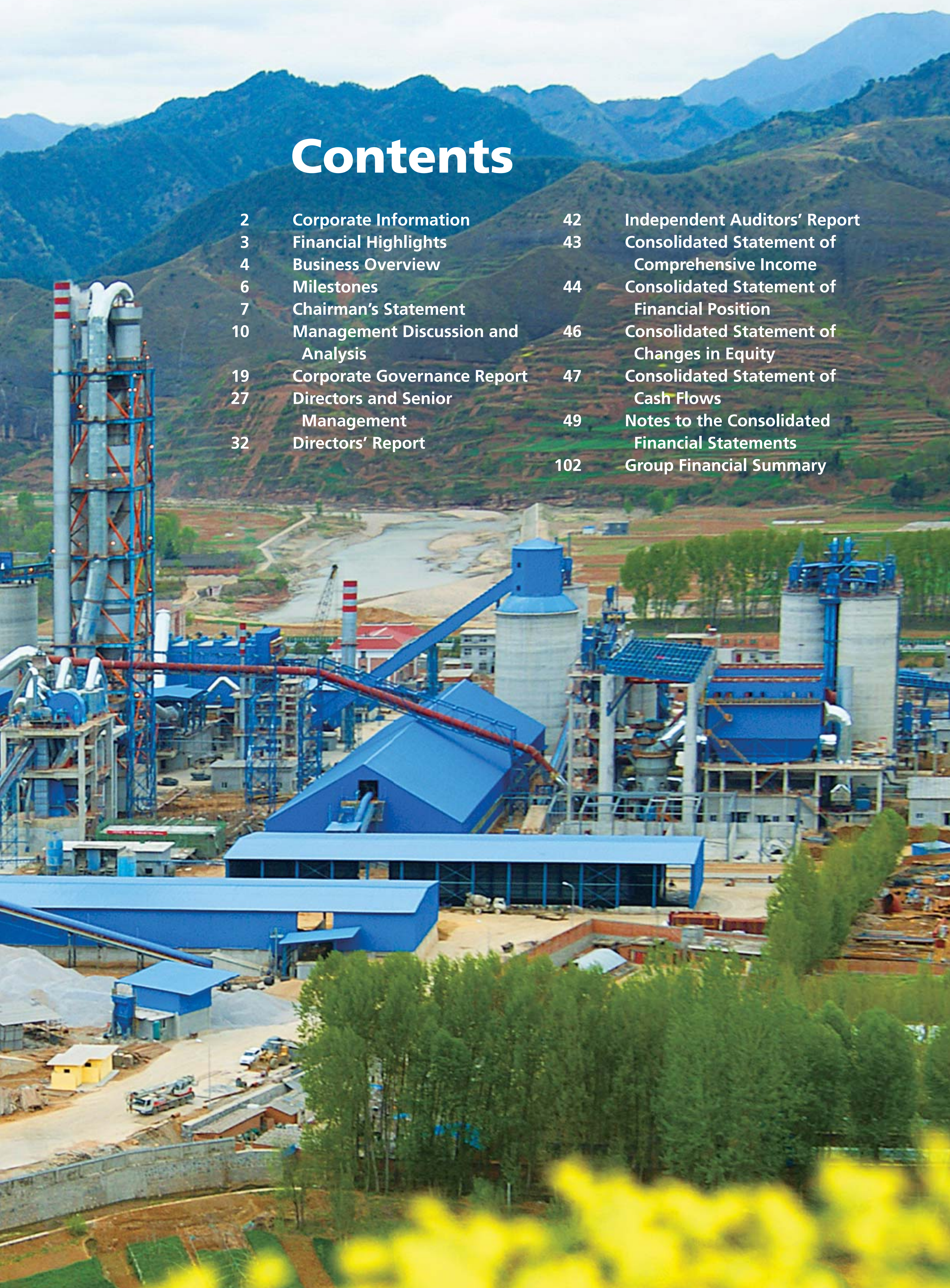
中國西部水泥有限公司
WEST CHINA CEMENT LIMITED

(Incorporated in Jersey with limited liability with registered number 94796)
Stock code: 2233

Annual Report 2012



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CORPORATE INFORMATION

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Unit 1903, Tower A, Gaoke Plaza
Hi-Tech Industrial Development Zone
Xi'an, Shaanxi Province, PRC

