 726,196 |
| Attributable to: | | | |
| — Owners of the Company | | **1,159,449** | 710,843 |
| — Non-controlling interests | | **21,014** | 15,353 |
| | | **1,180,463** | 726,196 |
| Earnings per share | | | |
| — Basic (RMB) | *10* | **0.213** | 0.131 |
| — Diluted (RMB) | *10* | **0.213** | 0.131 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2018*

| | NOTES | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **7,180,198** | 7,137,420 |
| Prepaid lease payments | | **459,275** | 471,487 |
| Mining rights | | **326,926** | 245,611 |
| Other intangible assets | | **199,561** | 191,122 |
| Investment in an associate | | **80,661** | 56,978 |
| Loan receivables | *11* | **837,203** | 406,851 |
| Deferred tax assets | | **39,110** | 36,521 |
| Amount due from a non-controlling shareholder of a subsidiary | | **15,218** | 23,218 |
| Prepayments for construction in progress | | **101,002** | 106,796 |
| | | **9,239,154** | 8,676,004 |
| **Current assets** | | | |
| Inventories | | **491,116** | 436,160 |
| Loan receivables | *11* | **855,453** | 437,273 |
| Trade and other receivables and prepayments | *12* | **477,284** | 670,136 |
| Bill receivables measured at fair value through other comprehensive income | | **253,972** | – |
| Restricted bank deposits | | **189,032** | 77,013 |
| Bank balances and cash | | **886,046** | 1,375,353 |
| | | **3,152,903** | 2,995,935 |
| **Total assets** | | **12,392,057** | 11,671,939 |
| **EQUITY** | | | |
| Share capital | | **141,771** | 141,549 |
| Share premium and reserves | | **7,383,494** | 6,437,125 |
| Equity attributable to owners of the Company | | **7,525,265** | 6,578,674 |
| Non-controlling interests | | **73,690** | 50,032 |
| **Total equity** | | **7,598,955** | 6,628,706 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** — *Continued*
*At 31 December 2018*

| | *NOTES* | **2018** **RMB'000** | 2017 *RMB'000* |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | *13* | **–** | 160,000 |
| Senior notes | *14* | **–** | 2,596,470 |
| Asset retirement obligation | | **45,935** | 23,417 |
| Deferred tax liabilities | | **80,279** | 71,296 |
| Deferred income | | **45,542** | 49,742 |
| | | **171,756** | 2,900,925 |
| **Current liabilities** | | | |
| Borrowings | *13* | **863,571** | 584,000 |
| Senior notes | *14* | **2,188,003** | – |
| Short-term notes | *15* | **–** | 399,586 |
| Trade and other payables | *16* | **1,152,034** | 1,056,431 |
| Contract liabilities | | **231,000** | – |
| Income tax payable | | **186,738** | 102,291 |
| | | **4,621,346** | 2,142,308 |
| Total liabilities | | **4,793,102** | 5,043,233 |
| Total equity and liabilities | | **12,392,057** | 11,671,939 |
| **Net current (liabilities) assets** | | **(1,468,443)** | 853,627 |
| **Total assets less current liabilities** | | **7,770,711** | 9,529,631 |

## NOTES:

(All amounts in RMB thousands unless otherwise stated)

### 1. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**New and Amendments to IFRSs that are mandatorily effective for the current year**

In the current year, the Group has applied for the first time the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB").

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

In addition, the Group has early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### 1.1 IFRS 15 Revenue from Contracts with Customers

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

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

The Group recognises revenue from sales of cement products which arise from contracts with customers

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Note 2.

***Summary of effects arising from initial application of IFRS 15***

The initial application of IFRS 15 did not have material impact on the Group's major revenue generating operation and retained earnings at 1 January 2018.

## 1. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

### 1.1 IFRS 15 Revenue from Contracts with Customers — *Continued*

***Summary of effects arising from initial application of IFRS 15** — Continued*

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31 December 2017 | Reclassification | Remeasurement | Carrying amounts under IFRS 15 at 1 January 2018* |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables *(note)* | 1,056,431 | (158,559) | – | 897,872 |
| Contract liabilities *(note)* | – | 158,559 | – | 158,559 |

* The amounts in this column are before the adjustments from the application of IFRS 9.

*Note:* As at 1 January 2018, advances from customers of RMB158,559,000 in respect of cement sales contracts previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 only for each of the line item affected as IFRS 15 has no material impact on its consolidated statement of profit or loss and other comprehensive income as well as the consolidated statement of cash flows for the current years. Line items that were not affected by the changes have not been included.

*Impact on the consolidated statement of financial position*

| | As reported | Adjustments | Amount without application of IFRS 15 |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and other payables | 1,152,034 | 231,000 | 1,383,084 |
| Contract liabilities | 231,000 | (231,000) | – |

## 1. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

### 1.2 IFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

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

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

*Summary of effects arising from initial application of IFRS 9*

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

| | *Note* | **Debt instruments at FVTOCI** *RMB'000* | **Amortised cost (previously classified as loans and receivables)** *RMB'000* | **Deferred tax assets** *RMB'000* | **Retained earnings** *RMB'000* |
|---|---|---|---|---|---|
| Closing balance at 31 December 2017 — IAS 39 | | – | 2,822,478 | 36,521 | 2,841,754 |
| **Effect arising from initial application of IFRS 9:** | | | | | |
| **Reclassification** | | | | | |
| From loans and receivables | *(a)* | 316,335 | (316,335) | – | – |
| **Remeasurement** | | | | | |
| Impairment under ECL model | *(b)* | – | (13,042) | 2,944 | (10,098) |
| Opening balance at 1 January 2018 | | 316,335 | 2,493,101 | 39,465 | 2,831,656 |

## 1. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

### 1.2 IFRS 9 Financial Instruments and the related amendments — *Continued*

*Summary of effects arising from initial application of IFRS 9 — Continued*

*Notes:*

(a) As part of the Group's cash flow management, the Group has the practice of endorsing some of the bill receivables to its suppliers before the bills are due for payment and derecognises the bills endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bill receivables of RMB316,335,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value gains/losses were considered immaterial to the Group's financial position as at 1 January 2018 hence no further adjustment is made for the fair value gains/losses.

(b) The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables are assessed individually for debtors with significant balances and insignificant balances with specific risks. All other assets are assessed collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of restricted bank deposits, bank balances and cash, other receivables, loan receivables, interest receivables and amount due from a non-controlling shareholder of a subsidiary, are measured on 12m ECL basis, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

All of the Group's debt instruments at FVTOCI are bill receivables that are issued by financial institutions and due within 12 months. These debt instruments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

As at I January 2018, an additional credit loss allowance of RMB13,042,000 and the related deferred tax assets of RMB2,944,000 have been recognised against retained earnings. The additional loss allowance is charged against the respective asset.

All loss allowances for financial assets including trade receivables, loan receivables, other financial assets at amortised cost and debt instruments at FVTOCI as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

| | **Trade receivables** | **Loan receivables** | **Other financial assets at amortised cost** | **Debt instruments at FVTOCI** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 31 December 2017 | 13,010 | – | 1,110 | N/A |
| Amounts remeasured through opening retained earnings | 4,792 | 8,250 | – | – |
| At 1 January 2018 | 17,802 | 8,250 | 1,110 | – |

## 1. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

### 1.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | 31 December 2017 (Audited) | IFRS 15 | IFRS 9 | 1 January 2018 (Restated) |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | |
| Loan receivables | 406,851 | — | (3,976) | 402,875 |
| Deferred tax assets | 36,521 | — | 2,944 | 39,465 |
| **Current assets** | | | | |
| Trade and other receivables and prepayments | 670,136 | — | (321,127) | 349,009 |
| Loan receivables | 437,273 | — | (4,274) | 432,999 |
| Bill receivables measured at FVTOCI | — | — | 316,335 | 316,335 |
| **Equity** | | | | |
| Share premium and reserves | 6,437,125 | — | (10,098) | 6,427,027 |
| Equity attributable to owners of the Company | 6,578,674 | — | (10,098) | 6,568,576 |
| **Current liabilities** | | | | |
| Trade and other payables | 1,056,431 | (158,559) | — | 897,872 |
| Contract liabilities | — | 158,559 | — | 158,559 |
| **Total equity and liabilities** | 11,671,939 | — | (10,098) | 11,661,841 |
| **Net current assets** | 853,627 | — | (9,066) | 844,561 |
| **Total assets less current liabilities** | 9,529,631 | — | (10,098) | 9,519,533 |

*Note:* For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

1. **APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")** — *Continued*

**New and revised IFRSs and interpretations in issue but not yet effective**

The Group has not early applied the following new and revised IFRSs and interpretations that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 16 | *Leases*[1] |
| IFRS 17 | *Insurance Contracts*[3] |
| IFRIC 23 | *Uncertainty over Income Tax Treatments*[1] |
| Amendments to IFRS 3 | *Definition of a Business*[4] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2] |
| Amendments to IAS 1 and IAS 8 | *Definition of Material*[5] |
| Amendments to IAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to IAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| Amendments to IFRSs | *Annual Improvements to IFRSs 2015–2017 Cycle*[1] |

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and revised IFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

*IFRS 16 Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## 1. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

**New and revised IFRSs and interpretations in issue but not yet effective** — *Continued*

*IFRS 16 Leases — Continued*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use. Upon application of IFRS 16, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate. Furthermore, extensive disclosures are required by IFRS 16.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. The Group did not lease out any of its assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not assess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

The directors of the Company do not anticipate that the application of IFRS 16 will have a material impact on the Group's consolidated financial statements as other than prepaid lease payments for leasehold lands, the Group did not have other material operating lease and other arrangement contains a lease.

