西部水泥

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)

2021 Interim Results Announcement

Financial highlights

RMB' Million (unless otherwise specified)	**Six months ended 30 June 2021 (Unaudited)**	Six months ended 30 June 2020 (Unaudited)	% Change
Total Cement and Clinker Sales Volume (million tons)	**10.30**	8.39	22.8%
Cement Sales Volume (million tons)	**10.09**	8.24	22.5%
Aggregates Sales Volume (million tons)	**2.00**	1.35	48.1%
Commercial Concrete sales volume (million cubic meters)	**0.76**	0.59	28.8%
Revenue	**4,232.9**	3,008.7	40.7%
Gross Profit	**1,343.7**	1,047.6	28.3%
EBITDA[(1)]	**1,665.9**	1,360.4	22.5%
Profit Attributable to Owners of the Company	**1,056.1**	752.3	40.4%
Basic Earnings Per Share	**19.4 cents**	13.8 cents	40.6%
Gross Profit Margin	**31.7%**	34.8%	(3.1 p.pt)
EBITDA Margin	**39.4%**	45.2%	(5.8 p.pt)

	30 June 2021	31 December 2020	% Change
	(Unaudited)	(Audited)	
Total Assets	**22,135.5**	18,906.2	17.1%
Net Debt[(2)]	**3,365.7**	2,237.0	50.5%
Net Gearing[(3)]	**30.2%**	21.2%	9.0 p.pt
Net Assets Per Share	**205 cents**	194 cents	5.7%

Notes:

(1) EBITDA equals to profit before tax plus finance costs, depreciation and amortisation, share-based payments and impairment losses less net foreign exchange gains, gain on disposal of an associate and interest income.

(2) Net debt equals to bank borrowings and medium-term notes less bank balances and cash, as well as restricted/pledged bank deposits.

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

The board of directors (the "Board") of West China Cement Limited (the "Company" together with its subsidiaries, the "Group") is pleased to announce the Group's interim results for the six months ended 30 June 2021 together with the comparative figures for the corresponding period of 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*2*	**4,232,906**	3,008,741
Cost of sales		**(2,889,159)**	(1,961,117)
Gross profit		**1,343,747**	1,047,624
Other income		**127,756**	123,256
Selling and marketing expenses		**(49,981)**	(26,229)
Administrative expenses		**(246,633)**	(184,194)
Other expenses		**(14,283)**	(43,284)
Other gains and losses, net		**326,424**	(7,350)
Impairment loss under expected credit loss model, net of reversal		**(86,702)**	(60,661)
Share of profit of an associate		**1,904**	8,091
Interest income		**96,388**	102,091
Finance costs		**(116,509)**	(73,697)
Gain on disposal of an associate		**79,254**	–
Profit before tax		**1,461,365**	885,647
Income tax expense	*3*	**(241,655)**	(108,755)
Profit for the period	*4*	**1,219,710**	776,892

	Notes	Six months ended 30 June **2021** ***RMB'000*** **(Unaudited)**	 2020 *RMB'000* (Unaudited)
Other comprehensive income for the period			
Item that will not be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**44,991**	–
Total comprehensive income for the period		**1,264,701**	776,892
Profit for the period attributable to:			
— Owners of the Company		**1,056,068**	752,251
— Non-controlling interests		**163,642**	24,641
		1,219,710	776,892
Total comprehensive income attributable to:			
— Owners of the Company		**1,087,420**	752,251
— Non-controlling interests		**177,281**	24,641
		1,264,701	776,892
Earnings per share			
— Basic (RMB)	*5*	**0.194**	0.138
— Diluted (RMB)	*5*	**0.194**	0.138

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2021

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment		**12,775,387**	11,161,110
Right-of-use assets		**810,708**	643,185
Mining rights		**850,352**	539,903
Other intangible assets		**212,250**	208,186
Investment in an associate		**–**	77,643
Loan receivables	6	**533,404**	524,091
Deferred tax assets		**46,890**	42,673
Prepayments for right-of-use assets		**67,628**	100,278
Prepayments for mining rights		**9,500**	49,170
Deposits paid for acquisition of property, plant and equipment		**162,427**	199,497
Deposits paid for acquisition of subsidiaries		**185,200**	85,200
Other deposits		**2,069**	23,123
Equity investment at fair value through profit or loss		**141,660**	–
Investment in entrusted product		**–**	81,855
		15,797,475	13,735,914
Current assets			
Inventories		**965,961**	731,434
Trade and other receivables and prepayments	7	**2,647,861**	1,748,635
Loan receivables	6	**783,442**	1,214,955
Investment in entrusted product		**81,855**	–
Structured deposits		**–**	100,000
Restricted/pledged bank deposits		**733,636**	723,831
Bank balances and cash		**1,125,272**	651,463
		6,338,027	5,170,318
Current liabilities			
Bank borrowings	8	**2,721,036**	1,878,894
Trade and other payables	9	**2,838,593**	2,734,518
Medium-term notes		**504,701**	–
Dividend payable		**652,666**	8,000
Contract liabilities		**321,582**	260,594
Income tax payable		**83,246**	63,698
		7,121,824	4,945,704
Net current (liabilities) assets		**(783,797)**	224,614
Total assets less current liabilities		**15,013,678**	13,960,528

	Notes	**30 June 2021** *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Non-current liabilities			
Bank borrowings	*8*	**1,262,931**	600,548
Medium-term notes	*10*	**735,908**	1,232,842
Asset retirement obligation		**351,762**	347,413
Deferred tax liabilities		**83,124**	78,701
Deferred income		**410,208**	35,301
Amount due to a non-controlling shareholder of a subsidiary		**–**	1,138,506
Other long-term payables		**1,026,719**	–
		3,870,652	3,433,311
Net assets		**11,143,026**	10,527,217
Capital and reserves			
Share capital		**141,837**	141,837
Share premium and reserves		**10,623,719**	10,188,965
Equity attributable to owners of the Company		**10,765,556**	10,330,802
Non-controlling interests		**377,470**	196,415
Total equity		**11,143,026**	10,527,217

NOTES:

1. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs") and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IFRS 16	*Covid-19-Related Concessions*
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*

The application of the amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. REVENUE AND SEGMENT INFORMATION

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Types of products and services		
Sales of cement and related products	**3,747,126**	2,921,648
Trading of cement-related raw materials	**430,288**	31,455
Others	**55,492**	55,638
	4,232,906	3,008,741

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

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Geographical markets		
Central Shaanxi	**2,053,385**	1,424,993
Southern Shaanxi	**1,167,908**	1,054,531
Xinjiang	**592,619**	379,326
Guizhou	**171,712**	149,891
Overseas	**247,282**	–
	4,232,906	3,008,741

The proportion of the Group's non-current assets located in the PRC by locations of assets is 85% as at 30 June 2021 (31 December 2020: 84% located in the PRC). The remaining 15% of non-current assets were located in Africa (31 December 2020: 16%).