REGISTERED OFFICE

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St Helier
Jersey JE1 0BD

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1907, 19th Floor, Hopewell Centre
183 Queen's Road East, Wanchai
Hong Kong

COMPANY WEBSITE

www.westchinacement.com

BOARD OF DIRECTORS

Executive Directors

Zhang Jimin *(Chairman)*
Tian Zhenjun *(Chief Executive Officer)*
Wang Jianli
Low Po Ling

Non-Executive Directors

Ma Zhaoyang
Ma Weiping

Independent Non-Executive Directors

Lee Kong Wai Conway
Wong Kun Kau
Tam King Ching Kenny

COMPANY SECRETARY

Chan King Sau HKICPA

AUTHORIZED REPRESENTATIVES

Low Po Ling FCCA
Chan King Sau HKICPA

MEMBERS OF THE AUDIT COMMITTEE

Lee Kong Wai Conway *(Chairman)*
Wong Kun Kau
Tam King Ching Kenny

MEMBERS OF THE REMUNERATION COMMITTEE

Tam King Ching Kenny *(Chairman)*
Zhang Jimin
Wong Kun Kau
Lee Kong Wai Conway

MEMBERS OF THE NOMINATION COMMITTEE

Zhang Jimin *(Chairman)*
Lee Kong Wai Conway
Tam King Ching Kenny

INDEPENDENT AUDITORS

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

JERSEY PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Investor Services (Channel Islands) Limited

Ordinance House
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Jersey JE4 8PW

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China
Bank of Xi'an

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

BUSINESS OVERVIEW

West China Cement Limited (the "Company") and its subsidiaries (collectively, the "Group") is one of the leading cement producers in Shaanxi Province, with a leading market position in eastern and southern Shaanxi and a growing presence in Xinjiang Province. As at 31 December 2012, the Group had a total of 17 NSP cement production lines with total cement capacity standing at 21.1 million tons in Shaanxi Province, and an additional 2.6 million tons in Xinjiang Province.

The Group's cement production is geared towards the economic development of Western China, driven by the Chinese Government's "Western Development Policy" which continues to be a crucial focus under the 12th Five-Year Plan. The Group aims to serve the development needs of Shaanxi, Xinjiang and western China, supplying cement products to the infrastructure, urban and rural construction markets. The Group's cement products are used in a variety of infrastructure projects such as highways, railways, bridges, hydroelectric power stations, water conservancy and water transfer projects. The Group's also focuses on serving both the urban and rural development needs of western China, an area which is experiencing rapid urbanisation and population resettlement, accompanied by housing and social infrastructure development.

The Group focuses on strengthening its position in its core markets of eastern and southern Shaanxi Province, where it has constructed or acquired well-positioned plants. This has resulted in the Group enjoying a leading market position in Shaanxi Province and benefiting from barriers to entry caused by high transportation costs. The Group's superior positioning has allowed it to benefit from the current industry consolidation phase, and recent acquisitions have allowed the Group to strengthen its position in the Xi'an metropolitan market. The move into Xinjiang Province in 2011 and 2012 represents a further significant growth opportunity underpinned by the "Western Development Policy."

The Company places great importance on environmental protection and corporate social responsibility. All of its production facilities are NSP lines. The plants are situated in close proximity to limestone quarries, and the Group uses conveyor belts at many of its plants in order to minimise pollution. The Group has constructed heat recycling plants at most of its production facilities, reducing approximately 30% of electricity consumption and decreasing CO_2 emissions by approximately 20,000 tons per year per million tons of production. At the year ended 31 December 2012, approximately 75% of production capacity had heat recycling systems installed, with another plant scheduled for installation in 2013, raising this figure to over 80% of total capacity.

