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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)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

Reference is made to the Report and the announcement of the Company dated 8 August 2012 in relation to the suspension of trading in the Shares. This announcement is made to refute such allegations or comments concerning the Group in the Report.

The Board wishes to note that save as disclosed in this announcement, there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Rule 13.23 of the Listing Rules, neither is the Board aware of any matter discloseable under the general obligations imposed by Rule 13.09 of the Listing Rules, which is or may be of price-sensitive nature.

Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

Trading in the Shares was suspended at the request of the Company with effect from 10:51 a.m. on 8 August 2012 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for trading in the Shares to resume from 9:00 a.m. on 9 August 2012.

Reference is made to a report (the "**Report**") issued by Glaucus Research Group ("**Glaucus**") on 8 August 2012 about West China Cement Limited (the "**Company**", together with its subsidiaries, the "**Group**") and the announcement of the Company in relation to the suspension of trading in the shares of the Company (the "**Shares**") from 10:51 a.m. on 8 August 2012. The Company has no information about the identity of Glaucus. As indicated in the Report, Glaucus is a short seller and will make money if the price of the Shares declines. In the circumstances, **the Company recommends the shareholders of the Company and investors to exercise extreme caution in using the information in the Report**.

The Report contains certain allegations or comments on the Company, which are groundless or misstatements. This announcement is made to refute such allegations or comments concerning the Group in the Report. At the same time, the Company is consulting its legal advisers and reserves its rights to take legal actions against Glaucus.

ALLEGATIONS OR COMMENTS CONCERNING THE GROUP IN THE REPORT

1. Fictitious Margins

The Report alleged that the Company falsified its publicly filed financial statements and that the gross margin of the Group is fabricated. The Company wishes to clarify that the basis and data used in the Report is untrue and inaccurate. The high profit margin achieved by the Group was primarily due to the higher average selling price ("**ASP**") of the Group's products between 2008 and the first half of 2011.

The Group operates predominately in a single market within Shaanxi Province, where cement products were in a situation of undersupply between 2008 and the first half of 2011 as a result of significant infrastructure spending as part of the PRC Government Western Development Policy and limited modern cement production capacity within the province.

Furthermore, cement is a localised product where transportation costs are significant, resulting in supply demand dynamics in Shaanxi Province being independent of and different to cement markets in the rest of China. As a result, the ASP of cement products in Shaanxi Province between 2008 and the first half of 2011 has been comparably higher than other parts of China, especially as compared to other comparable cement companies listed in Hong Kong with their main operation in the Eastern seaboard region of China during the same period. As such, the higher ASP of the Group's products, due to its location in Shaanxi Province, accounted for the difference in gross profits of the Group as compared with the other comparable companies within the industry.

Further, the Report has not been able to take into account the dynamic nature of the Shaanxi market. As stated in the annual report of the Group for the year ended 31 December 2011, the increased capacity in Shaanxi and the resulting effect on margins of the Group have been clearly disclosed to investors and as stated, the Group's margins has been lower since mid-2011.

The Company wishes to further clarify as follows:

(i) The primary cement facility of the Group in the Southern Shaanxi

The Report noted and made reference to SAIC filings as evidence. The Group wishes to clarify that using the SAIC filings of the Ankang Plant for the year 2009 as evidence to interpret the Group's margins is misleading and represents incomplete analysis.

The Group's Ankang Plant commenced operation in the first quarter of 2009, with the construction of the limestone conveyor belt completed only in November 2009. As such, throughout most of 2009, in order to commence cement production, the Group was either transporting clinker to the Ankang Plant from the Lantian Plant or buying limestone from the open market at a cost of approximately RMB40 per ton (the normal cost of extracting limestone from the Group's own quarry is approximately RMB13 per ton). In addition, this situation affected the normal production of the Ankang Plant in 2009. As stated in the annual report of the Group for the year ended 31 December 2009, Ankang Plant contributed 1.34 million tons of production in its first year of operation compared with design capacity of 1.8 million tons. As a result, gross margins of the cement facility in Ankang was reduced to 28%. The Group was able to achieve higher margins once the conveyor belt was completed.