**Amendments to IAS 1 and IAS 8 *Definition of Material***

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

## 2. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement products. The Group's chief executive officer, the chief operating decision maker (the "CODM") reviews the sales volume and average selling prices of its cement products by four areas, namely central and southern Shaanxi, Xinjiang and Guizhou. However, no further operating results by these areas are being provided to the CODM. Instead, the CODM reviews the consolidated results of the Group as a whole, including the financial implications from loan receivables. Accordingly, no further segment information of operating and reportable segment has been disclosed in the consolidated financial statements.

| | **For the year ended 31 December 2018** *RMB'000* |
|---|---|
| **Geographical markets** | |
| Central Shaanxi | 2,412,713 |
| Southern Shaanxi | 2,501,516 |
| Xinjiang | 606,172 |
| Guizhou | 391,343 |
| Total | 5,911,744 |

All of the Group's revenue for the years ended 31 December 2018 and 2017 are derived from the sale of cements products to customers in the western part of the PRC.

Revenue is recognised at a point in time when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. The normal credit term is 60 to 90 days upon delivery.

No single customer contributed 10% or more to the Group's revenue for both 2018 and 2017. All of the Group's non-current assets are located in the PRC.

During the year ended 31 December 2018, RMB158,559,000 of revenue recognised relates to carried-forward contract liabilities.

## 3. OTHER INCOME

| | **2018** *RMB'000* | 2017 *RMB'000* |
|---|---|---|
| Tax refund *(Note)* | **316,183** | 212,204 |
| Government grants, including released from deferred income | **27,803** | 14,312 |
| Others | **–** | 251 |
| | **343,986** | 226,767 |

*Note:* The tax refund mainly represents incentives in the form of value added tax ("VAT") refund approved by the relevant government authorities as a result of utilising industrial waste as part of the production materials.

## 4. IMPAIRMENT LOSSES, NET OF REVERSAL

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Impairment losses (recognised)/reversed on: | | |
| — Trade receivables — goods and services | **4,159** | (7,105) |
| — Loan receivables | **(11,395)** | – |
| — Other receivables | **(1,151)** | – |
| — Inventories | **–** | (25,497) |
| — Mining rights | **–** | (17,830) |
| | **(8,387)** | (50,432) |

## 5. OTHER GAINS AND LOSSES, NET

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Net foreign exchange (losses) gains *(Note (a))* | **(127,550)** | 157,278 |
| Loss on disposal of property, plant and equipment | **(6,777)** | (17,617) |
| Loss on partial redemption of senior notes *(Note (b))* | **(8,993)** | – |
| Donation *(Note (c))* | **(87,953)** | (5,589) |
| Others | **2,555** | 2,432 |
| | **(233,828)** | 136,504 |

*Notes:*

(a) The amounts mainly relate to the translation of the senior notes from United States Dollar ("US$") to RMB for each of the two years ended 31 December 2018.

(b) During the year ended 31 December 2018, the Company exercised its early redemption option to early redeem and repay the outstanding senior notes of US$80 million (equivalent to RMB553 million), plus the applicable redemption premium of US$1.3 million (equivalent to RMB9.0 million).

(c) During the year ended 31 December 2018, charitable donations of RMB80,000,000 were made by the Group through Yaobai Education Assistance Foundation established in 2018.

## 6. INTEREST INCOME

Interest income represents interest received and receivable from bank deposits and loan receivables.

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest income from loan receivables | **127,790** | 21,081 |
| Interest income from bank deposits | **12,788** | 12,590 |
| | **140,578** | 33,671 |

## 7. FINANCE COSTS

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on bank loans | **42,213** | 31,146 |
| Interest on senior notes | **183,831** | 186,463 |
| Interest on short-term notes | **5,068** | 34,405 |
| Total borrowing costs | **231,112** | 252,014 |
| Less: amount capitalised | **4,187** | 3,877 |
| | **226,925** | 248,137 |
| Unwinding of discount | **1,871** | 1,351 |
| | **228,796** | 249,488 |

Borrowing costs capitalised during the year arose on the general borrowing pool, and are calculated by applying a capitalisation rate of 6.16% (2017: 6.44%) per annum to expenditure on qualifying assets.

## 8. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Depreciation and amortisation: | | |
| Depreciation of property, plant and equipment | **764,792** | 767,563 |
| Amortisation of prepaid lease payments | **13,788** | 14,628 |
| Amortisation of mining rights | **7,312** | 11,191 |
| Amortisation of other intangible assets | **2,167** | 2,099 |
| Total depreciation and amortisation | **788,059** | 795,481 |
| Capitalised in inventories | **(734,432)** | (730,627) |
| | **53,627** | 64,854 |
| Auditors' remuneration | **3,039** | 2,865 |
| Staff costs (including directors' emoluments): | | |
| Wages and salaries | **398,015** | 306,469 |
| Recognition (reversal) of share option expenses, net | **1,037** | 3,726 |
| Defined contribution retirement plan expenses | **38,315** | 29,882 |
| Total staff costs | **437,367** | 340,077 |
| Capitalised in inventories | **(273,775)** | (214,717) |
| | **163,592** | 125,360 |
| Cost of inventories recognised as expenses | **3,723,581** | 3,468,232 |

## 9. INCOME TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current tax expenses | | |
| Current period | **442,310** | 206,382 |
| Deferred tax (income) expense | | |
| Current year | **6,905** | 42,961 |
| Attributable to change in tax rate | **2,433** | (1,333) |
| | **9,338** | 41,628 |
| Income tax expense | **451,648** | 248,010 |

Pursuant to the rules and regulations of Jersey and the British Virgin Islands, the Company and the subsidiary of the Company, West China Cement Co. Ltd. ("West China BVI") did not have any assessable income for tax purpose in those jurisdictions for both reporting periods.

The income tax provision of the Group in respect of operations in the PRC has been calculated at 25% on the estimated assessable profits for each of the two years ended 31 December 2018 unless the group entities entitle to other preferential tax treatment granted by the relevant PRC tax authority.

Income tax expense for the year can be reconciled to the profit before tax as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before tax | **1,632,111** | 974,206 |
| Tax at domestic income tax rate of 25% (2017: 25%) | **408,139** | 243,552 |
| Tax effects on: | | |
| Expenses not deductible for tax purpose | **6,686** | 26,712 |
| Tax exemption for the Company's income and expense | **69,142** | (22,173) |
| Tax holiday and concession rates of group entities *(Note (a))* | **(87,418)** | (45,147) |
| Tax effect of share of profit of an associate | **(5,921)** | (4,005) |
| Change in tax rate for deferred tax assets recognised | **2,433** | (1,333) |
| Tax on interest income on intra-group loans *(Note (b))* | **6,801** | 10,028 |
| Withholding tax on undistributed profits of PRC subsidiaries *(Note (c))* | **50,000** | 40,000 |
| Tax losses not recognised as deferred tax assets | **3,046** | 2,327 |
| Utilisation of tax losses previously not recognised as deferred tax assets | **–** | (1,860) |
| Recognition of deferred tax assets on tax losses generated in previous years | **(1,260)** | (91) |
| Tax expense for the year | **451,648** | 248,010 |

## 9. INCOME TAX EXPENSE — *Continued*

*Notes:*

(a) Hetian Yaobai Cement Co., Ltd. ("Hetian Yaobai"), the Company's subsidiary, was established in Xinjiang Uygur Autonomous Region ("Xinjiang"). Pursuant to the relevant laws and regulations of Xinjiang, Hetian Yaobai is entitled to a concession rate of 15% from 2018 for three years. The applicable tax rate for the year ended 31 December 2018 is 15% (2017: 12.5%).

