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)

2012 ANNUAL RESULTS ANNOUNCEMENT

Financial highlights:

RMB' Million (unless otherwise specified)	**Year ended 31 December 2012**	Year ended 31 December 2011	% Change
Cement Sales Volume (million tons)	**14.3**	11.7	22.2%
Revenue	**3,524.1**	3,190.5	10.5%
Gross Profit	**675.2**	884.4	(23.7%)
EBITDA	**1,056.4**	1,161.0	(9.0%)
Profit Attributable to Owners of the Company	**364.9**	662.1	(44.9%)
Basic Earnings Per Share[(1)]	**8.3 cents**	15.5 cents	(46.5%)
Interim Dividend	**Nil**	2.00 cents	(100%)
Proposed Final Dividend	**2.00 cents**	1.42 cents	40.8%
Gross Profit Margin	**19.2%**	27.7%	(8.5 ppt)
EBITDA Margin	**30.0%**	36.4%	(6.4 ppt)
Net Profit Margin	**10.6%**	20.7%	(10.1 ppt)
Total Assets	**10,298.9**	8,420.7	22.3%
Net Debt[(2)]	**3,350.4**	2,745.6	22.0%
Net Gearing[(3)]	**69.1%**	65.7%	3.4 ppt
Net Assets Per Share	**107 cents**	98 cents	9.2%

Notes:

(1) The decrease in basic earnings per share was greater than the decrease in profit attributable to owners of the Company due to the increase in the number of shares following the issuance of new shares to the Italcementi Group as part of the purchase consideration for the Fuping Cement Plant in June 2012

(2) Net debt equal to total borrowings and senior notes less cash and cash equivalents and restricted 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") is pleased to announce its annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012 together with the comparative figures for the corresponding year of 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	**2012** *RMB'000*	2011 *RMB'000*
Revenue	*3*	**3,524,117**	3,190,479
Cost of sales		**(2,848,920)**	(2,306,088)
Gross profit		**675,197**	884,391
Other income	*4*	**155,833**	156,693
Selling and marketing expenses		**(32,754)**	(31,537)
Administrative expenses		**(202,117)**	(183,123)
Other gains and losses, net	*5*	**490**	111,245
Interest income	*6*	**1,928**	10,407
Finance costs	*7*	**(139,993)**	(184,787)
Profit before tax	*8*	**458,584**	763,289
Income tax expense	*9*	**(86,058)**	(102,888)
Profit and total comprehensive income for the year		**372,526**	660,401
Attributable to:			
— Owners of the Company		**364,881**	662,128
— Non-controlling interests		**7,645**	(1,727)
		372,526	660,401
Earnings per			
— Basic *(RMB)*		**0.083**	0.155
— Diluted *(RMB)*		**0.083**	0.155

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**7,829,666**	6,352,020
Prepaid lease payments		**450,000**	292,269
Mining rights		**139,249**	131,663
Other intangible assets		**171,826**	110,293
Deferred tax assets		**36,755**	24,901
		8,627,496	6,911,146
Current assets			
Inventories		**468,602**	381,926
Trade and other receivables and prepayments	*11*	**683,973**	561,474
Restricted bank deposits		**149,881**	36,526
Bank balances and cash		**368,936**	529,612
		1,671,392	1,509,538
Total assets		**10,298,888**	8,420,684
EQUITY			
Share capital		**124,715**	119,119
Share premium		**2,136,463**	1,855,760
Equity reserve		**(302,264)**	(333,180)
Statutory reserve		**405,787**	376,274
Share option reserve		**9,172**	4,812
Retained earnings		**2,382,058**	2,046,690
Equity attributable to owners of the Company		**4,755,931**	4,069,475
Non-controlling interests		**90,871**	109,066
Total equity		**4,846,802**	4,178,541

	Notes	**2012**	2011
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*12*	**144,000**	205,000
Senior notes	*13*	**2,468,506**	2,462,009
Asset retirement obligation		**12,991**	10,446
Deferred tax liabilities		**9,636**	10,964
Other liabilities		**51,971**	44,251
		2,687,104	2,732,670
Current liabilities			
Trade and other payables	*14*	**1,484,434**	841,774
Senior notes	*13*	**78,544**	78,762
Income tax payable		**23,812**	22,937
Borrowings	*12*	**1,178,192**	566,000
		2,764,982	1,509,473
Total liabilities		**5,452,086**	4,242,143
Total equity and liabilities		**10,298,888**	8,420,684
Net current (liabilities) assets		**(1,093,590)**	65
Total assets less current liabilities		**7,533,906**	6,911,211

NOTES:
(All amounts in RMB thousands unless otherwise stated)

1. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL INFORMATION

As at 31 December 2012, the Group has net current liabilities of RMB1,093,590,000, and has unutilised loan facilities totalling RMB120,000,000 readily available for drawdown within the next twelve months. The Group will also enter into loan renewal discussion with the banks in due course for its short term borrowing totalling RMB930,000,000 and has, at this stage, not sought any written commitment that the loan facilities will be renewed. The Group has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms. Based on the Company's forecasts and projections, taking account of reasonably possible changes in business performance, operating as well as capital expenditure and availability of bank facilities, the directors of Company are of the view that the Company is able to operate within the level of its current capacity.

In view of these circumstances, the directors of Company expect it will have sufficient liquidity to finance its operations for the next twelve months. Therefore, the consolidated financial statements have been prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In the current year, the Group has applied the following amendments to standards issued by the International Accounting Standards Board ("IASB") which have been effective.

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Asset
Amendments to IFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

The adoption of the amendments to standards in the current year has had no material effect on the amounts reported and disclosures set out in these consolidated financial statements.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") — *Continued*

The Group has not early applied the following new and revised standards, amendments and interpretations ("new and revised IFRSs") that have been issued but are not yet effective.

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 IFRS 7	Mandatory Effective Date of IFRS 9 and Transition and Disclosures[3]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 1	Presentation of Financial Statements[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2014
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 July 2012

The directors of the Company anticipate that the application of these new or revised IFRSs will have no material impact on amounts reported in the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement products. The Group's Chief Executive Officer, the chief operating decision maker reviews the results of individual plants to make decisions about the allocation of resources. These plants have similar economic characteristics and each plant's products, production process and distribution methods are similar. In addition, the operation of the plants is under similar regulatory environment that governs production of cement products and they have similar type or class of customers. Therefore they are presented as a single reportable segment. All of the revenue and operating results of the Group are derived in western China. The revenue represents the sale of cement products during each of the year ended 31 December 2012 and 2011. No single customers contributed 10% or more to the Group's revenue for both 2012 and 2011.

4. OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Tax refund *(note (a))*	**139,213**	145,934
Government grant	**16,588**	10,608
Others	**32**	151
	155,833	156,693

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

5. OTHER GAINS AND LOSSES, NET

	2012	2011
	RMB'000	*RMB'000*
Net foreign exchange gains *(note (a))*	**4,106**	108,488
Loss on disposal of property, plant and equipment	**(996)**	(431)
Bargain purchase gain recognised in business combinations	**–**	3,173
Donations	**(2,669)**	(1,693)
Others	**49**	1,708
	490	111,245

(a) The amounts mainly relate to the translation of the senior notes and bank borrowings from US$ to RMB for each of the year ended 31 December 2012 and 2011.

6. INTEREST INCOME

	2012	2011
	RMB'000	*RMB'000*
Interest income from bank deposits	**1,928**	10,407

7. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**75,458**	43,713
Interest on other borrowings	**6,662**	–
Interest on senior notes	**201,863**	187,430
	283,983	231,143
Less: amount capitalised	**(144,666)**	(82,404)
	139,317	148,739
Arrangement fee on repayment of borrowings	**–**	35,503
Unwinding of discount	**676**	545
	139,993	184,787

The weighted average capitalisation rate on funds borrowed generally is 8.20% (2011: 7.5%) per annum.

8. PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**440,824**	316,928
Amortisation of prepaid lease payments	**10,155**	6,690
Amortisation of mining rights (included in cost of sales)	**10,647**	6,040
Amortisation of other intangible assets (included in administrative expenses)	**2,184**	2,129
Total depreciation and amortisation	**463,810**	331,787
Auditors' remuneration	**1,626**	1,439
Allowance (reversal of allowance) for doubtful debts	**424**	(5,153)
Wages and salaries (include directors' emoluments)	**166,126**	121,905
Share option expenses	**4,360**	4,812
Defined contribution retirement plan expenses	**18,497**	14,719
Total staff cost	**188,983**	141,436
Cost of inventories recognised as expenses	**2,461,636**	2,100,366
Loss on disposal of property, plant and equipment	**996**	431

9. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
Current tax	**74,245**	112,972
Deferred tax	**11,813**	(10,084)
Income tax expense	**86,058**	102,888

Pursuant to the rules and regulations of Jersey and the British Virgin Islands, the Company and the subsidiary of the Company, West China Cement Co. Ltd. ("West China BVI") are not subject to any income tax in those jurisdictions.

The income tax provision of the Group in respect of operations in PRC has been calculated at the applicable tax rate on the estimated assessable profits for each of the year ended 31 December 2012 and 2011 based on existing legislations, interpretations and practices.

Under the PRC Enterprise Income Tax ("EIT") Law, the enterprise income tax rate applicable to the Group's subsidiaries located in Mainland China is 25% except for the subsidiaries entitled to preferential tax treatment as detailed in note (a).

9. INCOME TAX EXPENSE — *Continued*

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

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**458,584**	763,289
Tax at domestic income tax rate of 25% (2011: 25%)	**114,646**	190,822
Tax effects of:		
Expenses not deductible for tax purpose	**3,593**	24,282
Tax exemption and reduced tax rate *(note (a))*	**(47,519)**	(128,395)
Tax credit *(note (b))*	**(354)**	(3,219)
Change in tax rate for deferred tax assets recognised	**9,496**	2,819
Withholding tax on distributed profits of PRC subsidiaries and interest income on intra-group loans *(note (c))*	**7,077**	16,005
Tax losses not recognised as deferred tax assets	**62**	574
Utilisation of tax losses previously not recognised	**(943)**	–
Tax expense for the year	**86,058**	102,888

(a) Pursuant to the Western Development Policy ("WDP Policy"), an enterprise is entitled to the preferential EIT rate of 15%, if its principal business engages in projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development as their principal business and the revenue from the principal operations accounts for over 70% of their total revenue of the enterprise. In the place of the old WDP Policy which expired on 31 December 2010, a new notice was announced in July 2011 to extend the preferential EIT rate as stated in the old WDP Policy from 1 January 2011 to 31 December 2020 ("New Notice"). The operations of certain subsidiaries, Yaobai Special Cement Group Co., Ltd. ("Shaanxi Yaobai"), Xi'an Lantian Yaobai Cement Co., Ltd. ("Lantian Yaobai"), Ankang Yaobai Cement Co., Ltd. ("Ankang Yaobai") and Hanzhong Yaobai Cement Co., Ltd. ("Hanzhong Yaobai"), have met the requirements of the New Notices both in 2011 and 2012. Shifeng Cement Co., Ltd. ("Shifeng Cement"), Fuping Cement Co., Ltd. ("Fuping Cement"), Hancheng Yaobai Yangshanzhuang Cement Company Limited ("Hancheng Yangshanzhuang"), Longqiao Yaobai Cement Co., Ltd. ("Longqiao Yaobai"), have also met the requirement under the New Notices in 2012.

    In addition, Lantian Yaobai, being a foreign invested enterprise, is entitled to a two-year tax holiday from its first profit-making year and a further three-year 50% tax reduction pursuant to old PRC enterprise income tax law. 2011 is the last year of which Lantian Yaobai is entitled to the three-year 50% tax reduction, and the tax rate rises to 15% since 2012.

    The Group's subsidiary, Luxin Building Materials Co., Ltd. ("Luxin") was established in Hetian, Xinjiang Uygur Autonomous Region ("Xinjiang"). Pursuant to the relevant laws and regulations of Xinjiang, it was entitled to exemption of income tax from year of 2008 to 2012 approved by State Tax Bureau of Xinjiang.

9. INCOME TAX EXPENSE — *Continued*

The applicable EIT rates of above subsidiaries for the year are as follows:

	2012	2011
Shaanxi Yaobai	**15%**	15%
Lantian Yaobai	**15%**	7.5%
Ankang Yaobai	**15%**	15%
Hanzhong Yaobai	**15%**	15%
Luxin	**0%**	0%
Longqiao Yaobai	**15%**	25%
Shifeng Cement (acquired in 2012)	**15%**	–
Fuping Cement (acquired in 2012)	**15%**	–
Hancheng Yangshanzhuang	**15%**	25%

No tax reductions and exemptions were granted to the other subsidiaries of the Group in the PRC for both years.