Revenue is recognised at a point in time when control of the goods has been transferred to customers, being at the point the goods are delivered to customers. The normal credit term is 90 to 180 days upon delivery. No further disaggregation of revenue is presented.

No single customer contributed 10% or more to the Group's revenue for both periods.

3. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
— PRC enterprise income tax ("EIT")	**140,972**	138,294
— Withholding tax	**67,294**	26,836
	208,266	165,130
Under (over) provision in prior years		
— PRC EIT	**11,998**	(81,320)
Deferred tax		
Current period	**21,391**	29,086
Attributable to change in tax rate	**–**	(4,141)
	21,391	24,945
Income tax expense	**241,655**	108,755

4. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation and amortisation:		
Depreciation of property, plant and equipment	**485,710**	404,102
Depreciation of right-of-use assets	**6,658**	7,248
Amortisation of mining rights	**10,258**	10,707
Amortisation of other intangible assets	**851**	1,741
Total depreciation and amortisation	**503,477**	423,798
Recognised in cost of sales	**(42,946)**	(44,562)
Capitalised in inventories	**(422,559)**	(339,906)
	37,972	39,330
Staff costs (including directors' emoluments)		
Wages and salaries	**402,534**	302,864
Defined contribution retirement plan expenses *(Note)*	**27,640**	4,754
Total staff costs	**430,174**	307,618
Recognised in cost of sales	**(9,817)**	(12,050)
Capitalised in inventories	**(261,586)**	(180,406)
	158,771	115,162
Net allowance for (reversal of) credit losses recognised in respect of:		
Loan receivables	**52,330**	55,394
Trade receivables	**34,379**	5,328
Other receivables	**(7)**	(61)
Donation (included in other expenses)	**1,584**	23,396
Legal and professional fees (included in other expenses)	**12,699**	19,888

Note:

During the outbreak of COVID-19 in the prior interim period, the Group received support from the PRC government and the payment of social welfare pension amounting to RMB20,615,000 was waived by the PRC government. No such waive was granted by the PRC government in the current interim period.

5. 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:

	Six months ended 30 June	
	2021	2020
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,056,068**	752,251

	Six months ended 30 June	
	2021	2020
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,438,883**	5,435,638
Effect of dilutive potential ordinary shares from share options issued by the Company	**5,671**	8,841
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,444,554**	5,444,479
Basic earnings per share	**RMB0.194**	RMB0.138
Diluted earnings per share	**RMB0.194**	RMB0.138

The computation of diluted earnings per share for the six months ended 30 June 2021 and 2020 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 periods.

6. LOAN RECEIVABLES

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Loans collateralised by property, plant and equipment *(Note a)*	**862,089**	1,111,189
Entrusted loan *(Note b)*	**100,000**	200,000
Loans collateralised by receivables *(Note b)*	**458,800**	473,800
Small loans *(Note c)*	**59,604**	65,374
	1,480,493	1,850,363
Less: allowance for credit losses	**(163,647)**	(111,317)
	1,316,846	1,739,046
Analysed as:		
Current	**783,442**	1,214,955
Non-current	**533,404**	524,091
	1,316,846	1,739,046

Notes:

(a) As at 30 June 2021 and 31 December 2020, the Group has entered into certain arrangements (the "Arrangements") with third parties for periods ranging from 1 to 4 years under which:

(i) The third parties transferred the ownership titles of certain of their 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 involving a legal form of a lease, the Group accounted for the Arrangements as collateralised loans in accordance with the financial arrangement under IFRS 9 prior to 1 January 2019. Upon application of IFRS 16, the Group continues to recognise loan receivables within the scope of IFRS 9 as the transfer does not satisfy the requirement of IFRS 15 as a sale. 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 the contractual terms. All principal are receivable upon maturity dates.

(c) Balance represents the small loans provided to small and medium sized enterprises or individuals. The interests are receivable periodically according to the contractual terms with fixed interest rate with principal to be collected on maturity dates or by instalments.

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

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Within one year	**783,442**	1,214,955
In more than one year but not more than two years	**533,404**	524,091
	1,316,846	1,739,046

The ranges of effective rates on the Group's loan receivables was 8% to 15% per annum as at 30 June 2021 (31 December 2020: 10% to 15% per annum).

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

7. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Trade receivables	**1,125,256**	778,993
Trade receivables backed by bills	**505,890**	539,557
	1,631,146	1,318,550
Less: allowance for credit losses	**(95,355)**	(62,276)
	1,535,791	1,256,274
Other receivables	**278,420**	177,713
Less: allowance for credit losses	**(4,402)**	(4,409)
	274,018	173,304
VAT recoverables	**332,068**	231,275
VAT refund receivables	**40,819**	20,841
Dividend receivable from associate	**–**	12,000
Dividend receivable from equity investment at FVTPL	**3,032**	–
Prepayments	**76,202**	78,064
Deposit paid for land use rights for properties for sale *(Note)*	**388,000**	–
	2,649,930	1,771,758
Less: Non-current portion of other deposits (included in "Other receivables" above)	**(2,069)**	(23,123)
	2,647,861	1,748,635

Note: The amount represented tender deposits, amounting to RMB388,000,000 (2020: Nil), paid for public land auction of property development project in the PRC. At 30 June 2021, the Group has secured the tender and is in the process of obtaining the land use right certificate.

All bills received by the Group are due within 1 year from the issuance date of the bills.