(ii) Average selling prices of the Group's products

The Report noted and compared the Group's ASP against pricing supplied by Digital Cement, an independent data agency. However, Digital Cement's pricing data are reference prices only based on market prices (i.e. cement price at a particular market including transportation), whereas the Group reports actual pricing based on ex-factory prices after deducting value-added taxes, which is not a form of revenue. This is not a like for like comparison, does not take into account basic accounting principles and therefore should not be considered as an accurate data point.

(iii) Costs of goods sold by the Group

The Report noted that costs payable by the Group are comparable with local competitors within the cement industry, and as such cost savings cannot be one of the factors which contributed to the higher margins of the Group's products. Whilst the Report is essentially correct in stating that the Group's primary input costs are in line with other NSP technology peers within the industry, the Report noted certain analytical and data errors and continued to ignore the significance and impact of transportation costs in the cement industry.

The Report also does not take into account of the fact that limestone is concentrated in the centre of Shaanxi Province and is limited in the southern region of Shaanxi Province. Further, the Report failed to differentiate between modern NSP capacity of at least 1,000,000 tons of annual capacity and inefficient, sub-scale non-NSP capacity with high production costs and low energy efficiency. The Report also failed to take into account some of the ongoing cost reduction measures that the Group has executed over time, including the use of Xi'an City construction waste as a low cost input into cement production at the Lantian Plant; the use of low cost desulfurized gypsum as a replacement to natural gypsum and average relative proximity of the Group's limestone quarry's as compared with those of the Company's competitors in Shaanxi Province.

(iv) Competitive advantage of the Group in the Shaanxi Province

The Report also noted and made reference to economies of scale, using comments which are inconsistent to the localised nature of the cement industry due to the high transportation costs of cement products. The Group is the largest cement producer within Shaanxi Province. Whilst other cement producers may be larger across the whole of China, their capacity in other provinces outside the Shaanxi market have no impact on their economies of scale in Shaanxi Province. In addition, the cost structure of the cement industry and the high transportation costs result in transportation having a significantly higher effect on pricing and competitiveness than economies of scale at a single plant.

(v) Price competition within the cement industry in Shaanxi Province in 2011

The Report commented that despite the price competition that has occurred within the cement industry in Shaanxi Province in 2011, the Group was still able to achieve a 36% EBITDA margin, which the Report alleged to be fabricated. Further, the Report made reference to data regarding total capacity and the competitive environment in Shaanxi Province, stating that there are over 85 undisclosed competitors in Shaanxi Province, many of which are located in the South and East of Shaanxi Province, areas where the Group is the dominant producer. The Report states that each of these 85 competitors produce at least 70,000 tons of cement a year. The Group views such a low cut off as inconsistent with current trends in the PRC cement market where plants of below 1,000,000 tons of annual capacity are regarded as sub-scale, both by industry participants and by the PRC Government. The Group also notes that many of these small scale producers are cement grinding stations with no clinker capacity. The Report further stated that 48% of these 85 cement facilities were loss making in April 2012. The Group wishes to clarify that considering that the vast majority of these 85 facilities are sub-scale, non-NSP plants with high production costs and low energy efficiency, it is evident from current market prices that these producers would be loss making at a time when the Group's modern NSP plants, as well as those of the other major competitors, are able to generate a margin in spite of the current low pricing in the Shaanxi market.

In addition, the Group wishes to clarify that, as a result of price competition within the cement industry in Shaanxi Province in 2011, the Group's ASP and margin has decreased. However, as the drop only commenced in the second half of 2011, the impact on the Group's margin was only realized during this period. Given the Group's strong profitability in the first half of 2011, average margin of the Group for the whole year of 2011 still managed to be maintained at a higher level.

(vi) Net margin of individual cement plant

The Report commented that the many of the Group's plants suffered an average negative 7% net margin in 2011, whilst the Group reported a 21% net profit margin during the same period, and alleged that the net profit margin reported was a fraud. The Group wishes to clarify that, apart from the three plants in the Hanzhong Region as noted in the Report, all the other plants with negative net margins listed in the Report were not operated by the Group during the period as referenced in the Report.