(b) Tax credit represents credit on enterprise income tax for purchase of domestically produced equipment or environment protection related equipment pursuant to the applicable PRC tax laws and regulations.

(c) Withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward at 5% tax rate under the EIT Law, and interest income in respect of intra-group loans in the Group at 7% tax rate based on the New Double Taxation Arrangement between Hong Kong and Mainland China.

10. DIVIDEND

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2012 interim of RMBnil (2011: 2011 interim dividend of RMB2.00 cents) per share	**–**	85,215
2011 final of RMB1.42 cents (2011: 2010 final dividend of RMB1.53 cents) per share	**60,425**	65,033
	60,425	150,248

The dividends of 2011 final, 2011 interim and 2010 final were all paid out from the Company's share premium, which were in compliance with the Articles of Association adopted by the Company and Companies (Jersey) Law 1991, as amended.

Subsequent to the end of the report period, a final dividend of RMB2.00 cents per share in respect of the year ended 31 December 2012 (2011: final dividend of RMB1.42 cents in respect of the year ended 31 December 2011) in total of approximately RMB90,944,000 (2011: RMB60,425,000) has been proposed by the directors and is subject to approval by the shareholders in annual general meeting. No interim dividend has been proposed in year 2012.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**139,626**	131,900
Less: Allowance for doubtful debts	**(6,985)**	(6,561)
	132,641	125,339
Bills receivable	**65,322**	29,874
VAT recoverable	**143,941**	94,655
VAT refund receivable	**24,819**	35,752
Other receivables	**35,351**	31,181
Amount due from previous shareholders of subsidiaries	**37,391**	29,111
Amount due from non-controlling shareholder of a subsidiary	**44,471**	–
Prepayments for purchase of raw materials	**178,157**	196,929
Prepaid lease payment	**21,880**	18,633
	683,973	561,474

The Group allows a credit period of 60–90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**66,189**	40,199
91 to 180 days	**6,153**	51,948
181 to 360 days	**7,673**	21,735
361 to 720 days	**44,364**	11,457
Over 720 days	**8,262**	–
	132,641	125,339

Bills receivable are mainly aged within six months.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. RMB44,856,000 (2011: RMB31,650,000) of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB87,785,000 (2011: RMB93,689,000) which are past due as at the reporting date for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 131 days (2011: 116 days).

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS — *Continued*

Aging of trade receivables which are past due but not impaired

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**21,333**	8,548
91 to 180 days	**6,153**	51,948
Over 180 days	**60,299**	33,193
	87,785	93,689

Allowance for doubtful debts has been made for estimated irrecoverable amounts from the sale of goods. This allowance has been determined by reference to past default experience. Movement in the allowance for doubtful debts:

	2012	2011
	RMB'000	*RMB'000*
1 January	**(6,561)**	(11,714)
Impairment losses recognised on receivables	**(424)**	–
Impairment losses reversed	**–**	5,153
31 December	**(6,985)**	(6,561)

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB6,985,000 (2011: RMB6,561,000) which have financial difficulties.

12. BORROWINGS

	2012	2011
	RMB'000	*RMB'000*
Bank loans		
— denominated in RMB	**1,130,000**	765,000
— denominated in US$	**96,192**	–
Other loans	**96,000**	6,000
	1,322,192	771,000
Secured	**1,226,192**	765,000
Unsecured	**96,000**	6,000
	1,322,192	771,000
Carrying amount repayable as follows:		
Within one year	**1,178,192**	566,000
More than one year but not more than two years	**140,000**	202,000
More than two years but not more than five years	**4,000**	3,000
	1,322,192	771,000
Less: Amount due for settlement within one year and shown under current liabilities	**1,178,192**	566,000
Amount due after one year	**144,000**	205,000

	2012	2011
	RMB'000	*RMB'000*
Bank loans:		
The analysis of the terms of the bank loans were as follows:		
Fixed rate borrowings		
— within one year	**355,000**	–
Variable rate borrowings		
— within one year	**771,192**	565,000
— more than one year but not more than two years	**100,000**	200,000
	1,226,192	765,000

During the year ended 31 December 2012, the Group was not in compliance with certain covenants relating to use of loan proceeds contained in the loan agreements to which it is a party. As of 31 December 2012, all the involved banks have waived, in writing, the Group from all responsibilities in relation to the non-compliance.

12. BORROWINGS — *Continued*

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

	2012	2011
Effective interest rate per annum:		
Fixed rate borrowings	**5.6% to 7.872%**	–
Variable rate borrowings	**2.304% to 7.216%**	6.06% to 7.22 %

Other borrowings:

Other borrowings are all lent by third parties, unsecured and denominated in RMB. As at 31 December 2012 and 2011, amount of RMB6,000,000 borrowings are interest free.

	2012	2011
	RMB'000	*RMB'000*
Within one year	**52,000**	1,000
More than one year but not more than two years	**40,000**	2,000
More than two years but not more than five years	**4,000**	3,000
	96,000	6,000

The fair values of all borrowings are approximate to their carrying amounts because the impact of discounting is not significant.

Details of pledge of assets for the Group's secured bank borrowings are set out in note 15.

13. SENIOR NOTES

On 25 January 2011, the Company issued 7.5%, five-year senior notes with aggregated principal amount of US$400,000,000 (the "Senior Notes") at 100% of the face value. The Senior Notes are listed on the Singapore Exchange Securities Trading Limited and jointly guaranteed by certain subsidiaries and secured by pledges of the shares of the subsidiaries.

The Company may at its option to early redeem the Senior Notes, in whole or in part, by certain dates based on the terms of the Senior Notes. The early redemption options are regarded as embedded derivatives by directors of the Company, which is considered as closely related to the host contract and measured together with the host contract at amortised cost.

13. SENIOR NOTES — *Continued*

The effective interest rate is approximately 8.04% per annum after adjusted for transaction costs.