The following is an aged analysis of trade receivables, excluding bills held by the Group, presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 90 days	**565,523**	293,632
91 to 180 days	**156,954**	193,677
181 to 360 days	**217,785**	182,348
361 to 720 days	**171,461**	95,224
Over 720 days	**13,533**	14,112
	1,125,256	778,993

As at 30 June 2021, total bills received amounting to RMB299,505,000 (31 December 2020: RMB493,764,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred substantially all the risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables and the corresponding trade payables.

8. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting RMB2,959,695,000 (six months ended 30 June 2020: RMB1,467,148,000) and made repayments amounting to RMB1,448,541,000 (six months ended 30 June 2020: RMB499,000,000). The borrowings carry annual interest rates ranging from 2.98% to 8.00% per annum as at 30 June 2021 (31 December 2020: 0.70% to 8.00% per annum) and are repayable between 2021 and 2028.

9. TRADE AND OTHER PAYABLES

As at 30 June 2021, included in trade payables are bills amounting to RMB223,500,000 (31 December 2020: RMB121,500,000) which are issued by the Group to settle trade payables.

The following is an aged analysis of trade payables (excluding those bills transferred by the Group for settlement which are due within six months to one year based on the issuance date) presented based on the date of delivering of goods at the end of the reporting period.

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 to 90 days	**1,055,168**	909,144
91 to 180 days	**313,356**	376,923
181 to 360 days	**196,568**	379,245
361 to 720 days	**55,004**	38,455
Over 720 days	**20,005**	11,506
	1,640,101	1,715,273

10. MEDIUM-TERM NOTES

	30 June 2021 *RMB'000* **(Unaudited)**	31 December 2020 *RMB'000* (Audited)
Current	**504,701**	–
Non-current	**735,908**	1,232,842
	1,240,609	1,232,842

On 30 April 2019, 堯柏特種水泥集團有限公司 Shanxi Yaobai Special Cement Co., Ltd* (Yaobai Special Cement), a subsidiary of the Group, registered with National Association of Financial Market Institutional Investors of the PRC to issue medium-term notes with an aggregate amount of RMB1,500,000,000.

On 5 May 2019, the first tranche of the medium-term note with principal amount of RMB500,000,000 ("First Tranche of the Medium-term Note") was issued at an interest rate of 7.50% per annum. First Tranche of the Medium-term Note is unsecured with maturity of three years and carries effective interest rate of approximately 7.58% per annum after adjusted for transaction costs of RMB4,500,000.

On 2 September 2020, the Group issued the second tranche of the medium-term note with principal amount of RMB700,000,000 ("Second Tranche of the Medium-term Note") which carry interest of 7% per annum with maturity date of three years from the date of 4 September 2020. The Second Tranche of the Medium-term Note carries effective interest rate of approximately 7.11% per annum after adjusted for transaction costs of RMB6,300,000.

As at 30 June 2021, the First Tranche of Medium-term Note is due to be repaid within one year and is reclassified as current liabilities.

* *The English name is for identification purpose*

11. DIVIDENDS

During the six months ended 30 June 2021, a final dividend of RMB8.6 cents per ordinary share in respect of the year ended 31 December 2020 (six months ended 30 June 2020: RMB6.3 cents per share in respect of the year ended 31 December 2019) in total of approximately RMB467,744,000 (six months ended 30 June 2020: RMB342,622,000) and a special dividend of RMB3.4 cents per ordinary share, in an aggregate of RMB184,922,000 (six months ended 30 June 2020: Nil) with an aggregate total of RMB652,666,000, was declared and approved by the shareholders in the annual general meeting.

The directors of the Company have determined that no dividend will be paid in respect of current and prior interim period.

12. PLEDGE OF ASSETS

At the end of each reporting period, certain assets of the Group were pledged to secure trade facilities and banking facilities granted to the Group. The aggregate carrying amount of the pledged assets at the end of each reporting period is as follows:

	30 June 2021	31 December 2020
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**3,698,253**	2,815,916
Trade receivables	**3,851**	21,600
Right-of-use assets	**91,407**	88,202
Pledged bank deposits	**586,080**	565,434
	4,379,591	3,491,152

The Group pledged its equity interests in three subsidiaries, 漢中勉縣堯柏水泥有限公司 Hanzhong Mianxian Yaobai Cement Co., Ltd*, 商洛堯柏秀山水泥有限公司 Shangluo Yaobai Xiushan Cement Co., Ltd* and 貴州麟山水泥有限責任公司 Guizhou Linshan Cement Co., Ltd*, to a bank to secure a banking facility totaling RMB400,000,000 for a period of one year of which borrowing of RMB328,000,000 has been drawn down as at 30 June 2021. The pledge will be released upon the repayment of the borrowing to the bank.

* *The English name is for identification purpose*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

West China Cement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") faced a stable operating environment in the first half of 2021. Sales volumes in Shaanxi Province were improving with an increase of 16.9%. Sales volumes in Xinjiang and Guizhou Provinces have also recorded a 47.4% increase and a 6.7% increase, respectively. The Group's sales volumes of cement and clinker for the six months ended 30 June 2021 were 10.30 million tons, representing a stable increase from 8.39 million tons recorded in the first half of 2020.

Since the impact of the coronavirus disease 2019 ("COVID-19") outbreak was mitigating during the period, average selling prices ("ASPs") in Southern Shaanxi, Central Shaanxi, Guizhou and Xinjiang were improving. Moreover, the Group has continued to implement efficiency enhancements and cost-cutting measures and has been able to maintain a stable cost in the first half of 2021. Overall, the Group's margins remained stable in the first half of 2021. The Group has maintained healthy and stable cash flows, with EBITDA of RMB1,665.9 million for the first half of 2021, which is higher than the RMB1,360.4 million recorded in the first half of 2020.

As at 30 June 2021, the Group had a total production capacity of 29.0 million tons, comprising 17 new suspension preheater ("NSP") cement production lines, with 21.7 million tons in Shaanxi Province, 3.5 million tons in Xinjiang Province, 1.8 million tons in Guizhou Province and 2.0 million tons in Mozambique, Africa. Moreover, the Group had total production capacities of 15.0 million tons of aggregates and 9.8 million cubic meters of commercial concrete.