Luxin Building Materials Co., Ltd. ("Luxin"), the Company's subsidiary, was established in Xinjiang. Pursuant to the relevant laws and regulations of Xinjiang, Luxin is subject to a tax concession rate of 15% for the year ended 31 December 2018.

The Company's subsidiaries, Xi'an Lantian Yaobai Cement Co., Ltd ("Lantian"), Fuping Cement Co., Ltd ("Fuping") and Shifeng Cement Co., Ltd ("Shifeng"), were established in Shaanxi. Pursuant to the approval of tax bureau received in 2017, Lantian, Fuping and Shifeng are entitled to a tax reduction pursuant to PRC enterprise income tax law from 2017. The applicable tax rate for the year ended 31 December 2018 and 2017 is 15%.

The Company's subsidiaries, Longqiao Yaobai Cement Co., Ltd. ("Longqiao Yaobai"), Pucheng Yaobai Special Cement Co., Ltd ("Pucheng Yaobai") and Xi'an Zhonggang Intelligent Logistics Co., Ltd ("Zhonggang Logistics"), were established in Shaanxi. Pursuant to the relevant laws and regulations, Longqiao Yaobai, Pucheng Yaobai and Zhonggang Logistics are subject to a tax concession rate of 15% from 2018. The applicable tax rate for the year ended 31 December 2018 is 15% (2017: 25%).

The Group's subsidiary, Guangxin (Yili) Financial Leasing Co., Ltd. ("Guangxin Yili") was established in Xinjiang. Pursuant to to the relevant laws and regulations of Xinjiang, Guangxin Yili is subject to a five-year tax holiday from its first revenue-making year, that is 2018. Therefore, the applicable tax rate for the year ended 31 December 2018 is 0%.

(b) Interest income in respect of intra-group loans within the Group is subject to a tax rate of 7% (2017:10%) based on the double taxation arrangement between Hong Kong and Mainland China.

(c) Withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward at a tax rate of 5% (2017: 10%) under the PRC Enterprise Income Tax Law.

## 10. EARNINGS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share | **1,159,449** | 710,843 |

| **Number of shares** | **2018** | 2017 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **5,433,980** | 5,421,931 |
| Effect of dilutive potential ordinary shares from share options issued by the Company | **8,946** | 6,641 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **5,442,926** | 5,428,572 |

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2018 has been adjusted for exercise of share options during the period.

The computation of diluted earnings per share in 2018 and 2017 does not assume the exercise of certain share options because the adjusted exercise price of those options was higher than the average market price for shares for both years.

## 11. LOAN RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Loans collateralised by property, plant and equipment *(Note (a))* | **1,146,176** | 364,124 |
| Entrusted loan *(Note (b))* | **198,000** | 200,000 |
| Loans collateralised by receivables *(Note (b))* | **348,480** | 280,000 |
| | **1,692,656** | 844,124 |
| Analysed as: | | |
| Current | **855,453** | 437,273 |
| Non-current | **837,203** | 406,851 |
| | **1,692,656** | 844,124 |

## 11. LOAN RECEIVABLES — *Continued*

*Notes:*

(a) During the year ended 31 December 2018 and 2017, the Group entered into certain arrangements (the "Arrangements") with the third parties for periods ranging from 1 to 4 years under which:

(i) The third parties transferred the ownership titles of its certain assets to the Group and leased back those assets;

(ii) The third parties pledged those assets to the Group;

(iii) The shareholders of the third parties provided guarantees for the due performance of the obligations of the third parties under the Arrangements; and

(iv) Upon discharging all the obligations by the third parties under the Arrangements, the Group will return the ownership title of the assets to the lessees automatically.

Despite the Arrangements involve a legal form of a lease, the Group accounted for the Arrangements as collateralised loans in accordance with the actual substance of the Arrangements. All interest rates inherent in the Arrangements are fixed at the contract dates over the contract terms.

(b) The entrusted loan and loans collateralised by receivables the Group entered with third parties are with fixed interest rates at the contract dates over the contract terms. The interests are receivable periodically based on contractual terms. All principals are receivable upon maturity dates.

The contractual maturity dates of the Group's fixed-rate loan receivables are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **855,453** | 437,273 |
| In more than one year but not more than two years | **300,720** | 319,341 |
| In more than two years but not more than five years | **536,483** | 87,510 |
| | **1,692,656** | 844,124 |

The ranges of effective rates on the Group's loan receivables was 6.0% to 18.3% (2017: 6.0% to 18.3%) per annum.

All of the Group's loan receivables are dominated in RMB.

Included in the carrying amount of loans receivables as at 31 December 2018 is accumulated impairment losses of RMB19,645,000 (31 December 2017: Nil).

## 12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | **195,396** | 160,431 |
| Less: Allowance for credit losses | **13,643** | 13,010 |
| | **181,753** | 147,421 |
| Other receivables | **54,669** | 30,124 |
| Less: Allowance for credit losses | **2,261** | 1,110 |
| | **52,408** | 29,014 |
| Bills receivable | **–** | 316,335 |
| Interest receivable | **17,188** | – |
| VAT recoverable | **87,642** | 69,578 |
| VAT refund receivable | **37,558** | 24,442 |
| Amount due from a non-controlling shareholder of a subsidiary *(Note)* | **21,745** | 33,218 |
| Prepayments to suppliers | **80,420** | 58,718 |
| Prepaid lease payments | **13,788** | 14,628 |
| | **492,502** | 693,354 |
| Less: | | |
| Non-current portion of amount due from a non-controlling shareholder of a subsidiary *(Note)* | **15,218** | 23,218 |
| | **477,284** | 670,136 |

*Note:* The amount due from a non-controlling shareholder of a subsidiary represents advances for procuring the acquisition of various mining rights by the non-controlling shareholder on behalf of the Group. Pursuant to the notice from the local government authority received in September 2017, the prospective mining rights would not be granted due to rearrangement of local mining resources. The non-controlling shareholder repaid RMB30,007,000 and RMB2,950,000 to the Company in December 2017 and 2018, respectively in accordance with a repayment schedule without interest, and RMB8,523,000 was offset by dividend payables to the non-controlling shareholder in 2018. The remaining balance of RMB21,745,000 will be repaid in 2019 and 2020 based on the repayment schedule. After due assessment prescribed by IFRS 9, the directors are of a view that ECL on the remaining balance is insignificant and hence do not provide impairment on the remaining balance.

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB181,753,000 and RMB142,629,000 respectively.

## 12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS — *Continued*

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 to 90 days | **106,589** | 105,541 |
| 91 to 180 days | **60,197** | 18,711 |
| 181 to 360 days | **2,372** | 4,549 |
| 361 to 720 days | **6,702** | 12,642 |
| Over 720 days | **5,893** | 5,978 |
| | **181,753** | 147,421 |

As at 31 December 2018, total bills received amounting to RMB253,972,000 (31 December 2017: RMB316,335,000) are held by the Group, of which certain bills were further endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

The Group allows a credit period of 60 to 90 days to its trade customers. Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB112,794,000 which are past due as at the reporting date. Out of the past due balances, RMB75,164,000 has been past due 90 days or more and is not considered as in default taking into account these debtors' high credit ranking attributable under the credit scoring system used by the Group. The Group does not hold any collateral over these balances.

As at 31 December 2017, RMB70,910,000 of the trade receivables that are neither past due nor impaired have high credit ranking attributable under the credit scoring system used by the Group. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB76,511,000 which are past due as at the end of the reporting period. The Group has not provided for impairment loss for these receivables because there has not been a significant change in credit quality in these receivables. The Group does not hold any collateral over these balances.