Further, whilst the Group is in no position to comment on the SAIC fillings made by other companies, one should also note possible discrepancies caused by different accounting standards used, and the possibility of reporting a lower profit for tax purposes by non-listed independent entities. The financial statements of the Group have been prepared under International Accounting Standards by the Company's auditor, Deloitte Touche Tohmatsu ("**Deloitte**") and previously PriceWaterhouseCoopers ("**PwC**"), the Group notes that not all other private or sole proprietor plants' accounts in Shaanxi Province would adopt similar accounting standards and that some of their accounts may be prepared under PRC Accounting Standards by local auditors. As such, the analysis based on negative net margin of other individual plants was made without valid basis. It is totally without basis of the Report to allege that the net profit margin for the year 2011 as reported by the Group was a fraud.

(vii) Natural barrier to entry from competition within the Shaanxi Province

The Report alleged that the Group's view of having a competitive advantage of natural barrier to entry from competition within the Shaanxi Province is untrue. The Group wishes to clarify that, despite the fact that there are roads which can connect plants to their customers at distance, the Report failed to take into account the transportation costs involved as well as the toll fees payable and vehicle weight restrictions during the course of such long-distance transportation of bulky cement products. The location of the Group's focused markets have the advantage of eliminating such transportation costs, and the Group enjoys the competitive advantage of these natural barriers to entry from competition within Shaanxi Province.

2. Suspicious Acquisitions

The Report alleged that the Group overpaid for the acquisition of three cement plants during the period from 2010 to 2011 at an average price of RMB349 per ton, which represents a massive 479% premium over the market price.

The Group wishes to clarify that the allegation as stated in the Report was made without basis and groundless. Among the acquisitions made by the Group during the period from 2010 to 2011, the consideration paid and referred for such acquisitions were made on an enterprise-value basis, which included liabilities assumed pursuant to such acquisitions. The Group is of a view that this represent a more transparent and fairer way when presenting an acquisition price. On the other hand, other comparable companies (e.g. Anhui Conch) quoted in the Report referred to an acquisition price which only included the price paid for the acquisition of equity of the targeted companies. As such, the data as quoted in the Report is not comparable with the acquisition prices made by the Group.

Current prices for Cement plant acquisitions in China are very well known by the cement industry and financial community, and it is patently obvious that acquisition costs of RMB50 per ton of capacity are wholly unfeasible. The current accepted acquisition cost for NSP cement capacity is in the region of RMB300–400 per ton of capacity, a level comparable to the Group's acquisition of the Shifeng Plant, as well as recent acquisitions by Anhui Conch in Shaanxi Province and elsewhere, once liabilities are taken into account.

The Group is also puzzled by the references to Mr. Li Dawei made in the Report, the rationale behind the calculations of the amount of proceeds he collected for the sale of Shifeng Cement and the references to his alleged residential address, as well as the allegations that he has been acting as a related party or on behalf of a related party of the Company. Mr. Li had constructed the Shifeng Cement Plant in 2010 and 2011. The acquisition in early 2012 of a 65% stake in Shaanxi Shifeng Cement Company Limited (陝西實豐水泥股份有限公司) ("**Shifeng Cement**") by the Group followed a previous acquisition of 35% of Shifeng Cement by Shaanxi Fu Ping Cement Company Limited (陝西富平水泥有限公司) ("**Fuping Cement**"), a company which was wholly owned by the Italcementi Group in 2011. Subsequent to this acquisition, the Group negotiated a purchase of Fuping Cement from the Italcementi Group in exchange for 6.25% of the then total issued share capital of the Group as the consideration. Mr. Li Dawei has been verified by the Italcementi Group and the Company as an independent party and is a well known ready mix cement operator in the Xi'an and Weinan market of over 30 years standing. According to local media (http://www.shaanxijs.gov.cn), Mr Li Dawei was named as the Outstanding Shaanxi Concrete Entrepreneur for 2008–2009.

Again, the Report failed to show an understanding of the concepts of acquisition consideration which takes into account of enterprise-value and includes liabilities assumed pursuant to such acquisitions, when analyzing the alleged net proceeds of the sale of Shifeng Cement by Mr. Li Dawei. The allegations in relation to Mr. Li Dawei in the Report was made without reasonable ground.