Shaanxi Province

Xinjiang Province

MILESTONES

Year	Event	Year End Capacity (million tons)
2004	The Group's first NSP production facility commenced construction in 2003 at Pucheng. The plant was commissioned in February.	1.4
2006	The Company was listed on the London Stock Exchange AIM market in December, raising GBP22 million.	1.4
2007	The Group's second production facility was constructed at Lantian in Xi'an. The two production lines were commissioned in May and August, respectively.	3.6
2008	The Company successfully completed a USD60 million syndicated loan.	3.6
2009	The Group's Ankang Xunyang production facility commenced operation in January, establishing a core market in southern Shaanxi.	8.5
	The Group's first acquisitions, the Zhen'an and Danfeng Plants in Shangluo region, were completed in August and December.	
2010	The Group's two production lines in Hanzhong, the Yangxian and Mianxian Plants, were commissioned in January and July respectively.	12.5
	The USD60 million syndicated loan was repaid in March.	
	In August, the Group was delisted from the London AiM market and was successfully listed on The Stock Exchange of Hong Kong Limited (the "HKSE"), raising HK$1.6 billion.	
	The Weinan Pucheng Line 2 was commissioned in September. The Group acquired the Ankang Jianghua Plant in December, completing the establishment of a leadership position in southern Shaanxi.	
2011	The Company successfully issued a USD400 million 5-Year Senior Note at 7.5% p.a. interest rate.	16.2
	The Group established its first production base in Xinjiang through the acquisition of the Hetian Plant in Hotan region in May. The Group also announced the construction of the Yutian Plant in Hotan, Xinjiang.	
	The Group's third plant in Hanzhong region, the Hanzhong Xixiang Plant, was commissioned in May.	
	The Group acquired the Weinan Hancheng Plant in May.	
2012	The Group's Shangluo Danfeng Line 2 Plant was commissioned in April.	23.7
	The Group acquired the Weinan Shifeng Plant and the Weinan Fuping Plant in April and June 2012, an important move in the supply consolidation process in Shaanxi Province and strengthening its presence in the Xi'an Metropolitan market.	
	The Yutian Plant, Hotan, Xinjiang was commissioned in August.	

CHAIRMAN'S STATEMENT

Zhang Jimin
Chairman

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of West China Cement Limited and its subsidiaries, I am pleased to present to our shareholders the annual report (including the audited consolidated financial statements) of the Group for the year ended 31 December 2012.

FINANCIAL RESULTS

In 2012, the Group has continued its consolidation and expansion activities in Shaanxi and Xinjiang Provinces, and increased total cement capacity from 16.2 million tons at year end 2011 to 23.7 million tons at year end 2012. This capacity expansion has allowed the Group to achieve cement sales volume of 14.3 million tons, or 15 million if capitalized sales from our Danfeng Line 2 Plant are included, as compared with 11.7 million tons in 2011. However, due to the falls in cement ASP's in 2012, revenues have only increased by 10.5% and gross margins have fallen from 27.7% in 2011 to 19.2% in 2012, resulting in a 23.7% fall in gross profits from 2011. The background to these cement price falls, and subsequent partial recovery in the second quarter of 2012, are described in more detail in the section headed "Management Discussion and Analysis" of this report. Profit attributable to shareholders for the year ended 31 December 2012 was RMB364.9 million (2011: RMB662.1 million) and basic earnings per share was RMB0.083 (2011: RMB0.155).

DIVIDEND

The Board recommends the payment of a final dividend of RMB0.02 per share for the year ended 31 December 2012. Subject to approval by shareholders of the Company at the forthcoming annual general meeting, the final dividend will be distributed to shareholders whose names appear on the register of members of the Company at the close of business on 7 June 2013.

2012 OPERATIONS & CONSOLIDATION

In light of the difficult operating environment in 2012, the Group has focused on a clear consolidation strategy in Shaanxi Province.

Firstly, the Group completed the acquisitions of the Shifeng and Fuping Cement Plants in April and June, respectively, the latter of which was acquired from the Italcementi Group in consideration of an issuance of new shares, representing 6.25% of the Group's issued share capital. These acquisitions have been landmark deals in the Shaanxi supply rationalisation process, and have gained the Group significant market share in the high-grade cement market of Xi'an, as well as strengthening our operations in the Weinan Region of central Shaanxi.

Secondly, the Group has continued its competitive pricing policy in the southern Shaanxi regions of Shangluo, Ankang and Hanzhong, leading to further closures of small-scale Non-NSP plants throughout 2012. With continued good demand from the rural markets, and expected improvements in infrastructure demand in southern Shaanxi, the Group expects this strategy to result in increased pricing power for its cement products in these core markets through 2013 and beyond.