## 13. BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Secured bank loans | **863,571** | 744,000 |
| Carrying amount repayable as follows: | | |
| Within one year | **863,571** | 584,000 |
| More than one year but not more than two years | **–** | 160,000 |
| | **863,571** | 744,000 |
| Less: Amount due for settlement within one year and shown under current liabilities | **863,571** | 584,000 |
| Amounts shown under non-current liabilities | **–** | 160,000 |

## 13. BORROWINGS — *Continued*

**Bank loans:**

The analysis of the terms of the bank loans were as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Fixed rate borrowings | | |
| — expiring within one year | **703,571** | 544,000 |
| Variable rate borrowings | | |
| — expiring within one year | **160,000** | 40,000 |
| — expiring more than one year but not more than two years | **–** | 160,000 |
| | **863,571** | 744,000 |

The ranges of effective interest rates on the Group's bank loans are as follows:

| | **2018** | 2017 |
|---|---|---|
| Effective interest rate per annum: | | |
| Fixed rate borrowings | **2.90% to 5.82%** | 4.35% to 4.87% |
| Variable rate borrowings | **5.46%** | 5.46% |

## 14. SENIOR NOTES

**6.50% Senior Notes Due 2019**

On 4 September 2014, the Company issued 6.5%, five-year senior notes with an aggregated principal amount of US$400,000,000 due in 2019 (the "2019 Senior Notes") at 100% of the face value. The effective interest rate is approximately 6.80% per annum after adjusted for transaction costs. The 2019 Senior Notes are listed on the HKSE and guaranteed by certain subsidiaries of the Company and secured by pledges of the shares of these subsidiaries.

According to the terms and conditions of the 2019 Senior Notes, at any time or from time to time prior to 11 September 2017, the Company may at its option redeem the notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the notes redeemed plus the applicable premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. The applicable premium is the greater of (1) 1.00% of the principal amount of such note and (2) the excess of (A) the present value at such redemption date of the redemption price of such note at 11 September 2017, plus all required remaining scheduled interest payments due on such note (but excluding accrued and unpaid interest to the redemption date) through 11 September 2017, computed using a discount rate equal to the adjusted treasury rate plus 100 basis points, over (B) the principal amount of such note on such redemption date.

At any time and from time to time prior to 11 September 2017 the Company may at its option redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.50% of the principal amount of the notes, plus accrued and unpaid interest, if any, with the proceeds from issue of shares of the Company.

## 14. SENIOR NOTES — *Continued*

On or after 11 September 2017, the Company may on any one or more occasions redeem all or any part of the notes, at the redemption prices of 103.25% (if redeemed prior to 11 September 2018) or 101.625% (if redeemed on or after 11 September 2018), plus accrued and unpaid interest, if any, on the notes redeemed, to (but not including) the applicable date of redemption.

The early redemption options are regarded as embedded derivatives not closely related to the host contract. The directors of the Company considered the fair value of the Company's early redemption options at the initial recognition and at the end of the reporting period is insignificant.

On 23 November 2018 and 28 December 2018, the Company redeemed and repaid an aggregate principal amount of US$50 million and US$30 million of 2019 Senior Notes (equivalent to RMB347 million and RMB206 million respectively), plus the applicable redemption premium of US$1.3 million (equivalent to RMB9 million) and accrued and unpaid interest of US$1.2 million (equivalent to RMB8.5 million).

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount at 1 January | **2,596,470** | 2,747,221 |
| Interest expenses | **183,831** | 186,463 |
| Interest paid/payable | **(179,625)** | (179,271) |
| Exchange losses (gains) | **140,774** | (157,943) |
| Partial redemption | **(553,447)** | – |
| Carrying amount at 31 December | **2,188,003** | 2,596,470 |

## 15. SHORT-TERM NOTES

On 15 March 2016, Yaobai Special Cement Group Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company, issued 5.5% per annum, unsecured one-year short-term notes with a principal amount of RMB800,000,000, under an approved short-term notes facility totalling RMB1,200,000,000 for the repayment of part of the bank loans and to supplement general working capital of the Group. This one-year short-term notes issued in 2016 was repaid in full in March 2017, plus accrued interest of RMB44,000,000.

On 3 March 2017, the balance of the one-year short-term notes facility amounting to RMB400,000,000 was issued by Shaanxi Yaobai at 100% of the face value, carrying 6.98% per annum and unsecured. The effective interest rate is approximately 7.17% per annum after adjusted for transaction costs of RMB1,600,000. This one-year short-term notes issued in 2017 was repaid in full in March 2018, plus accrued interest of RMB27,920,000.

## 16. TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **713,154** | 602,584 |
| Bill payables | **40,000** | – |
| | **753,154** | 602,584 |
| Amount due to non-controlling shareholder of a subsidiary | **1,888** | 4,932 |
| Payables for constructions and equipment purchase | **34,926** | 11,696 |
| Advance from customers | **–** | 158,559 |
| Other tax liabilities | **90,248** | 68,375 |
| Payroll and welfare payable | **66,023** | 45,736 |
| Interest payable | **43,893** | 74,162 |
| Other payables | **151,188** | 80,168 |
| Deferred income — current portion | **10,714** | 10,219 |
| | **1,152,034** | 1,056,431 |

The following is an aged analysis of trade payables presented based on the date of delivering of goods at the end of the reporting period.

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 to 90 days | **579,338** | 494,910 |
| 91 to 180 days | **101,986** | 72,482 |
| 181 to 360 days | **16,380** | 16,038 |
| 361 to 720 days | **9,698** | 11,303 |
| Over 720 days | **5,752** | 7,851 |
| | **713,154** | 602,584 |

Bills payables are mainly due within six months based on the issuance date.

## 17. ASSETS PLEDGED FOR SECURITY

The carrying amounts of the assets at the end of each reporting period pledged to secure trade facilities and bank loans are analysed as follow:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Restricted bank deposit | **122,025** | – |
| Trade receivables | **–** | 7,265 |
| Prepaid lease payments | **123,229** | 108,691 |
| Property, plant and equipment | **1,899,516** | 2,263,523 |
| | **2,144,770** | 2,379,479 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### Overview

The Group has faced an improving operating environment in the year ended 31 December 2018. Sales volume in Shaanxi Province remained stable while the continuous low demand in the Xi'an Metropolitan Area and Central Shaanxi region led to occasional peak-shifting production halts by all producers during low season periods. Sales volume in Xinjiang Province remained low while that of Guizhou Province kept stable during the year. The sales volume of cement and clinker of the Group for the year ended 31 December 2018 was 18.2 million tons, representing 4.7% decrease from the 19.1 million tons recorded in 2017.

The Group has maintained a strong market position in the Southern Shaanxi core markets, where high levels of market share coupled with good infrastructure demand have resulted in continued ASP premiums and more stable margins. ASPs in Central Shaanxi have significantly improved even under the continuing low demand scenario through the continuation of occasional peak-shifting production halts during low season periods and improved market discipline with lower supply among all producers since the fourth quarter of 2016. During the year, improved market discipline with lower supply among all producers had actually led to the rising ASPs in Shaanxi, Xinjiang and Guizhou Provinces. Moreover, the Group has continued to implement efficiency gains and cost-cutting measures and has been able to maintain a stable cost in 2018. Taken together, these have significantly improved the Group's margins in 2018.

The Group has maintained healthy cash flows, with EBITDA of RMB2,637.0 million for the year ended 31 December 2018, which is much higher than the RMB1,875.3 million recorded in 2017. However, the Group's annual results at the net profit level was also significantly affected by the depreciation in the exchange rate of the RMB against the USD in the 2018.

The Group has recorded a significant foreign exchange loss arising from the foreign exchange rate from USD to RMB of the 2019 Senior Notes issued by the Company in September 2014, details of which are described below.

The Group's capacity as at 31 December 2018 has reached 29.2 million tons of cement. The Group has no other plants under construction.

**Operating Environment**

A key feature of the Group's operational performance in 2018 has been the significant narrowing of the difference between the Group's cement ASPs in Southern Shaanxi (where the Group's cement capacity amounts to 9.7 million tons) which have remained reasonable and strong, as compared with those in Central Shaanxi (where the Group's cement capacity amounts to 13.6 million tons) which have been significantly improved to a similar price level to that in Southern Shaanxi. Such significant improvement in ASPs in Central Shaanxi even under the continuing low demand scenario was achieved through the continuation of occasional peak-shifting production halts during low season periods and improved market discipline with lower supply among all producers.

Shaanxi Province has overall seen a stable Fixed Asset Investment ("FAI") growth rates in 2018. FAI growth rate in 2018 was approximately 10.4%, as compared with the 14.6% recorded in 2017. The slight decrease in FAI growth rate has led to a slight drop in demand for cement products in the Shaanxi Province. Accordingly, intense competition from the supply side is still a strong factor affecting the ASPs in Central Shaanxi. Southern Shaanxi has continued to enjoy higher infrastructure-led construction growth. FAI growth rates in Southern Shaanxi have been above the provincial average and have supported a more stable cement market with continued ASPs premiums as compared to Central Shaanxi.

Another important factor contributing to the improvement of the Group's margins was the maintenance of a steady increase in cost by the Group even under a material increase in environmental costs as a result of the tightened environmental policy implemented during 2018. The rise in staff salaries and environmental related costs in 2018 have already offset the benefits arising from the implementation of efficiency gains in the use of inputs and cost-cutting measures since 2015, which resulted in the rise in the cost of goods sold ("COGS").