3. Expensive Financing Alternatives

The Report alleged that the Group pursued expensive financing alternatives with high interest rate in 2008 despite sufficient cash flow.

The Group wishes to clarify that the financing sought by the Group in 2008 was in fact the best available offer to the Group at such relevant time. In March 2008, the National People's Congress implemented a credit tightening control policy on high energy-consumption industry, which included the cement industry. Such policy restricted banks from lending to cement companies in China and led to the unavailability of bank financing across the nation during such time. As a result, given the financing needs for the Group's investment in 2008, the Group had to seek financing from offshore financial institutions. The financing with Credit Suisse, Singapore branch, which has also been disclosed in the prospectus of the Company, was considered as the more favorable financing options as offered by other offshore financial institutions at such time. Further, despite the high interest rate coupled with such financing arrangement in 2008, the financing proceeds were sought by the Group to invest in addition plant facility which was expected to generate potential return which would outweigh the finance costs under such financing arrangement.

4. Suspicious Operating Metrics

The Report alleged that the Group's selling and distribution expenses, interest income and value-added taxes ("**VAT**") payables significantly deviate from comparable companies within the industry, which suggests that the Company has been inflating sales and cash balances.

The Group wishes to clarify as follows:

(i) Selling and distribution expenses

The Group's selling and distribution expenses mainly represent the salaries paid to Group's sales representatives. Salary levels vary among different provinces in China and salary levels in Shaanxi Province may be inferior to those in comparable cement companies in the Eastern Seaboard provinces where wage levels may be higher. In addition, the Group does not pay for any transportation costs incurred by most of its customers. This methodology may be different with other comparable cement companies.

(ii) Interest income

The Group has implemented comprehensive cash management processes and the Group's independent auditors have performed validation of controls and circulation of bank confirmations during their audits on the Group's consolidated financial statements for the years ended 31 December 2008 to 2011 and have issued standard unmodified audit opinions.

The Report adopted a very general approach to its analysis of the Group's bank balance and this is clearly misleading. The Report simply calculates the average of the opening and closing amounts without taking into account of the movement of the bank balance between different months. At the same time, although referring to numerous cement companies, the Report only used one of them as reference and failed to explain the underlying rationale. The methodology used by the Report again is not a like for like comparison, failed to take into account of basic accounting principles and therefore should not be considered as an accurate data point.

In addition, the bank deposit of the Group have been substantially placed in saving deposit accounts of PRC banks, and the interest rates of bank saving deposit in the PRC during the period between 2008 to 2011 has been 0.36% to 0.72%, which is similar to the rate of interest income of the Group. Therefore, it is totally without basis of the Report to claim that the bank deposit balance is fabricated by the Company and the rate of deposit interest income in China is a matter of common knowledge and public information.

(iii) VAT

VAT payables as at year end only represent the VAT payables for the Group's output for the period immediately before the year end, which is usually one month based on the VAT reporting cycle of the Group, net of the VAT previously paid for materials purchased in that month. In addition, the increase in the input VAT as a result of the increase in purchase in December can also lead to the decrease in the VAT payables as at year end. Therefore, the VAT payables as at year end reflect the production of the Group for the month immediately prior to the year end, i.e. December, which may not reflect the production and hence VAT refund of the Group during the year.

5. Frequent change of auditor and management team

As mentioned in the Report, the Group had changed its auditor and management team several times in the past four years.

The Group had a change in auditor in April 2010 when it changed from PwC to Deloitte. PwC had verified and signed off the Group's accounts for the period from the 1 January 2007 until 30 April 2010 and acted as Company's reporting accountant for its initial public offering in 2010 as well as the issuance of senior notes in 2011. In addition, despite PwC resigning as the Group's auditor, PwC has retained its position as the Group's internal control advisor until the present time. Prior to this, the Group had transferred the audit from PWC UK to PWC Hong Kong following its delisting from London's AIM Exchange and its subsequent listing in Hong Kong. The Group took the view that the PWC HK team would have a better knowledge of HK Listing Rules which would help the Group to improve its corporate governance and compliance with HK listing requirements. The Group believes that the previous change of auditors from PKF UK to PWC UK was reasonable in light of the imminent HK listing process.