The Senior Notes recognised in the consolidated statement of financial position were calculated as follows:

	2012	2011
	RMB'000	*RMB'000*
Carrying amount at 1 January	**2,540,771**	–
Net proceeds	**–**	2,563,240
Interest expenses	**201,863**	186,145
Interest paid	**(189,572)**	(97,020)
Exchange gains	**(6,012)**	(111,594)
Carrying amount at 31 December	**2,547,050**	2,540,771
Less: Non-current portion	**(2,468,506)**	(2,462,009)
Current portion	**78,544**	78,762
Fair value at 31 December	**2,404,204**	2,066,695

The fair value of Senior Notes is RMB2,404,204,000 at 31 December 2012 (31 December 2011: RMB2,066,695,000). It represents the market price of the Senior Notes at the end of the reporting period.

14. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**661,956**	328,328
Payables for constructions and equipment purchase	**351,488**	253,804
Advance from customers	**222,984**	133,853
Other tax liabilities	**43,397**	25,238
Bills payable	**–**	17,580
Payroll and welfare payable	**38,796**	17,225
Accrued expenses	**6,025**	7,490
Acquisition consideration payable to previous shareholders of subsidiaries	**52,006**	–
Advance from previous shareholder of a subsidiary	**20,383**	–
Other payables	**82,283**	58,256
Interest payable	**5,116**	–
	1,484,434	841,774

14. TRADE AND OTHER PAYABLES — *Continued*

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

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**497,534**	232,021
91 to 180 days	**84,493**	61,084
181 to 360 days	**51,354**	26,313
361 to 720 days	**27,080**	8,087
Over 720 days	**1,495**	823
	661,956	328,328

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

15. ASSETS PLEDGED FOR SECURITY

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

	2012	2011
	RMB'000	*RMB'000*
Restricted bank deposit	**149,881**	36,526
Prepaid lease payments	**203,801**	47,345
Property, plant and equipment	**2,400,168**	1,609,640
	2,753,850	1,693,511

On 25 January 2011, the Company issued senior notes of US$400,000,000. The Senior Notes are jointly guaranteed by certain subsidiaries and secured by pledges of the shares of the subsidiaries (Note 13).

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

OVERVIEW

During the year ended 31 December 2012, the Group has taken significant steps in consolidating its position as the largest cement producer in Shaanxi Province as well as expanding into Xinjiang Province, where economic and infrastructure growth promoted by the PRC Government's Western Development Policy remains a key feature of the 12th Five-Year Plan. This expansion and consolidation has been executed against a backdrop of a tough cement pricing environment carried over from the second half of 2011. Whilst average selling prices ("ASPs") of cement for the year ended 31 December 2012 were lower than those in 2011, the Group has seen some gradual improvement in pricing from its low point in the first quarter of 2012. With increased capacity as a result of newly constructed and acquired plants, cement sales volumes have grown by 28%, including sales from the newly constructed Danfeng Line 2 Plant during its trial production period, as compared to 2011. The Group has continued to benefit from a resilient rural market, has seen sequential improvement in the infrastructure market in the second half of 2012 and has begun to benefit from increased market share in the Xi'an metropolitan market as a result of acquisitions in the first half of 2012.

The Group's focus during 2012 has been on consolidating its core markets in Shaanxi Province. The Shifeng Cement Plant and the Fuping Cement Plant acquisitions, described in more detail below, have been particularly significant in extending the Group's core market reach in eastern Shaanxi Province, gaining market share in Xi'an and represents an important step in the supply rationalisation process in Shaanxi Province. Outside of Shaanxi Province, the Group has completed the construction of the 2 million ton cement capacity Yutian Plant in Hotan, Xinjiang Province in the second half of 2012. Following the completion of the Yutian Plant, the Group's capacity as at 31st December 2012 has reached 23.7 million tons, including 2,600,000 tons of capacity in Xinjiang Province.

OPERATING ENVIRONMENT

The Group entered 2012 facing a very tough operating environment. A large amount of capacity additions had come on stream in the province in 2011, concentrated in Central Shaanxi in particular, and this led to price competition between producers resulting in sharp falls in the price of cement across the province. These price falls started in the third quarter of 2011 and continued into the winter period at the beginning of 2012. This moderate oversupply scenario coincided with credit tightening and slower fixed asset investment ("FAI") in the Chinese economy as a whole, which led to some slowdown in infrastructure projects in Shaanxi Province.

This operating environment has however promoted consolidation in the Shaanxi cement industry, both in terms of merger and acquisitions and the continued eradication of small scale, non-NSP kilns which has proceeded apace in 2012. The Group has been a prime mover in this consolidation process, acquiring the 2 million ton Shifeng Cement Plant as well as the 2 million ton Fuping Cement Plant in a landmark deal from the Italicement Group during the year. The consolidation has resulted in increasing pricing power and some level of market equilibrium returning to the Shaanxi cement market.

A recovery in ASPs for cement products started taking effect after the 2012 Chinese New Year holidays following the traditional low season months of January and February. After bottoming out in the first quarter of 2012, Shaanxi Province saw a number of price increases after the Chinese New Year holiday and through the second quarter of the year. Although prices retraced marginally during the third quarter low season, the Group has been able to achieve stable prices and margins through the second half of 2012, well in excess of the trough pricing seen at the end of 2011 and the beginning of 2012.

In spite of the general backdrop of credit tightening, Shaanxi Province was still able to achieve a rise in cement consumption from approximately 64.3 million tons in 2011 to 65.5 million tons in 2012. The Group has been able to achieve strong volume growth, both as a result of increased capacity and improvements in underlying demand for cement in Shaanxi Province, especially in the second half of the year.

Sales volumes to rural markets have remained resilient throughout the year under review. The low pricing environment in the first half of the year allowed the Group to capture significant rural market share from smaller, inefficient producers, especially in the Southern Shaanxi regions of Shangluo, Ankang and Hanzhong, core market areas where the Group remains dominant in term of volume and pricing. In addition, the "Southern Shaanxi Resettlement Project," which has been proceeding according to Government plans, has remained a strong driver of demand for the Group's cement products in southern Shaanxi. The Group has been able to supply approximately 1 million tons of cement, approximately 10% of the Group's cement capacity in Southern Shaanxi, to this project alone in 2012.