**Southern Shaanxi**

The Group's operations and markets in Southern Shaanxi remained stable and strong during 2018. The supply side remained rational, as a result of little new capacity and effective closure of obsolete and small-scale clinker kiln and cement grinding capacity over recent years, as well as long transportation distances from other regions. The Group has effectively maintained strong market leadership in this area, promoting a disciplined supply side.

Demand in this region remained reasonable during 2018, supported by continued growth in railway and road infrastructure project construction. The Xixiang to Zhenba Expressway and the Ankang to Langao Expressway, have been, amongst others, particularly important demand drivers; and the construction of the Shiquan to Ningshan Expressway, the Pingli to Zhenping Expressway, the Ankang Airport, the Zhen'an Hydropower Station and the Xunyang Hydropower Station have also supported the demand. Rural and urban developments in Southern Shaanxi have continued to be supported by the Hanjiang to Weihe River Water Transport Project and the Southern Shaanxi Resettlement Project which have continued to be important for both cement demand and development in this region.

Whilst sales volumes of cement in Southern Shaanxi have decreased slightly by approximately 5.9% to approximately 7.54 million tons in 2018 (2017: 8.01 million tons), the above supply and demand scenario has led to relatively strong pricing for the Group's products in this area. There has been some pressure on ASPs, especially in Hanzhong District, due to the low pricing in surrounding areas, but the good infrastructure project demand and insulation from outside competition supported pricing in Ankang District in particular. During 2018, the Group recorded an increase of approximately 31.9% in cement ASPs in Southern Shaanxi to approximately RMB327 per ton (2017: RMB248 per ton) (excluding VAT), which is higher than the Group's total ASP of RMB314 per ton (2017: RMB248 per ton), with capacity utilization at approximately 78% (2017: 83%).

**Central Shaanxi**

The demand in Central Shaanxi market has remained low, especially in the Xi'an Metropolitan market. This low demand scenario has been exacerbated by the imbalance between supply and demand already existing in the area. Central Shaanxi is an area with a significant build-out of new capacity since 2010 and, although all new capacity has been completed since early 2014 with no further additions planned for the foreseeable future, the effect of such new capacity is still being reflected through intense competition. Fortunately, through the continuation of occasional peak-shifting production halts during low season periods and improved market discipline with lower supply among all producers since the fourth quarter of 2016, ASPs in Central Shaanxi have significantly improved even under the abovementioned continuing low demand scenario in 2018.

During 2018, the Group has continued to maintain its market share in Eastern Xi'an, Yaowangshan, Fuping County and the rest of Weinan District where urbanisation remains a key demand driver. The Group has also supplied cement to a number of infrastructure projects, including the constructions of Line 5 and Line 6 of the Xi'an Metro, the Yinchuan to Xi'an High Speed Railway, the Xi'an to Hancheng Intercity Railway, the Dongzhuang Reservoir, the Nangoumen Reservoir, the Yanchuan Yellow River Diversion Project, the expansion of Xi'an Train Station, the Yan'an to Huanglong Expressway, the Pucheng to Huanglong Expressway and the Xixian Expressway-Southern Section. The largest of these, the Heyang to Tongchuan Expressway, has commenced construction at the end of 2017 and consumed over 0.14 million tons of cement in 2018.

Sales volumes in Central Shaanxi have decreased slightly by approximately 2.4% to approximately 7.47 million tons in 2018 (2017: 7.65 million tons) but have been accompanied by improved ASPs. During the year, the Group has recorded an increase of approximately 22.7% in cement ASP in Central Shaanxi to approximately RMB297 per ton (2017: RMB242 per ton) (excluding VAT), which is slightly lower than the Group's overall ASP of RMB314 per ton (2017: RMB248 per ton), with capacity utilization rate at approximately 55% (2017: 56%).

**Xinjiang & Guizhou Provinces**

Operations at the Group's plants in Xinjiang Province remained slow in 2018. Sales volume in Xinjiang have decreased by close to 0.6% to approximately 1.68 million tons (2017: 1.69 million tons). During the year, ASPs in Xinjiang have improved through the peak-shifting production halts by all producers during the low season periods and the improved market discipline as well as the elimination of the use of low grade (32.5) cement since May 2017, the Group has recorded cement ASPs at approximately RMB360 per ton (2017: RMB298 per ton) (excluding VAT), with capacity utilization rate at approximately 41% (2017: 41%).

In Guizhou Province, the Group's plant contributed approximately 1.41 million tons of cement as compared to the sales volume of 1.40 million tons in 2017. Whilst production volumes at the Huaxi Plant have been good, due to its location being in close proximity to Guiyang City and the Guiyang — Anshun ("Gui-An") New Area, ASPs have also improved after entering market with improving market discipline since 2016. During 2018, the Group has recorded cement ASP in Guizhou of approximately RMB278 per ton (2017: RMB214 per ton) (excluding VAT), with capacity utilization rate at approximately 78% (2017: 78%).

**Energy Conservation, Emissions & Environmental**

The Group continues to work towards the best of industry standards in regards to energy conservation, emission controls and the further development of environmental protection solutions. All of the Group's production facilities employ New Suspension Preheater ("NSP") technology. The plants are situated in close proximity to their respective limestone quarries and, at many of the plants, limestone conveyor belt systems are used in order to minimize emissions from transportation. The Group has also been the first cement producer in Shaanxi Province to use desulfurized gypsum and construction waste as raw material inputs into some of its cement products, and regularly recycles fly ash from power plants as well as slag from iron & steel plants as inputs into some of its cement products.

The Group has residual heat recovery systems installed at most of its production facilities. As at 31 December 2018, these systems are in operation at 13 out of 20 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce Carbon dioxide ("CO2") emissions by approximately 20,000 tons per million tons of cement production.

The Group has already completed the installation of De-nitration ("De-NOx") equipment at all of the Group's plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrogen oxide ("NOx") emissions by approximately 60% per ton of clinker produced, bringing NOx emissions to within the new standards stipulated by the Cement Industrial Air Pollution Emissions Standards. Modifications of production lines to meet particulate matter ("PM") emission standards have been completed, resulting in all of the Group's plants having been upgraded to meet new PM emission standards as well. Moreover, the Group has effectively reduced the emission of dust through the technical renovation of the kiln-head and kiln-end dust collectors. Through the implementation of de-nitration spray guns and automated technological innovation, the Group also further reduced the emission of NOx and the consumption of ammonia water in five plants. During the year, two green limestone mines projects, including soil reclamation and mine re-greening, already commenced construction to comply with the new environmental protection policy. The Group will continue to implement the green mine projects to all our limestone mines to reduce the pollution to the soil and mines during mining in order to comply with the government policy of "managing while mining" in the future.

**Yaobai Environmental — Waste Treatment**

In November 2015, the Company announced that its wholly- owned subsidiary, Yaobai Special Cement Group Co., Ltd. ("Yaobai Special Cement"), entered into an investment agreement ("Investment Agreement") with Wuhu Conch Investment Ltd. ("Wuhu Conch", a wholly-owned subsidiary of China Conch Venture Holdings Limited ("Conch Venture") which is listed on the main board of the Stock Exchange (stock code: 586)) and Red Day Limited ("Red Day", a company incorporated in the British Virgin Islands which is 100% owned by Mr. Ma Zhaoyang ("Mr. Ma"), a non-executive Director) pursuant to which Wuhu Conch and Red Day agreed to inject RMB90 million and RMB30 million, respectively, into Xi'an Yaobai Environmental Technology Engineering Co., Ltd. ("Yaobai Environmental"), the Group's waste treatment subsidiary at the relevant time.

Yaobai Environmental is now owned as to 60% by Wuhu Conch, 20% by Shaanxi Quanchuangke Industrial and Trading Co. Ltd., a PRC company wholly-owned by Mr. Ma, which is nominated by Red Day to take up all its rights and obligations under the Investment Agreement pursuant to the terms of the Investment Agreement, and 20% by Yaobai Special Cement. The parties have agreed to develop Yaobai Environmental into the only platform for the treatment of dangerous and hazardous waste for the parties within the PRC.

The Group's plants that are cooperating with Yaobai Environmental's operations currently include: Phase I & Phase II of the Waste Sludge Treatment Facility at the Group's Lantian Plant ("Lantian Waste Sludge Treatment Facility"), which have been in full operations since 2015; the Municipal Waste Treatment Facility at the Group's Fuping Plant ("Fuping Waste Treatment Facility"), which has been operating since March 2016; and the Solid Waste Treatment Facility at the Group's Mianxian Plant ("Mianxian Waste Treatment Facility") which has been in full operations since October 2017.