There has been one management change since the Group's initial public offering in 2010, where Ms. Poling Low, the ex-chief financial officer of the Company, was promoted to the position of deputy chief executive officer of the Company in order to dedicate more time to the Group's merger and acquisition execution. Despite this change of position, Ms. Low remains as a member of the board of directors of the Company and has been a member since October 2008.

6. Chairman of the audit committee of the Company and company secretary of the Group

As mentioned in the Report, the chairman of the audit committee of the Group, Mr. Lee Kong Wai Conway, and the ex-company secretary of the Company, Mr. Sin Lik Man, have both served roles in other listed companies of which the share prices of such companies dropped during their respective tenure.

Whilst the Group is not able to comment on the share price performance of other listed companies where current or previous directors of the Group have served or is serving, the Report failed to give an accurate picture of the situation by omitting the fact that Mr. Lee Kong Wai Conway, an independent non-executive director of the Company, is also currently a director of, among others, CITIC Securities Company Limited (Stock Code: 6030) and China Taiping Insurance Holdings Company Limited (Stock Code: 966), both of which are reputable Chinese financial institutions.

The Group also notes that the Report is erroneous in stating that Mr. Tam King Ching, Kenny was chairman of the Company. Mr. Zhang Jimin, has been the chairman of the Company since the Company's listing in 2010. Prior to 2010, Mr Robert Robertson acted as an non-executive chairman of the Company during the period of which the Company was listed on AIM of the London Stock Exchange.

Further, the Group has at all times complied with the requirements of the Code on Corporate Governance Practices as set forth under Appendix 14 of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). Each of the independent non-executive directors and company secretary appointed by the Group is properly qualified under the Listing Rules and has been discharging their respective duties to the satisfaction of the Company. The performances of other companies which they previously served have no bearing on the corporate governance of the Group.

7. Valuation

The Report alleged that due to the large amount of debt outstanding of the Group, it is difficult for offshore debt holders to recover their money and hence the value of the Shares is overstated.

The Group wishes to emphasis that the Company has always serviced its debts and there has been no default on payments. The Company expects to be able to repay its debts on time and therefore the assumption made in the Report which suggests the value of the Shares being overstated is made without proper analysis and basis.

Conclusion

The Group's cement capacity has grown from 1.5 million tons in December 2006 to a current capacity of 23.7 million tons, resulting in the Group becoming a major medium sized cement player in the western region of China. The physical assets and production plants of the Group are easily verifiable as belonging to the Group. Considering approximate replacement costs in the cement industry in China of at least RMB300 per ton of capacity, the Group has needed approximately RMB6.6 billion in order to construct or acquire this capacity over the past 6 years. The Group has been able to grow its assets at such a fast rate precisely because of the strong operating margins and cash flow, in addition to capital market fund raising activity, that the Report attempts to cast doubt over.

The board of directors (the "**Board**") of the Group wishes to note that save as disclosed in this announcement, there are no negotiations or agreements relating to intended acquisitions or realizations which are discloseable under Rule 13.23 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), neither is the Board aware of any matter discloseable under the general obligations imposed by Rule 13.09 of the Listing Rules, which is or may be of price-sensitive nature.

Shareholders and investors are advised to exercise caution when dealing in the securities of the Company.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange was suspended from 10:51 a.m. on 8 August 2012 at the request of the Company pending the release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 9 August 2012.

This announcement is made by the order of the Board, of which the directors of the Company individually and jointly accept responsibility for the accuracy of the information contained in this announcement.

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

Hong Kong, 9 August 2012

As at the date of this announcement, the executive directors of the Company are Mr. Zhang Jimin, Mr. Wang Jianli, Ms. Low Po Ling and Mr. Tian Zhenjun, the non-executive directors of the Company are Mr. Ma Zhaoyang and Mr. Ma Weiping, and the independent non-executive directors of the Company are Mr. Lee Kong Wai Conway, Mr. Wong Kun Kau and Mr. Tam King Ching, Kenny.