The Group has also completed its capital expenditure programme in the Hotan Region of Xinjiang Province with the commissioning of the Yutian Plant, taking its capacity to 2.6 million tons, representing approximately 50% of the total NSP capacity in the area. Although this market is currently in oversupply following the completion of new capacity by the Group and other competitors, demand is growing very quickly, albeit from a low base.

Although cement prices have fallen year on year into 2012, there has been a marked improvement in our operations and cash flows in the second half of the year under review as compared with the first half. The Group's sales volumes and revenues have improved as a result of increased capacity, and pricing started to improve in the spring of 2012, remaining steady throughout the second half of the year. The Group has seen the gradual return of a number of infrastructure projects, especially railway projects, in the second half of the year and these have supported the improved pricing and volumes in Shaanxi.

The Group is also pleased to announce that subsequent to the year ended 31 December 2012, it has gained approval for the issue of medium-term notes in the PRC with an aggregate principle amount of RMB1.6 billion; and by the end of March 2013, the Group will issue RMB800 million of these notes at an estimated interest rate of approximately 6% and a maturity of 3 years. This entry into the domestic PRC bond market gives the Group increased financing flexibility at interest rates lower than traditional RMB bank borrowing rates, providing funds for the repayment of some of the Group's short term bank financing following the relatively high levels of capital expenditure over the previous two years.

ENERGY REDUCTION & ENVIRONMENT

The Group continues to prioritize reductions in energy consumption and increase the use of waste products as manufacturing inputs. With another three waste heat recycling units installed in 2012 and one more scheduled to be completed in 2013, the Group will achieve a rate of 80% of cement capacity with waste heat recycling units installed by the end of 2013. These units reduce electricity consumption by 30% and cut CO_2 emissions by approximately 20,000 tons per million tons of production. In anticipation of more stringent nitrous oxide emission standards, the Group has installed denitration (De-NOx) equipment at most of its production lines during 2012, with the remainder due to be completed in 2013. This equipment will enable nitrous oxide emissions to be reduced to approximately 350mg per ton of cement produced.

2013 PROSPECTS

The Group has entered the year of 2013 with the prospect of further improvements in infrastructure demand in Shaanxi Province, coupled with an increase in market share in the Xi'an Metropolitan market as the result of the Weinan region acquisitions in mid-2012.

The second half of 2012 saw railway construction projects re-start in the Weinan Region, raising our capacity utilization rates in central Shaanxi. In October 2012, the Group won tenders to supply cement to sections of the Xi'an to Hefei Railway line and the Xi'an to Chengdu High Speed Railway Line also commences construction in 2013. These two projects alone will raise the Group's capacity utilization in southern Shaanxi. In conjunction with our increased presence in the Xi'an market and our stable sales into rural markets, where urbanization demand is likely to become increasingly important, the Group expects continued volume growth into 2013. The Group is well positioned to benefit from the improvements in urban, rural and infrastructure demand that have been evident in Shaanxi Province since the second half of 2012, leading to increasingly stable cash flows in 2013 and beyond.

The supply side consolidation has led to an increasingly mature industry in Shaanxi Province. Reduced rates of capacity expansion are expected in 2013 and beyond, and outdated capacity is being closed down. The Group's capacity growth profile has slowed in line with these industry trends and we currently have no further expansion projects planned in Shaanxi Province. With demand remaining buoyant, the Group expects current levels of pricing power to be at least maintained and possibly increased.

Within this environment of a maturing cement industry, the Group's focus over the medium term is to continue to grow capacity, but at a significantly slower rate than previous years. The Group has selected expansion and consolidation targets outside of Shaanxi Province, but the Group's priorities are to continue the trend of reductions in capital expenditure and generate increasing amounts of free cash flow. The Group's focus over the next three years is on repaying the USD senior note when it matures in 2016, whilst maintaining a dividend for shareholders.

On behalf of the Board, I would like to take this opportunity to thank our management, employees, bankers and advisors for their efforts in 2012. I would also like to thank our shareholders for their continuing support of our Group in the past and into the future.

Zhang Jimin
Chairman

18 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

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 production from approximately 64.3 million tons in 2011 to 75.5 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 million and EBITDA of RMB43.7 million, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 13 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 29, 30 and 39 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CORPORATE GOVERNANCE REPORT

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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 save as disclosed herein this report, 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.