In 2019, Yaobai Environmental will continue to actively look for new opportunities in setting up cement kilns co-processing solid waste disposal projects in response to the development need of China's recycling economy and relevant specific policies for the industry, as well as taking into account specific conditions in the solid waste market of Shaanxi.

**Financial leasing business**

In June 2017, Guangxin International Financial Leasing Co., Ltd ("Guangxin International"), a wholly-owned subsidiary of the Group, was approved by the Ministry of Commerce of the People's Republic of China (the "PRC") as a licensed lessor. During the second half of 2017, Guangxin International commenced a new financial leasing business under the support of the national policies of the PRC government, in order to ride on the rapid development opportunities present in the financial leasing industry.

In 2017, Guangxin International entered into certain financial leasing arrangements under which Guangxin International received ownership titles of certain assets from third parties and then leased those assets back to such third parties. The ownership title of those assets would be returned to the third parties upon discharge of all their obligations under the financial leasing arrangements. Guangxin International also entered into certain entrusted loan and loans collateralised by receivables with third parties with fixed interest rates over the term of the contract. The aforementioned financial leasing arrangements were accounted as loan receivables.

In 2018, the Group recorded loan receivables of approximately RMB1,692.7 million (2017: RMB844.1 million) arising from the abovementioned financial leasing business and interest income derived from loan receivables amounted to approximately RMB127.8 million for the year ended 31 December 2018 (2017: RMB21.1 million). The Group intends to continue the financial leasing business in order to maximize the returns of the surplus funds for the Group's steady growth.

**Safety and Social Responsibility**

The Group's safety and environmental protection department continuously monitors and reviews safety procedures in accordance with evolving environmental and safety regulations in the PRC. In 2018, the Group has focused its EHS (Environmental, Health & Safety) efforts on revising and improving the safety emergency response plan by employing independent safety experts to strengthen the handling capacity of all employees in emergency accidents. Moreover, several handbooks and guidelines were revised significantly to improve the work safety measures as well as numerous of safety related training courses were initiated to strengthen the staff's safety awareness. In addition, the Group will continue to implement a "Sustainable Safety Development Project", which involved continuous training for both management and on-site employees, on-site inspections and audits, stringent safety reports and on-going suggestions for safety improvements at all of the Group's plants.

In order to further improve its environmental impact and safety procedures, the Group joined the Cement Sustainability Initiative (CSI), a voluntary global organization of 25 major cement producers operating under the World Business Council for Sustainable Development (WBCSD). Each CSI member is required to demonstrate commitments and achievements, including regular audits, to the following broad areas: C02 & Climate Protection, Responsible use of fuels and raw materials, Employee Health & Safety, Emission Reduction, Local Environmental Impact, Water and Reporting Practices.

During the year, charitable donations made by the Group amounted to approximately RMB87.9 million, including donations made in sponsoring deprived students for college education as well as supporting education, sports and cultural events.

**Short-term Notes**

On 3 March 2017, the Group's wholly-owned subsidiary established in the PRC, Shaanxi Yaobai, issued unsecured short-term notes of RMB400 million with an interest rate of 6.98% per annum at 100% of the face value for the purpose of repayment of part of the bank loans and supplementing general working capital of the Group. This one year short-term notes was repaid in full in March 2018.

## PROSPECTS

The improving operating environment in 2018 reflected that improved market discipline with lower supply among all producers is the solution to the problem of lacklustre demand in Shaanxi Province and in the PRC as a whole. However, the resolution of the fragmented nature of the supply side is still of primary importance in promoting a more stable market and improvement to production capacity for the region, which in turn will benefit the Group.

Whilst demand in Shaanxi Province remained stable in 2018, with only a slight decline in cement sales volume as compared with that of 2017, the Company is cautiously optimistic about the outlook of the demand from the infrastructure construction and urbanization for the region into 2019 and beyond.

**The Group and Conch Cement will continue to explore future opportunities for business collaboration in different structures or manners**

Conch International Holdings (HK) Limited, a wholly-owned subsidiary of Anhui Conch Cement Co., Ltd ("Conch Cement"), had 1,147,565,970 shares in the Company, representing approximately 21.11% of the Company's issued share capital as at 31 December 2018. Conch Cement is a leading PRC cement company, with its H-shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 914) and its A-shares listed on the Shanghai Stock Exchange (stock code: 600585).

Ms. Liu Yan and Mr. Qin Hongji are the representatives of Conch Cement on the board of directors of our Company who can promote a strong working relationship between the Group and Conch Cement. This will enable the Group and Conch Cement to achieve synergies in the manufacturing and sale of cement in Shaanxi Province, and can unify the operation and management of cement production capacity in the region thereby improving business efficiency and enhancing the effect of development strategies for both parties in the region.

The Group believes that further collaboration between the two groups will lead to a significantly more stable supply side and market outlook for the region, significantly improving the trading prospects for the Group into 2019 and beyond.

**Operations — Shaanxi**

Under the current macro economic conditions in the PRC and Shaanxi Province, the Group does not expect to see a significant pick up in demand in 2019. Infrastructure demand is expected to grow reasonably and there are a number of major new projects that have commenced or will commence in 2019, but significant growth is not expected. Both urban property demand and rural demand is expected to remain stable with continued urbanization trends supporting rural growth rates.

In regards to the supply side, the Group expects an increasing discipline amongst producers with stable prices in 2019, both as a result of the low pricing environment in the past periods and in light of the business collaboration between the Group and Conch Cement, which is expected to improve sales coordination across the province and stronger bargaining power on selling prices.

In Central Shaanxi, peak-shifting production halts by all producers with improved market discipline are expected to remain an important feature, especially during low season periods, and this can support ASPs. There are a number of infrastructure projects that have recently started or are expected to start construction in 2019, including the constructions of the Xi'an to Yan'an High Speed Railway, several Central Shaanxi Intercity Railways, the Hanheng to Huanglong Expressway, the Xi'an Xianyang International Airport (Phase 3), the constructions of Line 8 and Line 9 of Xi'an Metro and the reconstruction and extension of Pucheng-Laoyukou Expressway of the Beijing-Kunming line, which will consume up to 2.5 million tons of cement. In addition, the other urban regeneration projects are expected to boost demand in this area.

In Southern Shaanxi, the Group expects to maintain its relatively strong performance due to reasonable infrastructure construction activity, an already disciplined supply side and the potential for increasingly stable pricing in the surrounding areas of Central Shaanxi and Northern Sichuan. Construction of the large railway and road projects in Southern Shaanxi are expected to proceed in accordance with the respective plans in 2019. The Pingli to Zhenping Expressway, the Shiquan to Ningshan Expressway, the Ankang to Langao Expressway and the Xixiang to Zhenba Expressway have commenced construction and are expected to generate increasing demand in 2019. In addition, the Group expects to see substantial demand from a number of new railways, and expressways and airport projects in 2019 and 2020, including the constructions of High Speed Railways from Xi'an to Wuhan and from Xi'an to Chongqing as well as other projects related to the Hanjiang to Weihe River Water Transfer Project.

**Operations — Xinjiang & Guizhou**

Operation in Xinjiang is likely to remain subdued while operation in Guizhou is likely to remain stable in 2019. However, with the elimination of the use of low grade (32.5) cement since May 2017 in Xinjiang, which led to the closure of inefficient facilities with small production capacity, the Group expects to see a more stable market of the cement industry with better market discipline and increased ASP in 2019 and beyond. In Southern Xinjiang, where the Group has two plants and a total of 2.6 million tons of capacity, there are a number of on-going small infrastructure projects, which are expected to contribute to support the demand in 2019. These include the constructions of the Yutian Airport, the Yutian Characteristic Towns Project and the Hetian to Ruoqiang Railway. In Northern Xinjiang, the 1.5 million-ton Yili Plant with production volumes remained low but improved pricing in 2018. The Group expects to see higher volume sold from the Yili Plant and an improvement in pricing with better market discipline in 2019 and beyond. In Guizhou, the 1.8 million-ton Huaxi Plant was located close to Guiyang City Centre and the Group expects it can keep benefiting from its location advantage, with a continuation of strong volumes coupled with ASPs improvements with better market discipline in 2019 and beyond.

**Costs**

The Group will continue to implement a number of cost-cutting measures, which are expected to benefit cost of sales and selling, general and administrative expenses in 2019. These measures include administrative and head office cost cuts, headcount reductions and staff incentives to promote efficient use of raw materials and resources. The Group has already seen a positive effect from these cost-cutting measures since 2015 and expects to see increased benefits in 2019 and beyond.