Operating Environment

In the first quarter of 2021, the impact of the COVID-19 outbreak was mitigating. The PRC government continued to closely coordinate the pandemic prevention and control as well as the economic work. The performance of infrastructure investment continued to improve, while that of property investment remained stable, maintaining the continuous solid support in the demand of cement. Furthermore, in order to control air pollution and preserve the blue sky, the environmental management of atmospheric pollution did not relax and the local environmental control became more stringent. As a result, the effect of various policies such as peak-shifting production halts and mine comprehensive regulation are more and more favorable to balancing the supply and demand of the cement industry.

Shaanxi Province as a whole has seen a stable Fixed Asset Investment ("FAI") and Real Estate Development Investment ("RDI") growth rates in the first half of 2021. During the first half of 2021, the FAI and the RDI increased by 10.0% and 11.9% as compared with the corresponding period of 2020. The growth rates of both FAI and RDI have returned to normal level during the first half of 2021 as a result of the government's economic stimulating policies and the mitigating impact of the COVID-19 outbreak. The stable FAI and RDI growth rates have led to a stable demand for cement products from all producers in the Shaanxi Province. Accordingly, intense competition from the supply side is still a strong factor affecting the ASPs in Shaanxi Province, which continued to be balanced through the occasional peak-shifting production halts during low season periods under the stringent environmental policy.

Another important factor contributing to the Group's stable margins was the maintenance of a stable cost in the first half of 2021. This resulted from the Group's implementation of efficiency enhancements and cost-cutting measures.

Southern Shaanxi

The Group's operations and markets in Southern Shaanxi have remained reasonable and stable during the first half of 2021. The supply side has remained rational and stable, as a result of little new capacity and effective closure of obsolete and small-scale clinker kiln and cement grinding capacity over past 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.

During the first half of 2021, demand in this region has remained reasonable, supported by continued growth in railway and road infrastructure project construction. The Ankang to Langao Expressway, the Wuxi to Zhenping Expressway and the Micangshan Avenue Project, have been, amongst others, particularly important demand drivers; and the constructions of the Hanzhong to Bazhong to Nanchong Intercity Railway, the Lushi to Luanchuan Expressway, the Ningshan to Shiquan Expressway, the Xixia to Xichuan Expressway, the Lushi Ecological Corridor, the Chengkou Transportation Projects, the Shiyan to Wuxi Expressway, Kangxian to Lueyang Expressway, the Cangxi to Bazhong Expressway, the Chengkou to Kaizhou Expressway, the Yuehe Hydropower Station, the Xunyang Hydropower Station and the Tuxikou Reservoir have also supported the demand. Rural and urban development in Southern Shaanxi have continued to be supported by the Hanjiang to Weihe River Water Transport Project which have been important for both cement demand and development in this region.

Whilst sales volumes of cement in Southern Shaanxi have increased by approximately 13.7%, there have been a slight decrease in ASPs. During the first half of 2020, the Group has recorded cement ASPs in Southern Shaanxi of approximately RMB290 per ton (2020: RMB302 per ton) (excluding VAT), which is lower than the Group's overall ASPs of RMB319 per ton (2020: RMB315 per ton) (excluding VAT), with capacity utilization rate at approximately 75% (2020: 66%).

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 under the stringent environmental policy and the continuous recovery and expedited infrastructure construction demand as a result of the government's economic stimulating policies in response to the impact of the COVID-19 outbreak. Sales volume in Central Shaanxi still moderately improved even under the abovementioned continuing low demand scenario in the first half of 2021.

During the first half of 2021, the Group has continued to maintain its market share in Eastern Xi'an, Tongchuan District, 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 the Xi'an to Yan'an High-Speed Railway, the Huaneng Power — Coal Transportation Railway, the Hancheng to Huanglong Expressway, the Chengcheng to Weizhuang Expressway, the Beijing to Kuming Expressway, the Weizhuang to Luofu Expressway, the Yan'an East Ring Expressway, the Xi'an Metro/ Municipal Projects, the Dongzhuang Reservoir, the Hanjiang to Weihe River Water Transport Project (Phase II) and the Xianyang Airport. The largest project, Xixian Expressway-Southern Section, has consumed over 0.54 million tons of cement as at end of the first half of 2021.

Sales volumes in Central Shaanxi have moderately increased by approximately 19.8% and have been accompanied by increased ASPs. Over the period as a whole, the Group has recorded cement ASPs in Central Shaanxi of RMB319 per ton (2020: RMB316 per ton) (excluding VAT), which is same as the Group's overall ASP of RMB319 per ton (2020: RMB315 per ton) (excluding VAT), with capacity utilization rate at approximately 61% (2020: 51%).

Xinjiang & Guizhou Provinces

Operation at the Group's plant in Xinjiang Province has been improving in the first half of 2021. Sales volume in Xinjiang have increased by close to 47.4% to approximately 1.40 million tons (2020: 0.95 million tons). During the first half of 2021, both sales volume and ASPs in Xinjiang have increased as a result of the government's economic stimulating policies and the mitigating impact of the COVID-19 outbreak. The Group has recorded an increased cement ASPs at approximately RMB406 per ton (2020: RMB395 per ton) (excluding VAT), with capacity utilization rate at approximately 55% (2020: 46%).

In Guizhou Province, the Group's plant contributed approximately 0.64 million tons of cement to the total sales volume as compared to that of 0.60 million tons in the first half of 2020, which represented an increase of approximately 6.7%. During the first half of 2021, the Group has recorded cement ASPs in Guizhou of approximately RMB260 per ton (2020: RMB249 per ton) (excluding VAT), with capacity utilization rate at approximately 71% (2020: 67%). The ASPs was improving but still lower than that of prior years due to the imbalance between demand and supply as a result of the continuation of decreasing demand scenario. The sales volumes at the Huaxi Plant have already been better than other locations in Guizhou due to its location being in close proximity to Guiyang City and the Guiyang — Anshun ("Gui-An") New Area.

Energy Conservation, Emissions & Environmental Protection Solutions

The Group continues to work towards the highest industry standards with regards to energy conservation, emission controls and further development of environmental protection solutions. All of the Group's production facilities employ 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 is also the first cement producer in Shaanxi Province to use desulfurized gypsum and construction waste as raw material inputs to some of its cement products, and regularly recycle fly ash from power plants as well as slag from iron & steel plants as inputs to some of its cement products.