The infrastructure market began to see some pick up in the second half of 2012. In July 2012, both the Datong to Xi'an High Speed Railway and the Huangling-Hancheng-Houma Railway restarted construction and these projects lifted the Group's capacity utilization in Weinan District to over 90% in the second half of the year. In October, the Group won tenders to supply cement for 6 out of 8 sections of the Xi'an to Hefei Railway construction project within Shaanxi Province and a small amount of sales to this project commenced in the fourth quarter. As a result of this and other infrastructure construction projects, the Group has been able to improve capacity utilization in its southern plants to over 80% in the second half of 2012. The newly acquired Shifeng and Fuping Plants have allowed the Group to become a significant player in the stable Xi'an metropolitan market, where the Group now supplies, mostly high grade cement, to approximately 30% of the ready mix stations in the city.

The improvement in the infrastructure market in the second half of the year, coupled with increased market share in the Xi'an metropolitan market, has resulted in the Group increasing the proportion of high grade cement production and sales in the second half of 2012. Whereas only approximately 30% of sales were high grade cement in the first half of 2012, a similar proportion to the second half of 2011, this had grown to close to 50% in the fourth quarter of 2012 resulting in an average of close to 40% for the whole of 2012. The Group's resilient market share in rural markets has allowed it to continue to benefit from the continued policy of value added tax ("VAT") rebates on low-grade cement products that use recycled industrial waste as a production input.

Expansion and Acquisitions in Shaanxi Province

In 2012, the Group has remained fully focused on continuing its work in consolidating its core markets in the eastern and southern parts of Shaanxi Province.

In April 2012, the newly constructed Shangluo Danfeng Line 2 plant, with an annual capacity of 1.5 million tons of cement, was commissioned. This plant raises the Group's capacity in Shangluo Region, an area with strong railway construction prospects in 2013-2015, to 3.3 million tons. Although the plant was commissioned in April 2012, the certification of completion and acceptance, and full handover of the project from the contractor, took place in December 2012. As a result, the operating results between May and December 2012 (amounting to sales of RMB178.4 and EBITDA of RMB43.7, deriving primarily from the sales of 0.6 million tons of cement), have been included as construction-in-progress and therefore capitalised. The operations of this plant will be recognized in the income statements with effect from January 2013.

In April and June 2012, the Group completed two important acquisitions — the Shifeng Cement Plant and the Fuping Cement Plant, respectively. These two acquisitions considerably strengthen the Group's position and pricing power in the Weinan Region and eastern central Shaanxi Province, eliminating competition in the Weinan Region, and extending market reach into the Fuping County and northeastern Xi'an metropolitan markets. The Group sees these acquisitions as a significant step in the supply consolidation process in Shaanxi Province.

The purchase consideration for the Shifeng Cement Plant, a facility with an annual cement production capacity of 2 million tons and a 9MW residual heat recycling system, situated in Fuping County, was approximately RMB365 per ton of cement capacity on an enterprise value ("EV") basis, financed by internal and external sources of funds. The 2 million ton cement capacity Fuping Cement Plant, also in Fuping County, was valued at RMB337 per ton of cement capacity on an EV basis. The Fuping Cement Plant was acquired from Cimfra (China) Limited, a subsidiary of the Italcementi Group and this transaction included a 35% interest in the above-mentioned Shifeng Cement Plant. The acquisition was executed on a share for asset basis with the Italcementi Group, whereby the Group issued 284,200,000 new shares, representing 6.25% of the then enlarged share capital of the Group, to Italcementi Group at HK$2.1815 per share, representing a 27.2% premium to the prevailing 20 day moving average price. As part of this agreement, the Italcementi Group has agreed to a three-year lock-up in the shares and has nominated a non-executive director to the Board. The directors of the Company (the "Directors") are very pleased to welcome one of the world's largest international cement producers as a substantial shareholder of the Group.

Further details of these acquisitions are discussed in the "Material Acquisitions and Disposals" section below and in the announcements of the Company dated 15 March 2012, 16 April 2012 and 4 May 2012, respectively.

Expansion and Acquisitions in Xinjiang Province

In March and April 2011, the Group made its first steps outside of its home province with the announcement of the acquisition and construction of production capacity in Hotan, southern Xinjiang Province. The Hotan Region has abundant coal reserves in the Kunlun Mountains to the south, and oil and natural gas reserves in the Taklamakan desert to the north. The area is being developed as a key energy supply zone and has all the characteristics of a relatively backward area that is now undergoing rapid population growth, infrastructure construction and social development. FAI in the Hotan Region for the 12th Five-Year Plan is set to increase fourfold over the 11th Five-Year Plan.

The Hetian Luxin Plant in Hotan City, with an annual production of 650,000 ton, has been operating at normal capacity during 2012. The Yutian Plant, also located in the Hotan Region with an annual production capacity of 2 million tons, commenced construction in April 2011 and was commissioned in August 2012. The Group has produced and sold a small amount of cement in the third quarter of 2012 before the winter closure period.

OTHER EXPANSION AND ACQUISITIONS

As part of the Group's medium term growth target, the Group has identified and obtained licences for three additional projects, two of which are in provinces outside of Shaanxi in western China. All of these projects follow the industry trends of consolidation, have superior locations in high growth areas and potentially represent low acquisition cost projects for the Group in the current environment. These projects are at early stages of project planning and the Group has spent no more than a total of RMB200 million on all three projects in 2012. The Board's decision on further capital expenditure on these projects will be taken with careful consideration given to the Group's cash flow and funding abilities going forward.

SAFETY, ENVIRONMENT & SOCIAL RESPONSIBILITY

The Group's safety and environmental protection department continuously monitors and reviews safety procedures and continues to adhere to the best industry safety standards and practices.

The Group continues to work towards minimal possible emissions and energy consumption. 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 into some of its cement products, and regularly recycles fly ash from power plants as well as slag from Iron & Steel plants as inputs into some of its cement products.

During 2012, the Group has continued constructing residual heat recovery systems and three of these have been installed and are operational by the year end. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce CO_2 emissions by approximately 20,000 tons per annum per million tons of cement production. As at 31 December 2012, residual heat recovery systems have been installed at 12 out of 17 production lines, and with systems for one more due to be completed in 2013, the Group expects to achieve a rate of close to 80% of capacity with heat recovery systems installed by the end of 2013.

Recycling and emissions will become increasingly important in the cement industry over the next few years. The Group is carefully monitoring any potential new emission standards being discussed by the Ministry of Environmental Protection regarding carbon dioxide and nitrous oxide emissions and continually studies new process technology advances that can increase recycling and decrease emissions.