**Environment, Health & Safety**

Plant upgrades to meet new NOx and PM emission standards as stipulated by the Cement Industrial Air Pollution Emissions Standards law have now been completed at all of the Group's plants and the Group will continue to further reduce emissions through incremental upgrades. The Group plans to further implement measures to strengthen environmental management and monitoring during 2019 and will continue to implement the "Sustainable Safety Development Project". The Group also expects to benefit from its membership of the Cement Sustainability Initiative (CSI) in gaining expertise and know how in all aspects of environmental control and health and safety. Moreover, the Group will continue to implement the green mine project to all our limestone mines to reduce the pollution to the soil and mines during mining in order to comply with the government policy of "managing while mining" in the future.

The Group is looking forward to continuing its work in the building of waste treatment facilities at its plants together with Conch Venture and Mr. Ma through the joint investment in Yaobai Environmental. As part of the joint investment, the Group will provide its cement kilns, logistics and management for a management fee to run the waste treatment facilities at its Lantian, Fuping and Mianxian Plants Plants as well as its other plants in the future. Phase I and Phase II of the Lantian Waste Treatment Facility were in full operation since 2015 while Fuping Waste Treatment Facility commenced full operation since March 2016. Moreover, Mianxian Waste Treatment Facility has been in full operations since October 2017.

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by 24.2% from RMB4,760.0 million for the year ended 31 December 2017 to RMB5,911.7 million for the year ended 31 December 2018. Cement sales volume decreased by 3.2%, from approximately 18.7 million tons to approximately 18.1 million tons during the year. Including clinker sales, total sales volume for the year ended 31 December 2018 amounted to approximately 18.2 million tons, compared to the 19.1 million tons sold in 2017.

Overall cement prices were higher than those in 2017, and this has resulted in higher revenue. Cement ASPs for the year ended 31 December 2018 were RMB314 per ton as compared with RMB248 per ton in 2017. The reasons for these fluctuations in ASPs are discussed in the "Operating Environment" section above.

### Cost of Sales

Cost of sales increased by 9.8% from RMB3,574.1 million for the year ended 31 December 2017 to RMB3,926.0 million for the year ended 31 December 2018. The increase is primarily due to the increase in costs of coal, raw materials, staff and environmental related expenses mentioned below.

Coal costs were stable in the PRC over the previous 12 months. The average cost per ton of coal increased slightly by approximately 3.5% to approximately RMB508 per ton from approximately RMB491 per ton in 2017. This has resulted in a cost increase of approximately RMB3.8 per ton of total cement and clinker produced, with total coal costs increased by approximately 2.1% as compared with that of 2017.

Raw materials costs were increasing as a result of the increase in transportation costs and supplier prices under the more stringent environmental policy implemented during the year and increase in the number of such policies. Moreover, the average cost per ton of limestone increased by approximately 23.6% to approximately RMB17.3 per ton from approximately RMB14.0 per ton in 2017 since more limestone were outsourced upon the temporary closure of some of our limestone mines for the environmental examinations conducted by the government officials. As a result of the above, cost increased by approximately RMB3.0 per ton of total cement and clinker produced, with total raw materials costs increased by approximately 1.3% as compared with that of 2017.

The Group reviewed and increased the staff salaries, which have been frozen for few years, as a result of the improving operating results during the year. This has resulted in a cost increase of approximately RMB2.7 per ton of total cement and clinker produced, with total staff costs increased by approximately 17.7% as compared with that of 2017.

During the year, as a result of the tightened environmental policy, certain additional environmental related expenses, i.e. sewage fees, environmental protection fee, safety fees and maintenance funds, were charged by the government. This has mainly resulted in a cost increase of approximately RMB8.4 per ton of total cement and clinker produced, with total other costs increased by approximately 54.2% as compared with that of 2017.

There have been no significant changes in the costs of electricity and depreciation during the year.

**Gross Profit and Gross Profit Margin**

Gross profit increased by RMB799.9 million, or 67.5%, from RMB1,185.9 million for the year ended 31 December 2017 to RMB1,985.8 million for the year ended 31 December 2018. The increase in gross profit was mainly due to the increase in ASPs as described above. Gross profit margins therefore increased from 24.9% for the year ended 31 December 2017 to 33.6% for the year ended 31 December 2018.

**Impairment losses, net of reversal**

The amount of impairment losses (net of reversal) decreased by 83.3% from RMB50.4 million for the year ended 31 December 2017 to RMB8.4 million for the year ended 31 December 2018.

In 2017, the impairment loss on inventory of RMB25.5 million was recorded as some spare parts in inventory became obsolete and were disposed after production technical upgrades made to meet the environmental policy requirement of the PRC government. Moreover, the impairment loss on mining rights in the amount of RMB17.8 million was recorded as one of the Group's subsidiary was informed by the local government that its mining permits of certain ore mines expired in 2017 and would not be renewed due to the rearrangement of local development plan. In 2018, there was no such impairment which led to the material decrease in the balance.

**Administrative and Selling & Marketing Expenses**

Administrative expenses primarily included staff costs, general administrative expenses, depreciation and amortization. The amount increased by 26.5% from RMB266.2 million for the year ended 31 December 2017 to RMB336.7 million for the year ended 31 December 2018. As mentioned in the cost of sales analysis above, it was mainly due to the increase in the maintenance and greening expenses of the plants and staff quarters under the tightened environmental policy as well as the increase in the sales bonus and staff salaries under the improved operating results during the year.

Selling & marketing expenses increased by 9.5% from RMB49.4 million to RMB54.1 million as compared with 2017, which was also mainly due to the abovementioned increase in the staff salaries.

**Other Expenses**

Other expenses in 2017 represents a payment of RMB9.1 million made by the Company to the tax authority settling for a former shareholder ("Former Shareholder") of a wholly owned subsidiary of the Group, YaoWangShan Cement Co., Ltd. ("Yaowangshan"), in relation to the Former Shareholder's individual income tax accrued from his disposal of 100% equity interest in Yaowangshan to the immediate previous shareholder of Yaowangshan, before the 100% equity interest of Yaowangshan was disposed by the immediate previous shareholder to the Group in 2015. Both the Former Shareholder and immediate previous shareholder of Yaowangshan are independent third parties to the Group and the Group has no past obligating events for settling the payment. The Board has resolved to take legal action to claim the Former Shareholder for the said amount paid to the PRC tax authority.

**Other Income**

Other income comprises VAT refunds, which is a form of government incentive for the recycling of industrial waste as a production input, and other government subsidies. Other income increased by approximately 51.7% from RMB226.8 million for the year ended 31 December 2017 to RMB344.0 million for the year ended 31 December 2018, mainly due to the increase in VAT rebates. The ratio of VAT rebates over revenue was 5.3% for the year (2017: 4.5%). The rise in the VAT rebates was mainly due to the rises in ASPs, with higher ASPs resulting in higher output VAT which in turn results in higher net VAT and rebates as well as the increase in the ratio of cement produced by using recycled industrial waste. VAT rebates increased by approximately 49.0% to RMB316.2 million as compared with that of 2017.

**Other Gains and Losses**

Other losses increased by RMB370.3 million from gains of RMB136.5 million for the year ended 31 December 2017 to losses of RMB233.8 million for the year ended 31 December 2018.

The increase was mainly due to the effect of two main factors. Firstly, there was an increase of an unrealized foreign exchange loss by RMB284.9 million to RMB127.6 million relating to the Group's Senior Notes, as a result of the depreciation of the RMB against the USD in 2018, as compared with a gain of RMB157.3 million for the year ended 31 December 2017. Secondly, the Group donated RMB80.0 million (2017: Nil) to Yaobai Education Assistance Foundation which was newly established in 2018, to sponsor deprived students for college education.

**Interest Income**

Interest income increased by RMB106.9 million from RMB33.7 million for the year ended 31 December 2017 to RMB140.6 million for the year ended 31 December 2018. The increase was mainly due to the increase in the interest income arising from the finance leasing business of RMB127.8 million (2017: RMB21.1 million) which was established during 2017.

### Finance Costs

Finance costs decreased by RMB20.7 million, or 8.3%, from RMB249.5 million for the year ended 31 December 2017 to RMB228.8 million for the year ended 31 December 2018. The decrease was mainly due to the repayment of the short-term notes during the year.