The Group has residual heat recovery systems installed at most of its production facilities. As at 30 June 2021, these systems are operated at 14 out of 17 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce carbon dioxide ("CO2") emissions by approximately 22,000 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 nitrous oxide ("NOx") emissions by approximately 60% per ton of clinker produced, so that NOx emissions at the Group's plants comply with 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 and also further reduced the emission of nitrogen oxide and the consumption of ammonia water through the implementation of de-nitration spray guns and automated technological innovation.

The Group's plants that are capable of treating dangerous and hazardous waste currently include (i) the Municipal Waste Treatment Facility at the Group's Fuping Plant ("Fuping Waste Treatment Facility"), which has been operating since March 2016; and (ii) 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 2021, the Group 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.

During the six months ended 30 June 2021, the Group has increased the investment in environmental protection, carried out ultra-low emission remodeling at its environmental treatment facilities, established an early warning platform for pollutants exceeding standards, and strictly controlled the concentration of pollutant emissions, so as to achieve the management goal of limiting and maintaining its pollutant emissions concentration below the national emission standard. In addition, the Group also regularly invites external online monitoring experts to conduct system checks on the Company's online monitoring equipment, and conduct comprehensive analyses of the equipment operation principle, monitoring principle and production system operation, so as to switch from equipment troubleshooting to fault prevention, thus reducing the equipment failure rate, improving the accuracy of online monitoring equipment measurements, and ensuring that the real-time monitoring and control of pollutants meets the national emission standards. Moreover, all plants in China were already refurbished as garden like plants in the preliminary stage and the Group will further develop the garden like plants to meet the environmental policy requirements. Green limestone mines projects, including soil reclamation and mine re-greening, have been already commenced construction to comply with the environmental policy. The Group will continue to implement the green mine projects 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.

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 2021, 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 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.

During the six months ended 30 June 2021, charitable donations made by the Group amounted to RMB1.6 million, including donations made in sponsoring deprived students for college education, and supporting education, sports and cultural events.

Material Acquisitions and Disposal

The Group had no material acquisitions or disposals during the six months ended 30 June 2021.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 40.7% from RMB3,008.7 million for the first half of 2020 to RMB4,232.9 million for the first half of 2021. Cement sales volume increased by 22.5%, from approximately 8.24 million tons for the first half of 2020 to approximately 10.09 million tons during the six months ended 30 June 2021. Including clinker sales, total sales volume for the first half of 2021 amounted to approximately 10.30 million tons, compared to the 8.39 million tons sold in the first half of 2020.

Overall cement prices in the first half of 2021 were slightly higher than those in the first half of 2020. Cement ASP for the first half of 2021 was RMB319 per ton as compared with RMB315 per ton in the first half of 2020. The reasons for these fluctuations in ASPs and sales volume are discussed in the "Operating Environment" section above.

Other than the above increase in cement sales revenue, the revenues arising from the sales of aggregates and commercial concrete increased by 28.2% and 15.6% to RMB68.1 million and RMB327.7 million, for the first half of 2021, respectively, which is primarily due to the net effect of decrease in prices by 12.8% and 13.3% and increase in the sales volumes by 48.1% and 28.8%, respectively.

Cost of Sales

Cost of sales increased by 47.3% from RMB1,961.1 million for the first half of 2020 to RMB2,889.2 million for the first half of 2021.

Coal costs were increasing in the PRC over the first half 2021 since the production and supply of coals were reduced as a result of the strengthening safety inspection efforts by the government during the Two Sessions (兩會) and the 1 July Party Foundation Day (七一建黨節). The average cost per ton of coal increased by approximately 35.9% to approximately RMB628 per ton from approximately RMB462 per ton in the first half of 2020. These have resulted in a cost increase of approximately RMB17.5 per ton of total cement produced, with total coal costs increased by approximately 39.4% as compared with that of the first half of 2020.

There is no material fluctuation in the average prices of raw materials. The average cost per ton of limestone remained stable at approximately RMB17.9 per ton for the first half of 2021 (2020: RMB17.9 per ton). Benefiting from the increase in efficiency gains, the raw materials costs decreased by approximately RMB4.1 per ton of total cement produced, while total raw materials costs increased by approximately 12.5% as compared with that of the first half of 2020 as a result of the increase in cement sales volume.

There is no material fluctuation in the average cost of electricity. Benefiting from the increase in efficiency gains, the electricity costs decreased by approximately RMB2.9 per ton of total cement produced, while total electricity costs increased by approximately 9.8% as compared with that of the first half of 2020 as a result of the increase in cement sales volume.

In prior period, the government promulgated policies on social insurance relief in response to the impact of the COVID-19 outbreak. In the first half of 2021, total staff costs returned to normal level without such preferential policies and thus increased by approximately 12.2%. Benefiting from the increase in efficiency gains, the staff costs decreased by approximately RMB1.0 per ton of total cement produced.

As to other items in the costs balance, the balance mainly represented certain environmental related expenses, i.e. sewage fee, environmental protection fee, charged by the government, and safety fee as well as overhaul expense. Other costs in total decreased by approximately 0.2% as compared with that of the first half of 2020. With the increase in cement sales volume, this resulted in a cost decrease of approximately RMB2.9 per ton of total cement produced.

There have been no significant changes in the cost of depreciation during the period. However, with the increase in cement sales volume, this resulted in a cost decrease of approximately RMB6.2 per ton of total cement produced.

Moreover, as mentioned in the revenue analysis above, as a result of the net effect of increase in the sales volumes and decrease in costs by 25.0% and 3.2%, the costs arising from the production of aggregates and commercial concrete also increase by 10.4% and 24.8% to RMB36.0 million and RMB280.3 million, for the first half of 2021, respectively.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB376.4 million, or 28.3%, from RMB1,047.6 million for the first half of 2020 to RMB1,343.7 million for the first half of 2021. The increase in gross profit was mainly due to the increase in ASPs and sales volume as described above. Gross profit margin decreased slightly from 34.8% for the first half of 2020 to 31.7% for the first half of 2021.