During 2012, charitable donations made by the Group amounted to RMB2.7 million, including donations made in sponsoring deprived students for college education, and supporting education, sports and cultural events.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 10.5% from RMB3,190.5 million for the year ended 31 December 2011 to RMB3,524.1 million for the year ended 31 December 2012. This was mainly due to a growth in cement sales volume of approximately 22.2% from approximately 11.7 million tons to approximately 14.3 million tons for this year. The Group's capacity has continued to expand into 2012 in both Shaanxi and Xinjiang Provinces, and plants that have contributed to this increased revenue, either through new commissioning and acquisitions in 2012 or through full year contribution from those commissioned or acquired in 2011, include:

- Hanzhong Xixiang — commenced operation in May 2011
- Hetian Luxin — acquisition completed in May 2011
- Weinan Hancheng — acquisition of 80% equity interest completed in June 2011
- Weinan Shifeng Plant — acquired in April and June 2012
- Weinan Fuping Plant — acquired in June 2012
- Xinjiang Yutian Plant — commenced operation in August 2012

In addition, whilst the newly constructed Shangluo Danfeng Line 2 plant commenced operation in April 2012, selling approximately 0.6 million tons of cement, and generating revenue and EBITDA of RMB178.4 million and RMB43.7 million respectively during the year, this revenue and profit has not been recognized in the income statements. These revenues and profits have been capitalized as the plant has been in trial production and therefore has not met the "ready for intended use" accounting standards definition. The revenue and profit of this plant will be treated as normal with effect from January 2013.

Whilst the Group's increased capacity has led to a 22.2% increase in cement sales volumes, excluding the above Danfeng Line 2 sales volume, the Group's revenue has only increased by a slower 10.5%. This has been due to a decline in the Group's average selling price ("ASP") per ton of cement from RMB264 per ton in 2011 to RMB238 per ton in 2012. The reasons for this decline and the background to the volatility in cement prices are discussed in the "Operating Environment" section above.

Cost of Sales

Cost of sales increased by 23.5% from RMB2,306.0 million for the year ended 31 December 2011 to RMB2,848.9 million for the year ended 31 December 2012. The increase in cost of sales has been broadly in line with the growth in sales volume. The percentage increase in depreciation and other plant overheads was higher as a result of lower productivity compared with 2011. These higher fixed overheads have been partially offset by lower coal costs.

The average cost per ton of coal decreased by approximately 10.4% from approximately RMB615 per ton for the year ended 31 December 2011 to approximately RMB551 per ton for the year ended 31 December 2012. This decrease was mainly due to general falls in coal prices in the PRC during the year as well some as some efficiencies gained through new procurement methods.

However, there have been increases in electricity prices. The average electricity price, after taking into account of the savings from the heat recycling system, increased from approximately RMB0.45 per kwh in the year ended 31 December 2011 to approximately RMB0.47 per kwh in the year ended 31 December 2012. Electricity consumption per ton of cement was also higher due to more frequent production halts in 2012 as compared with 2011, which affected the operations of some of the Group's heat recycling systems. Taken together, these have resulted in an approximate 12.3% increase in electricity costs per ton of cement.

Total depreciation cost and other plant overheads for the year ended 31 December 2012 were higher than that in 2011 due to the increase in operating plants and capacity. The unit depreciation cost and other plant overheads were also high as productivity levels have been lower in the current year as compared with the previous year.

Gross Profit and Gross Profit Margin

Despite the increase in the sales volume, gross profit decreased by RMB209.2 million, or 23.7%, from RMB884.4 million for the year ended 31 December 2011 to RMB675.2 million for the year ended 31 December 2012. Gross profit margins decreased from 27.7% for the year ended 31 December 2011 to 19.2% for the year ended 31 December 2012.

As described above, the main reasons for the decreases in gross profit and gross margin can be summarised as follows:

(i) decreases in ASP by approximately 10%;

(ii) increases in electricity costs; and

(iii) higher fixed unit overheads due to lower productivity.

Although the decline in gross profit and gross margin as compared with the previous year was largely due to the cement ASP falls, these ASPs did gradually recover from the second quarter of 2012 and the Group has been able to achieve stable prices and margins through the second half of 2012, at levels well in excess of the trough pricing seen at the end of 2011 and the beginning of 2012.

Administrative Expenses

Administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization. These expenses increased by 10.4% from RMB183.1 million for the year ended 31 December 2011 to RMB202.1 million for the year ended 31 December 2012. This was mainly due to the increase in the number of production facilities in Shaanxi and Xinjiang Provinces, as well as additional legal and professional fees incurred for acquisitions during the year.

Other Income

Other income comprises VAT refunds, which is a form of government incentive for the recycling of industrial waste as a production input, and government grants. Other income decreased from RMB156.7 million for the year ended 31 December 2011 to RMB155.8 million for the year ended 31 December 2012.

Other Gains and Losses, net

Other gains decreased by RMB110.7 million from RMB111.2 million for the year ended 31 December 2011 to RMB0.5 million for the year ended 31 December 2012. The decrease were primarily due to the decrease in unrealized exchange gain of RMB104.4 million arising from foreign exchange translation of the Senior Notes during the year.

Interest Income

Interest income decreased by RMB8.5 million from RMB10.4 million for the year ended 31 December 2011 to RMB1.9 million for the year ended 31 December 2012. The prior year's amount was primarily due to bank deposit interest income arising from the senior notes issued by the Company in January 2011. The funds raised from the senior notes issuance have been utilised in the Company's expansion.

Finance Costs

Finance costs, before deducting capitalised interest, increased by RMB17.5 million or 6.5% from RMB267.2 million for the year ended 31 December 2011 to RMB284.7 million for the year ended 31 December 2012. Included in the prior year finance costs were arrangement fees expensed on early repayment of borrowings of RMB35.5 million. No such expenses were incurred during the year ended 31 December 2012. After stripping out these arrangement fees in 2011, the increased in finance costs has been RMB53.0 million. The increase was due to the higher level of borrowing for the year ended 31 December 2012.

The interest capitalised as part of the costs of assets for the year ended 31 December 2012 was RMB144.7 million, representing a increase of RMB62.3 million as compared with RMB82.4 million for the year ended 31 December 2011.