BOARD OF DIRECTORS

Responsibilities of the Board

The Board is primarily responsible for formulating business strategy, reviewing and monitoring business performance of the Group, and approving financial statements and annual budgets as well as directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the management by the Board with clear direction. Each of the Directors has full and direct access to the advice and services of the Company Secretary of the Company. The Company provides the Directors with sufficient resources to perform their duties and the Directors may seek independent professional advice at the Company's cost, where it is considered relevant and necessary for the purpose of discharging their duties.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

Board Composition

The Board has a balanced composition of executive and non-executive Directors to ensure independent viewpoints in all discussions. The Board, as at 31 December 2012, comprised nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Board members are listed below:

Executive Directors:
Mr. Zhang Jimin *(Chairman)*
Mr. Tian Zhenjun *(Chief Executive Officer)*
Mr. Wang Jianli
Ms. Low Po Ling

Non-executive Directors:
Mr. Ma Zhaoyang
Mr. Ma Weiping

Independent non-executive Directors:
Mr. Lee Kong Wai Conway
Mr. Wong Kun Kau
Mr. Tam King Ching Kenny

CORPORATE GOVERNANCE REPORT

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The Board's composition satisfies the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, which stipulate that there should be at least three independent non-executive Directors representing at least one-third of the Board, and of whom at least one of the independent non-executive Directors must possess appropriate professional qualifications or accounting or related financial managing expertise.

There was no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Biographical information of the Directors is set forth on page 27 to 30 of this annual report.

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company for terms of one year and three years which may only be terminated in accordance with the provisions of the service contract by either party giving to the other not less than three months' prior notice in writing.

The Company has entered into a letter of appointment with each of the independent non-executive Directors for a term of one year, and this appointment can only be terminated by either party giving to the other not less than three months prior notice in writing.

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Based on such confirmation, the Company considers that the three independent non-executive Directors are independent and that they have met the specific independence guidelines as set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

During the year ended 31 December 2012, the roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Zhang Jimin and the Chief Executive Officer is Mr. Tian Zhenjun. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgements. With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to Article 23 of the Company's articles of association (the "Articles"), the Directors shall have power at any time and from time to time to appoint any person (other than one disqualified or ineligible by law to act as a director of a company) to be a Director either to fill a casual vacancy or as an addition to the existing Directors provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with these Articles as the maximum number of Directors. Any Director so appointed shall hold office until the next following annual general meeting of the Company (the "AGM") and shall then be eligible for re-election at such meeting.

According to Article 24 of the Company's Articles, at every AGM, one-third of the Directors or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office. If any Director has at the start of the AGM been in office for three years or more since his/her last appointment or re-appointment, he/she shall retire at that AGM. If the Company does not fill the vacancy at the meeting at which a Director retires by rotation or otherwise, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the re-appointment of the Director is put to the meeting and not passed.

INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

Each newly appointed Director will receive formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and his/her full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

During the year ended 31 December 2012, there were two in-house seminars conducted covering the topics of directors' duties, corporate governance practices and disclosure requirements under the Listing Rules and the Securities and Futures Ordinance ("SFO").

Details regarding the trainings attended by the Directors during the year ended 31 December 2012 are as follows:

Directors	**In-house seminars**
Executive Directors	
Mr. Zhang Jimin	2/2
Mr. Tian Zhenjun	2/2
Mr. Wang Jianli	2/2
Ms. Low Po Ling	2/2
Non-Executive Directors	
Mr. Ma Zhaoyang	2/2
Mr. Ma Weiping	2/2
Independent Non-Executive Directors	
Mr. Lee Kong Wai Conway	2/2
Mr. Wong Kun Kau	2/2
Mr. Tam King Ching Kenny	2/2

DELEGATION BY THE BOARD

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary of the Company, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

BOARD MEETINGS AND ATTENDANCES

The Board meets regularly in person or by means of electronic communication. During the year ended 31 December 2012, six Board meetings were held. Directors received at least 14 days' prior notice of regular Board meetings and an agenda. For Board meetings scheduled at short notice, Directors are given as much notice as possible in the circumstances.

The company secretary of the Company is responsible for taking and keeping minutes of all Board meetings and committee meetings. The final version of these minutes are available for inspection by Directors at any time.