Other Income

Other income mainly comprises VAT refunds, which is a form of government incentive for the recycling of industrial waste as production input, and other government subsidies. Other income increased by approximately 3.6% from RMB123.3 million for the first half of 2020 to RMB127.8 million for the first half of 2021.

Administrative and Selling & Marketing Expenses

Administrative expenses primarily included staff costs, general administrative expenses, depreciation and amortization. The amount increased by 33.9% from RMB184.2 million for the first half of 2020 to RMB246.6 million for the first half of 2021. Selling & marketing expenses increased by 90.8% from RMB26.2 million to RMB50.0 million for the first half of 2021 as compared with that of 2020. The increase in these balances were mainly attributable to the following factors: (i) as mentioned in the cost of sales analysis above, in prior period, the government promulgated policies on social insurance relief in response to the impact of the COVID-19 outbreak. In the first half of 2021, total staff costs returned to normal level without such preferential policies; and (ii) the increase in the number of staff and all the other respective expenses as a result of the increase in production capacities, i.e. the Moyu Plant and the Mozambique Plant, commissioned in December 2020, as well as the Tongchuan Plant commissioned in June 2021, and the development of new businesses, such as trading of cement related raw materials, i.e. white ash and calcium oxide, as well as the production and the sale of packing bags and prefabricated building.

Other Expenses

Other expenses primarily included the donations and the legal and professional fee. The amount decreased by RMB29.0 million from RMB43.3 million for the first half 2020 to RMB14.3 million for the first half of 2021. The decrease was mainly due to the decrease in the donations to RMB1.6 million for the first half of 2021 (2020: RMB23.4 million) during the period. In the prior period, among the donations, RMB20.0 million was a one-off donation regarding the establishment of a school for deprived students.

Other Gains and Losses, net

Other gains increased by RMB333.8 million from losses of RMB7.4 million for the first half of 2020 to gains of RMB326.4 million for the first half of 2021. The increase was mainly due to the net effect of the following factors. Firstly, there were net foreign exchange gains mainly relating to the translation of the Group's other long term payable from USD to Meticals, the official currency of Mozambique and the translation of the intercompany balances between the subsidiaries with different functional currencies of RMB347.3 million for the first half of 2021 (2020: losses of RMB18.7 million was mainly related to the translation of senior notes from USD to RMB). Secondly, the impairment loss recognised on mining right of RMB20.8 million was recorded for the first half of 2021 (2020: Nil) as the government requested to close a mine in Lantian due to the environmental protection reason. Finally, there was a fair value loss of RMB17.1 million on an equity investment, which was acquired upon the disposal of an associate during the first half of 2021 (2020: Nil).

Impairment Loss Under Expected Credit Loss Model, Net of Reversal

The balance increased by RMB26.0 million from RMB60.7 million for the first half of 2020 to RMB86.7 million for the first half of 2021. The increase was mainly due to an increase in impairment loss on trade receivables to RMB34.4 million for the first half of 2021 (2020: RMB5.3 million) as a result of the downturn of the economy under the impact of the COVID-19 outbreak to certain clients.

Interest Income

Interest income decreased by RMB5.7 million from RMB102.1 million for the first half of 2020 to RMB96.4 million for the first half of 2021. The decrease was mainly due to the decrease in the interest income arising from the loan receivables business of RMB86.6 million recorded for the first half of 2021 (2020: RMB97.7 million) as a result of the decrease in loan receivables business.

Finance Costs

Finance costs increased by RMB42.8 million, or 58.1%, from RMB73.7 million for the first half of 2020 to RMB116.5 million for the first half of 2021. The increase was mainly due to the increase in the bank borrowings during the period.

Gain on Disposal of An Associate

During the period, the Group disposed of 20% interests in Yaobai Environmental Technology Engineering Co., Ltd. The disposal is made to a direct wholly-owned subsidiary of China Conch Ventures Holdings Limited ("China Conch Ventures"), a company listed on the Main Board of The Hong Kong Stock Exchange Limited. The Group received 5,206,349 shares issued by China Conch Ventures in return. This transaction has resulted in the Group recognising a gain on disposal of RMB79.3 million in profit or loss.

Income Tax Expense

Income tax expenses increased by RMB132.9 million from RMB108.8 million for the first half of 2020 to RMB241.7 million for the first half of 2021. Current income tax expense net of (over)/under provision increased by RMB136.5 million to RMB220.3 million for the first half of 2021 (2020: RMB83.8 million) , whereas deferred tax expenses decreased by RMB3.5 million to RMB21.4 million for the first half of 2021 (2020: RMB24.9 million).

In the prior period, as certain subsidiaries were entitled to enjoy a concession income tax rate of 15% instead of 25% in western region upon 2019 final settlement with relevant tax authorities, there was an increase in the utilisation of the overprovision in prior year, which led to the significant decrease in the current income tax expense. No such situation was recorded in the current period which led to the significant increase in the balance.

The detailed income tax expenses for the Group are outlined in note 3 to the condensed consolidated financial statements.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company increased from RMB752.3 million for the first half of 2020 to RMB1,056.1 million for the first half of 2021. This increase is primarily due to the increase in net foreign exchange gains and gain on disposal of an associate as mentioned above.

Basic earnings per share increased from RMB13.8 cents for the first half of 2020 to RMB19.4 cents for the first half of 2021.

FINANCIAL AND LIQUIDITY POSITION

As at 30 June 2021, the Group's total assets increased by 17.1% to RMB22,135.5 million (31 December 2020: RMB18,906.2 million) while total equity increased by 5.8% to RMB11,143.0 million (31 December 2020: RMB10,527.2 million).

As at 30 June 2021, the Group had bank balances and cash as well as restricted/pledged bank deposits and structured deposits, amounting to RMB1,858.9 million (31 December 2020: RMB1,475.3 million). After deducting bank borrowings and medium-term notes ("MTN") of RMB5,224.6 million (31 December 2020: RMB3,712.3 million), the Group had net debt of RMB3,365.7 million (31 December 2020: RMB2,237.0 million). 77.4% (31 December 2020: 68.2%) of borrowings are at a fixed interest rate. Moreover, the Group also held loan receivables of RMB1,316.8 million (31 December 2020: RMB1,739.0 million) at fixed interest rates. Please refer to notes 6, 8, 10 and 12 to the condensed consolidated financial statements for the details of the loan receivables, bank borrowings, MTN and the respective pledge of assets.