Taxation

Income tax expenses decreased by RMB16.8 million or 16.4% from RMB102.9 million for the year ended 31 December 2011 to RMB86.1 million for the year ended 31 December 2012. The decrease was primarily due to lower profitability, where the current tax has decreased by 34.3% to RMB74.2 million. This decrease has been partially offset by a deferred tax charge of RMB11.8 million as compared with a deferred tax credit of RMB10.1 million in the prior year. The deferred tax charge arose as a result of a reversal of deferred tax assets previously recognized in respect of unused tax losses, deferred income, and allowances and accrued expenses.

Due to the higher deferred tax charges, the effective tax rate for the year ended 31 December 2012 increased to 18.8% (2011: 13.5%). The effective tax rate of the Group is lower compared to the PRC national tax rate of 25% as most of the Group's operating entities enjoy various preferential tax rates, such as the preferential rate of 15% for qualifying entities under the Western Development Policy.

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

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company decreased by 44.9% from RMB662.1 million for the year ended 31 December 2011 to RMB364.9 million for the year ended 31 December 2012. In addition to a lower gross profit and gross margin, the decrease in profit attributable to owners of the Company was also due to a decrease in unrealized exchange gains of RMB104.4 million, arising from foreign exchange translation of the Senior Notes during the year, as compared to the year ended 31 December 2011.

Basic earnings per share decreased by 46.5% from RMB0.155 for the year ended 31 December 2011 to RMB0.083 for the year ended 31 December 2012. The decrease in basic earnings per share was greater than the decrease in profit attributable to owners of the Company due to the increase in number of shares following the new share issue to the Italcementi Group as part of the purchase consideration for the Fuping Cement Plant in June 2012.

FINANCIAL AND LIQUIDITY POSITION

As at 31 December 2012, the Group's total assets increased by 22.3% to RMB10,298.9 million (2011: RMB8,420.7 million) while total equity grew by 16.0% to RMB4,846.8 million (2011: RMB4,178.5 million). In June 2012, 284.2 million of new ordinary shares were issued to Cimfra (China) Limited as part of the purchase consideration for Fuping Cement Plant, resulting in an increase in total equity of RMB346.7 million.

As at 31 December 2012, the Group had cash and cash equivalents, as well as restricted bank deposits, amounting to RMB518.8 million (2011: RMB566.1 million). After deducting total borrowings and Senior Notes of RMB3,869.2 million (2011: RMB3,311.8 million), the Group had net debt of RMB3,350.4 million (2011: RMB2,745.7 million). 34.1% (2011: 0.8%) of borrowings are at a fixed interest rate. Please refer to notes 12, 13 and 15 of the consolidated financial statements above for the details of the borrowings, Senior Notes and the respective pledge of assets.

As at 31 December 2012, the Group's net gearing ratio, measured as net debt to equity, was 69.1% (2011: 65.7%). The increase in the net gearing ratio was mainly attributable to the increase in onshore bank borrowings by RMB551.2 million, primarily as a result of the Shifeng and Fuping Cement Plant acquisitions described in detail above and in the "Material Acquisitions and Disposals" section below.

Consistent with industry norms, the Group continuously monitors its gearing ratio and manages its capital to optimise the cost of capital and to safeguard the Group's ability to continue as a going concern. As at 31 December 2012, the Group had net current liabilities of RMB1,093.6 million, including bank borrowings of RMB1,178.2 million classified as current liabilities. The Group intends to rollover part of these bank borrowings, as permitted under the existing facility terms, when they fall due.

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

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no material contingent liabilities.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure for the year ended 31 December 2012 amounted to RMB891.9 million (2011: RMB1,960.5 million) and capital commitments as at 31 December 2012 amounted to RMB1,277.9 million (2011: RMB571.4 million), of which approximately RMB400 million to RMB450 million is planned for 2013 and the remainder for 2014–2015. Both capital expenditure and capital commitments were mainly related to the construction of new production facilities, installation of residual heat recovery systems, upgrading of existing production facilities and investment in subsidiaries. The Group has funded the capital expenditure and commitments from the proceeds of the senior notes issuance in January 2011, operating cash flow and available banking facilities.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group employed a total of 4,724 full time employees (2011: 4,473). Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2012, the employees benefit expenses were RMB189.0 million (2011: RMB141.4 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive compensation in the form of salaries, bonuses and other allowances.

MATERIAL ACQUISITION AND DISPOSALS

In March 2012, the Group acquired a 55% equity interest in the Shifeng Cement Company Limited (陝西實豐水泥有限公司) from an independent third party for a consideration of RMB401.5 million. Shifeng Cement Company Limited comprises the Shifeng Cement Plant, a cement facility in the Weinan Region of Shaanxi Province with annual cement capacity of approximately 2 million tons. Subsequently in the same month, the Group acquired a further 10% equity interest in the Shifeng Cement Company Limited for a consideration of RMB73 million.

In May 2012, the Group entered into an agreement to acquire a 100% equity interest in the Shaanxi Fuping Cement Company Limited (陝西富平水泥有限公司) from Cimfra China and Ciments Français. The Shaanxi Fuping Cement Company Limited comprises the Fuping Cement Plant, a cement facility with annual cement production capacity of approximately 2 million tons in the Weinan Region of Shaanxi Province, and a 35% equity interest in the Shifeng Cement Company Limited.

For further details in relation to the above acquisitions, please also refer to the announcements of the Company dated 15 March 2012, 16 April 2012 and 4 May 2012, respectively.

Save as disclosed above, the Group had no other significant material acquisitions or disposals during the year ended 31 December 2012.

FOREIGN EXCHANGE RISK MANAGEMENT

During the year ended 31 December 2012, the Group's sales and purchases were all denominated in Renminbi. However, some of the Group's bank borrowings and the proceeds raised through the senior notes issued by the Company in January 2011 were denominated in foreign currency. Renminbi is not a freely convertible currency. Future exchange rates of the Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and/or internationally, and the demand and supply of the Renminbi. The appreciation or devaluation of the Renminbi against foreign currencies may have an impact on the operating results of the Group. The Group currently does not maintain a foreign currency hedging policy. However, the management team of the Company will continue to monitor foreign exchange exposure and will consider hedging its foreign currency exposure should the need arise.