### Income Tax Expense

Income tax expenses increased by RMB203.6 million, or 82.1%, from RMB248.0 million for the year ended 31 December 2017 to RMB451.6 million for the year ended 31 December 2018. Current income tax expense increased by RMB235.9 million to RMB442.3 million, whereas deferred tax expense decreased by RMB32.3 million to RMB9.3 million for the year ended 31 December 2018. The increase is primarily due to the increase in the current income tax as a result of the significant increase in the Group's profit margins arising from the increase in ASPs during the year.

The detailed income tax expenses for the Group are outlined in Note 9 to the consolidated financial statements above.

### Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company improved from RMB710.8 million for the year ended 31 December 2017 to RMB1,159.4 million for the year ended 31 December 2018. This significant increase is primarily due to the increase in VAT rebates as well as the increase in gross profit due to the increase in ASPs as mentioned above.

Basic earnings per share for the year ended 31 December 2018 improved from earnings per share of RMB13.1 cents for the year ended 31 December 2017 to earnings per share of RMB21.3 cents for the year ended 31 December 2018.

## FINANCIAL AND LIQUIDITY POSITION

As at 31 December 2018, the Group's total assets increased by 6.2% to RMB12,392.1 million (2017: RMB11,671.9 million) while total equity increased by 14.6% to RMB7,599.0 million (2017: RMB6,628.7 million).

As at 31 December 2018, the Group had cash and cash equivalents, as well as restricted bank deposits, amounting to RMB1,075.1 million (2017: RMB1,452.4 million). After deducting total borrowings, Senior Notes and short term notes ("STN") of RMB3,051.6 million (2017: RMB3,740.1 million), the Group had net debt of RMB1,976.5 million (2017: RMB2,287.7 million). 81.5% (2017: 73.1%) of borrowings are at a fixed interest rate. Moreover, the Group also held loan receivables of RMB1,692.7 million (2017: RMB844.1 million) at fixed interest rates. Please refer to notes 11, 13, 14, 15 and 17 to the consolidated financial statements above for the details of the loan receivables, borrowings, Senior Notes, STN and the respective pledge of assets.

As at 31 December 2018, the Group's net gearing ratio, measured as net debt to equity, was 26.0% (2017: 34.5%).

Consistent with industry norms, the Group continuously monitors its gearing ratio and manages its capital to optimise the cost of capital and to safeguard the Group's ability to continue as a going concern. As at 31 December 2018, the Group had net current liabilities of RMB1,468.4 million (2017: net current assets of RMB853.6 million). This net amount includes RMB2,188.0 million of Senior Notes, which will be matured in September 2019 and is classified as current liabilities. The Group has unutilised loan facilities totalling RMB469.2 million readily available for drawdown. In addition, the Group has obtained a loan facility to issue on its demand a 3-year medium-term note of RMB1,500 million by 4 March 2019. Taking account of operating and availability of loan facilities, the Group is able to operate within the level of its current capacity.

During the year, there was no material change in the Group's funding and treasury policy.

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities.

## CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure, measured as the additions of property, plant and equipment, prepaid lease payments and mining rights, for year ended 31 December 2018 amounted to RMB887.4 million (2017: RMB383.5 million). Capital commitments as at 31 December 2018 amounted to RMB127.4 million (2017: RMB202.0 million). Both capital expenditure and capital commitments were mainly related to the construction of new aggregates production facilities and upgrading of existing production facilities. The Group has funded these commitments from operating cash flow and available banking facilities.

## EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2018, the Group employed a total of 5,363 (2017: 4,398) full-time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2018, employees benefit expenses were RMB437.4 million (2017: RMB340.1 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive compensation in the form of salaries, bonuses and other allowances.

## MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no significant material acquisitions or disposals during the year ended 31 December 2018.

## FOREIGN EXCHANGE RISK MANAGEMENT

During the year ended 31 December 2018, the Group's sales, purchases, loans receivables and bank borrowings were all denominated in Renminbi. However, the proceeds raised through the Senior Notes issued by the Company in September 2014 were denominated in foreign currency. Renminbi is not a freely convertible currency. Future exchange rates of the Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes on a domestic and/or international level, and the demand and supply of the Renminbi. The appreciation or devaluation of the Renminbi against foreign currencies may have an impact on the operating results of the Group. The Group currently does not maintain a foreign currency hedging policy. However, the management team of the Company will continue to monitor foreign exchange exposure and will consider hedging its foreign currency exposure should the need arise.

## CREDIT RISK MANAGEMENT

The Group's credit risk is primarily attributable to its trade receivables and loan receivables. It is the risk of loss arising from a customer's, a lessee's or counterparty's inability to meet its obligations.

The Group has made various efforts to control credit risks. In accordance with the policy of the Group, it will only enter into transactions with recognized and creditworthy customers, lessees and counterparties. In respect of its financial leasing business, it would examine and verify the credit risk of all lessees and counterparties that the Group has financial leasing, factoring and entrusted loan arrangements with. In respect of its main cement business, it would carry out credit assessment before entering into contracts with its customers and build credit records of its customers, in order to mitigate credit risk and reduce the overdue receivables.

In addition, the Group will also carry out regular reviews on the trade receivables and loan receivables balances and will write off bad debts, if any. The maximum exposure to credit risk arising from its financial leasing business equals to the carrying amount of the loan receivables.

## DIVIDENDS

At the Board meeting held on 18 March 2019, the Directors proposed to recommend the payment of a final dividend of RMB0.014 per ordinary share for the year ended 31 December 2018.

The final dividend of RMB0.014 per ordinary share is subject to approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 17 May 2019 (Friday), and will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on 27 May 2019 (Monday).

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 17 May 2019 (Friday). A notice convening the annual general meeting will be despatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

## CLOSURE OF REGISTER OF MEMBERS

In order to be eligible for attending and voting at the forthcoming annual general meeting of the Company to be held at 17 May 2019 (Friday), all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 10 May 2019 (Friday). The register of members of the Company will be closed from 14 May 2019 (Tuesday) to 17 May 2019 (Friday), both days inclusive, during which period no transfer of shares will be registered.

In addition, for the purpose of determining shareholders who qualify for the final dividend, the register of members will be closed from 24 May 2019 (Friday) to 27 May 2019 (Monday), both dates inclusive. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 23 May 2019 (Thursday). Subject to shareholder's approval of the proposed final dividend at the annual general meeting to be held on 17 May 2019 (Friday), the final dividend will be paid on or around 31 July 2019 (Wednesday) to shareholders whose names appear on the register of members of the Company at the close of business on 27 May 2019 (Monday).

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency of the Company. The Board will continue to review and improve the corporate governance practices from time to time to ensure the Group is led by an effective Board in order to optimize returns for the shareholders of the Company.

Code provision A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code") provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Qin Hongji, non-executive Director and Mr. Wong Kun Kau, independent non-executive Director, were unable to attend the Company's annual general meeting held on 18 May 2018 due to other business engagements.

Save as disclosed above, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code and Corporate Governance Report (the "Code") as set forth in Appendix 14 of the Listing Rules during the year ended 31 December 2018.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by the directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors. Specific enquiries have been made with all the Directors and each of them has confirmed and declared that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

## PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

On 23 November 2018 and 28 December 2018, the Company redeemed an aggregate principal amount of US$50 million and US$30 million, respectively, of the 6.5% Senior Notes Due 2019 ("2019 Senior Notes") issued in the principal amount of US$400 million by the Company on 4 September 2014, at a redemption price equal to 101.625% of the principal amount thereof together with all accrued and unpaid interest. The redeemed 2019 Senior Notes were cancelled. The aggregate outstanding principal amount of the 2019 Senior Notes was US$320 million as at 31 December 2018.

During the year ended 31 December 2018, save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established in compliance with Rules 3.21 and Rules 3.22 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and monitor the financial reporting and internal control principles of the Company and to assist the Board to fulfill its responsibilities over audit. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. Wong Kun Kau and Mr. Tam King Ching Kenny. Mr. Lee Kong Wai Conway is the chairman of the Audit Committee. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2018.

## SCOPE OF WORKS OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Company (www.westchinacement.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and will be made available on the abovementioned websites in due course.

By Order of the Board
**West China Cement Limited**
**Zhang Jimin**
*Chairman*

Hong Kong, 18 March 2019

*As at the date of this announcement, the executive Directors are Mr. Zhang Jimin and Dr. Ma Weiping, the non-executive Directors are Mr. Ma Zhaoyang, Ms. Liu Yan and Mr. Qin Hongji and the independent non-executive Directors are Mr. Lee Kong Wai, Conway, Mr. Wong Kun Kau and Mr. Tam King Ching, Kenny.*

* *For identification purposes only*