As at 30 June 2021, the Group has net current liabilities of RMB783.8 million. In July 2021, the Group has obtained Senior Notes amounting to approximately RMB3,876.1 million (United States Dollars ("US$") 600 million) for working capital and business expansion purposes with maturity date of five years from 9 July 2021. As at 30 June 2021, the Group has unutilised RMB300 million medium-term notes to issue in respect of the loan facility. In addition, The Group also has unutilised banking facilities for working capital purposes totalling RMB849.0 million readily available for drawdown within the next twelve months from the date of the approval of these condensed consolidated financial statements. Based on the Company's forecasts and projections of business performance, taking account of operating as well as capital expenditure and availability of the facilities, the directors of the Company are of the view that the Group is able to maintain its existing operation.

As at 30 June 2021, the Group's net gearing ratio, measured as net debt to equity, was 30.2% (31 December 2020: 21.2%). 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.

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

CONTINGENT LIABILITIES

As at 30 June 2021, the Group had no material contingent liabilities.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure, measured as the additions of property, plant and equipment, right-of-use assets and mining rights, for the first half of 2021 amounted to RMB1,764.5 million (2020: RMB1,073.8 million). Capital commitments as at 30 June 2021 amounted to RMB1,972.3 million (31 December 2020: RMB1,942.1 million). Both capital expenditure and capital commitments were mainly related to the maintenance and upgrading of existing production facilities, the capacity replacement projects as well as the construction of a new production facility in Mozambique. The Group has funded these commitments from operating cash flow and available banking facilities.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2021, the Group employed a total of 7,237 (2020: 6,264) full time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2021, employees benefit expenses were RMB430.2 million (2020: RMB307.6 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.

FOREIGN EXCHANGE RISK MANAGEMENT

During the six months ended 30 June 2021, the Group's sales, purchases, loans receivables, restricted/pledged deposit, bank balances and cash, medium-term notes and bank borrowings were mainly denominated in Renminbi. Moreover, the Group's other long term payable was denominated in United States Dollars and several intercompany balances between the subsidiaries were denominated in different functional currencies, i.e. Meticais. Renminbi and Meticais are not a freely convertible currency. Future exchange rates of the Renminbi and Meticais could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government and Mozambique 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 Renminbi and Meticais. The appreciation or depreciation of Renminbi and Meticais 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 recognised 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 provide for credit loss, if any. The maximum exposure to credit risk arising from its financial leasing business equals to the carrying amount of the loan receivables.

PROSPECTS

2021 marks the ground-breaking year of the "14th Five-Year Plan", in which the PRC government will adhere to the main theme of making progress while maintaining stability. Under the commencement of the new development stage, the new development concept will be upheld and a new development landscape will be constructed. Aiming to promote high-quality development, with deepening the supply-side structural reforms as the main line, and fundamentally driven by reform and innovation, it will consolidate and expand the results of pandemic prevention and control as well as economic and social development and steadily develop the "six stabilities" (六穩), fully implement the "six guarantees" (六保), and implement scientific and accurate macroeconomic policies which require proactive fiscal policies to be aimed at improving quality and efficiency and being more sustainable, and prudent monetary policies to be agile, precise and reasonable. It will persistently adopt the strategy of boosting domestic demand and high-level opening-up, focus on creating a smooth economic cycle, and strive to keep the economy operations within a reasonable range.

In 2021, the PRC government will increase effective investments and continue to support major construction projects which can boost regional coordinated development. It will speed up the construction of new infrastructure, drive investment demand with new urbanization, implement urban renovation actions, promote the transformation of decrepit urban communities, and promote the integrated development of city clusters and metropolitan areas; it will also accelerate the construction of a transportation powerhouse, and provide strong support for infrastructure investment. In respect of real estate, the PRC government adheres to the positioning of "houses are for inhabitation and not for speculation" to promote the healthy and stable development of the real estate market. However, with the introduction of new financing regulations for real estate enterprises and the continuous tightening of regulations, new construction in the real estate industry will face downward pressure, which may affect the demand for the cement market to a certain degree. At the same time, the PRC government will continue to make greater efforts on ecological and environmental treatment, strengthen the comprehensive treatment of air pollution, strive for peaking carbon emissions and carbon neutrality, and achieve the synergy of reducing pollution and carbon. The continuous normalization of off-peak production in the cement industry has a positive effect on mitigating supply contraction and absorbing excess capacity.

In respect of investment development, the Group will continue to steadily advance its international development. The Group will pursue the simultaneous development of new construction and mergers and acquisitions, actively seek development opportunities, accelerate the implementation of contracted projects and the construction of launched projects, and further improve the quality and achieve the greater effectiveness of projects that are under operation. The Group will continuously accelerate the extension of the upstream and downstream industrial chains. The Group will fully expand the aggregates industry, strengthen the operation and management of the projects and fully capitalize production capacity; and improve the commercial models for commercial concrete projects, thereby further expanding the industry scale. The Group will comprehensively summarize the experience of prefabricated construction projects and focus on strengthening market development, so as to ensure that its production and operation would gradually enter into a virtuous cycle.

In respect of operation management, the Group will pay close attention to the domestic and international macroeconomic situation, coordinate the promotion of pandemic prevention and control and production and operation management, seize the trend of the cement industry, and deeply research and assess on the market supply and demand situation, promote marketing model innovation, optimize logistics resource configuration, and strengthen the control over the end-user market. The Group will fully capitalize in the domestic and international markets and focus on the global resource allocation; continue to properly carry out the traceability and source control of bulk raw materials, deepen strategic cooperation with large-scale coal companies, pay great attention to the guaranteed supply of key resources, expand the development and use of the alternative resources, and strive to reduce the comprehensive procurement cost. The Group will also implement the "green building materials" strategy, increase investment in environmental protection, accelerate industry transformation and upgrade, promote energy-saving and emission-reducing technological transformation, and promote green and low-carbon development. The Group will intensify cooperation among industry, universities and research institutes, focus on research of forward-looking technologies, and establish a professional and high-end technology team; deeply promote the informatisation and industrialisation integration and accelerate the transformation of intelligent factory's results, and comprehensively enhance innovation as the driving force; optimize the internal management and control model, strengthen the construction of the talent team, enhance the incentive and appraisal mechanism, stimulate innovation and creativity of talents to drive the Company's high-quality development.