PROSPECTS

Whilst 2012 has proved to be a tough year with falling profitability from 2011, the Group has seen a sequential improvement in its operating environment in the second half of the year as compared with the first half of 2012 and the second half of 2011. Consolidation has been the major theme of 2012 in Shaanxi Province and a reasonable level of pricing power has returned to the market. With the return of some major infrastructure projects to the demand side of the equation, and a reduction in the rate of supply growth, the Group expects pricing power to be maintained, and potentially improve with increased demand, into 2013.

The consolidation activity in 2012 has been of particular importance to the Group. The acquisitions of the Shifeng Cement Plant and Fuping Cement Plant have not only been a crucial part of this supply rationalization process but have also enabled the Group to become an increasingly significant player in the Xi'an metropolitan market, a market that accounts for between 30% and 40% of total provincial demand and is mostly a high grade cement market. With full year contribution from these plants in 2013, as well as a full year contribution from the Shangluo Danfeng Line 2 Plant, the Group expects to see continued volume growth, greater participation in the Xi'an market and an increased proportion of high grade cement sales in 2013.

As a result of the acquisition of the Fuping Cement Plant, the Group has been delighted to welcome the Italcementi Group as a new large shareholder. Italcementi Group is one of the world's largest cement and aggregate producers and the Group looks to benefit from their industry expertise and future co-operation between the two groups.

The Group expects the recovery in infrastructure demand in the second half of 2012 to continue into 2013. Rural and low grade cement were very important to the Group's operations in 2012 in the absence of a significant pick up in infrastructure demand. However, the second half of 2012 saw the resumption of a number of important railway and expressway projects, and the Group expects to see increased sales of high grade cement into these projects in 2013. In particular, the Group expects to supply up to 300,000 tons of cement per annum for the next 4 years into the Xi'an to Hefei Double Track Railway project which commenced construction in the fourth quarter of 2012; and the Group expects the Xi'an to Chengdu High Speed Railway to commence construction in 2013, with estimated total consumption of approximately 4.5 million tons within Shaanxi Province during the construction life of the project. Along with other projects that have commenced or re-started, the Group expects this incremental demand to raise capacity utilization to between 80–90% for the group as a whole. The Group therefore sees demand drivers from the rural market, infrastructure projects and urban development in the Xi'an metropolitan region in equal measure in 2013.

Whilst 2012 saw slow downs in government spending in China as a whole, the "Western Development Policy" of the 12th Five-Year Plan and the "Guanzhong-Tianshui Economic Zone" have remained key development priorities for the PRC Government and the Group expects further resumption of infrastructure projects in the province in 2013. The Group expects this development to increasingly focus on industrialization and urbanization, including the development of tertiary cities, in 2013 and expects this development to become an increasingly important demand driver over the remaining years of the 12th Five-Year Plan.

The "Western Development Policy" also remains significant in terms of the Group's strategic move into Xinjiang Province in the far west of China, where the Group completed the construction of the 2 million ton Yutian Plant, in Hotan District, in August 2012 taking the Group's total capacity to 2.6 million tons in Xinjiang Province. Due to increased capacity in the Province as whole, cement prices in the second half of 2012 have been weak and the Group expects to be running at below capacity with lacklustre pricing in 2013. This strategic move into southern Xinjiang will benefit from future development of the region and the Group does expect a significant pick up in infrastructure development in Xinjiang Province later in the current Five Year Plan.

The Group remains fully focused on the consolidation trends in the Chinese cement industry and has a policy of growing into this consolidation. Whilst the Group continues to target this growth, the Group will shift its priorities in 2013 to reducing its net debt levels with a target of repayment of the USD Senior note in January 2016. Any potential growth opportunities will continue to focus on areas of infrastructure construction, urbanization and rural development in western provinces of China, and the Group will assess each opportunity on a case-by-case basis and will manage any future possible capital expenditure with careful due consideration given to its cash flow and funding abilities.

DIVIDENDS

At the Board meeting held on 18 March 2013 (Monday), the Directors proposed to recommend the payment of a final dividend of RMB0.02 per ordinary share for the year ended 31 December 2012. Details of the dividends for the year ended 31 December 2012 are set forth in note 10 to the consolidated financial statements above.

The final dividend of RMB0.02 per ordinary share is subject to approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 31 May 2013 (Friday), and will be paid to the shareholders whose names appear on the register of members of the Company at the close of business at 4:30 p.m. on 7 June 2013.

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

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 31 May 2013 (Friday). A notice convening the annual general meeting will be despatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS

In order to be eligible for attending and voting at the forthcoming annual general meeting of the Company to be held at 31 May 2013 (Friday), all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shop 1712–16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 28 May 2013 (Tuesday). The register of members of the Company will be closed from 29 May 2013 (Wednesday) to 31 May 2013 (Friday), both days inclusive, during which period no transfer of shares will be registered.

In order to determine who are entitled to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shop 1712–16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 5 June 2013 (Wednesday). The register of members of the Company will be closed from 6 June 2013 (Thursday) to 7 June 2013 (Friday), both days inclusive, during which period no transfer of shares will be registered. Subject to shareholder's approval of the proposed final dividend at the annual general meeting to be held on 31 May 2013 (Friday), the final dividend will be paid to shareholders whose names appear on the register of members of the Company at the close of business on 7 June 2013 (Friday).

CORPORATE GOVERNANCE PRACTICES

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

During the period from 1 January 2012 till 31 March 2012, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code and Corporate Governance Report (the "Old Code") as set forth in Appendix 14 of the Listing Rules and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments to the Old Code which took effect since 1 April 2012 (the "New Code") and there has been no deviation from the code provisions as set forth in both the Old Code and the New Code during the year ended 31 December 2012.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by the directors of the Company of the Listed Issuers (the "Model Code") as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors. Specific enquiries have been made with all the Directors and each of them has confirmed and declared that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2012.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established in compliance with Rules 3.21 and Rules 3.22 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and monitor the financial reporting and internal control principles of the Company and to assist the Board to fulfill its responsibilities over audit. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. Wong Kun Kau and Mr. Tam King Ching Kenny. Mr. Lee Kong Wai Conway is the chairman of the Audit Committee. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2012.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its listed shares during the year ended 31 December 2012. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the year ended 31 December 2012.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Company (www.westchinacement.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2012 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and make available on the abovementioned websites in due course.

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

Hong Kong, 18 March 2013

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