Operations — Shaanxi

Under the current macro economic conditions in the PRC and Shaanxi Province, the Group does not expect to see a significant increase in demand in the second half of 2021. Infrastructure demand is expected to grow reasonably and there are a number of major new projects that have commenced or will commence in 2021, but significant growth is not expected. Both urban property demand and rural demand is expected to remain stable with continued urbanisation trends supporting rural growth rates.

With regards to the supply side, the Group expects stable prices in the second half of 2021, both as a result of the limited supply under the increasingly stringent environmental policies imposed by the government.

In Central Shaanxi, the continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy is expected to remain an important feature and this can support ASPs. There are a number of infrastructure projects that have recently started or are expected to start construction in 2021, including the constructions of several Central Shaanxi Intercity Railways, the Linyou to Famen Temple Expressway, the Guxian Reservoir.

In Southern Shaanxi, the Group expects to maintain its relatively stable performance due to reasonable infrastructure construction activities and an already disciplined supply side. There are a number of infrastructure projects in Southern Shaanxi which have recently started or are expected to start construction in 2021, including the constructions of the High Speed Railways from Xi'an to Ankang and from Xi'an to Wuhan, the Danfeng to Ningshan Expressway, the Wuxi to Yunyang to Kaizhou Expressway, the Luoyang to Lushi Expressway and the Hengkou Reservoir. In addition, the Group expects to see substantial demand from a number of new railways and expressways in 2022 and 2023, including the constructions of, the High Speed Railway from Lanzhou to Hanzhong to Shiyan and the Yangxian to Xixiang Expressway.

Operations — Xinjiang & Guizhou

Operations in Xinjiang are improving, while that of Guizhou are likely to remain subdued in 2021. 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 as well as the occasional peak-shifting production halts during low season periods under the stringent environmental policy, the Group can see a more stable market of the cement industry with increased ASPs since then. In Southern Xinjiang, where the Group's Moyu Plant is located with 2.0 million tons of capacity, there are a number of on-going infrastructure projects, which are expected to contribute to support the demand in 2021 and beyond. These include the constructions of the Minfeng to Heishihu Expressway, the Minfeng to Ruoqiang Expressway, the Minfeng to Luopu Expressway and the Hetian to Ruoqiang Railway. Moreover, in Northern Xinjiang, the production volume and ASPs of the 1.5 million-ton Yili Plant remained low but improved. The Group expects to see higher volume sold from the Yili Plant and a stable pricing in 2021. In Guizhou, both ASPs and sales volume were improving but still lower than that of prior years due to the imbalance between demand and supply as a result of the continuation of decreasing demand scenario and the Group expects that the scenario may continue for a certain period. Fortunately, 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 better volume than other locations in Guizhou in 2021 and beyond.

Capacity Development

As a key capacity replacement project in Shaanxi Province, the construction of the Tongchuan cement clinker production line with 10,000 tons daily capacity (the "Tongchuan Plant") was completed earlier than expected. The Tongchuan Plant is the world's most advanced second generation new dry process cement production line, with a site area of 828 mu. The production line had abandoned the traditional backward production capacity and technology with high energy consumption, high emission and high pollution, and highlighted its three major advantages of intelligence, environment-friendly and cost-effective. The Tongchuan Plant was a digital plant with unmanned workshop and ultra-low emissions, which will meet the Class A national energy efficiency and emission standards; it will utilize waste heat to generate electricity and recycle waste and hazardous waste, with global leading electricity and energy consumption standards. The Tongchuan Plant was commissioned trial production in June 2021.

The Group expects to seize the development opportunities through the abovementioned production capacity development, and continuously improve the market layout to realize the Group's target of high-quality development.

Costs Control

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 2021. These measures include reducing administrative and head office cost and formulating staff incentives to promote efficient use of raw materials and resources.

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 up grades. The Group plans to further implement measures to strengthen environmental management and monitoring during the second half of 2021 and will continue to implement the "Sustainable Safety Development Project". Moreover, the Group will continue to implement the green mine projects 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.

In an effort to comply with the PRC government's decision to plan for ecological civilization construction, the Group will sustain its implementation of environmental protection technological modification, increase environmental protection investment, carry out forward-looking development and application of cutting-edge environmental protection technologies, so as to consolidate its comparative advantage. Committed to being innovation-driven, the Group will push forward technology upgrade and modification that meet the requirements for intelligentization, informatization, and environmental protection; it will enhance the development and application of new technologies by accelerating the transformation of research outcome into innovations; it will step up efforts to push forward the construction of smart factories, and to strengthen its core competitiveness.

Capital Expenditure

Other than the capital expenditure spent for maintenance and upgrading of existing production facilities and the capacity replacement projects, the Group has no particular plans for capacity expansion and related capital expenditure in 2021. The Group has funded and expects to continue to fund these commitments from operating cash flow and available banking facilities.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2021 (2020: Nil).

CORPORATE GOVERNANCE PRACTICE

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 optimise returns for the shareholders of the Company.

The Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code throughout the six months ended 30 June 2021.

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 term of reference in compliance with the Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control and risk management systems of the Group and to provide advice and comments to the Board, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. Zhu Dong 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 unaudited consolidated interim results for the six months ended 30 June 2021.

AUDITORS

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2021 have been reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the auditors of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2021, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set forth in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Specific enquiries have been made with all the Directors, all the Directors confirmed and declared that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim 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 interim report of the Company for the six months ended 30 June 2021 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

By the order of the Board
West China Cement Limited
Zhang Jimin
Chairman

Hong Kong, 30 August 2021

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, Mr. Shi Guanglei and Mr. Fan Changhong and the independent non-executive Directors are Mr. Lee Kong Wai, Conway, Mr. Zhu Dong and Mr. Tam King Ching, Kenny.