The table below sets out the attendance records of each Director at the Board Meetings and the annual general meeting for the year 2012 ("2012 AGM") during the year ended 31 December 2012:

Directors	Number of Board meetings attended	2012 AGM attended
Mr. Zhang Jimin	6/6	1/1
Mr. Tian Zhenjun	4/6	0/1
Mr. Wang Jianli	5/6	0/1
Ms. Low Po Ling	5/6	1/1
Mr. Ma Zhaoyang	5/6	1/1
Mr. Ma Weiping	1/6	0/1
Mr. Lee Kong Wai Conway	6/6	1/1
Mr. Wong Kun Kau	6/6	1/1
Mr. Tam King Ching Kenny	6/6	1/1

Code Provision A.6.7 of the New Code provides that the independent non-executive directors and non-executive directors should attend the general meetings of the Company. However, as Mr. Ma Weiping had not yet been appointed as a non-executive Director before the AGM, he did not attend the 2012 AGM held during the year 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 audit responsibilities. 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 audited consolidated financial statements for the year ended 31 December 2012.

The major duties performed by the Audit Committee for the purpose of discharging its responsibilities are as follows:

— making recommendations to the Board on the appointment, reappointment and removal of the external auditors, as well as approving the remuneration and terms of engagement of the external auditors, and any questions regarding resignations and dismissals;

— reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards and discussing with the auditors the nature and scope of the audit and reporting obligations before the audit commences;

— developing and implementing policy on engagement of an external auditor to supply non-audit services;

— identifying and making recommendations on any matters where action or improvement is needed and report to the Board on the same;

— monitoring integrity of the Group's financial statements, annual reports and accounts, interim reports and reviewing significant financial reporting judgements contained in them;

— considering any significant or unusual items that are, or may need to be, reflected in the reports or accounts, and give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

— reviewing the Group's financial controls, internal control and risk management systems;

— discussing with the management the internal control system and ensuring that management has performed its duty to have an effective internal control system including the adequacy of resources, staff qualifications and experiences, training programs and budget of the Group's accounting and financial reporting function;

— considering any major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

— ensuring coordination between the internal and external auditors, and ensuring that the internal audit function is adequately resourced and has appropriate standing within the Group;

— reviewing and monitoring the effectiveness of the internal audit function;

— reviewing the Group's financial and accounting policies and practices;

— reviewing the external auditors' management letter, any material queries raised by the auditors to the management about accounting records, financial accounts, or systems of control and management's response;

— ensuring that the Board will provide a timely response to the issues raised in the external auditor's management letter;

— acting as key representative body for overseeing the Company's relations with the external auditors;

— reviewing arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters;

— reporting to the Board on the matters in the Code;

— establishing a whistle blowing policy and system for employees and those who deal with the Company to raise concerns, in confidence;

— performing the Company's corporate governance functions, including (i) developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management of the Company; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and the Directors; and (v) reviewing the Company's compliance with the code and disclosures in the Corporate Governance Report;

— considering any other topics as defined by the Board.

The table below sets out the details of Audit Committee meeting attendance of each Director during the year ended 31 December 2012.

Directors	Number of Audit Committee meetings attended
Mr. Lee Kong Wai Conway	3/3
Mr. Wong Kun Kau	3/3
Mr. Tam King Ching Kenny	3/3

REMUNERATION COMMITTEE

The Company has established a remuneration committee with written terms of reference in compliance with paragraph B1 of the New Code. The remuneration committee of the Company (the "Remuneration Committee") currently consists of three independent non-executive Directors, namely Mr. Tam King Ching Kenny, Mr. Lee Kong Wai Conway and Mr. Wong Kun Kau and one executive Director, namely Mr. Zhang Jimin, with Mr. Tam King Ching Kenny serving as chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are to establish and review the policy and structure of the remuneration for the Directors and senior management.

The Company's remuneration policy is to provide remuneration packages, in terms of basic salaries, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The Company's executive Directors, who are also its employees, receive compensation in the form of salaries, bonuses and other allowances. The remuneration of the Directors and senior management are determined by taking into account their individual performance and also the market standards.

The major duties performed by the Remuneration Committee for the purpose of discharging its responsibilities are as follow:

— reviewing and making recommendations to the Board about the Group's policy and structure for all remuneration of Directors and senior management;

— reviewing and approving the management's remuneration proposals with reference to the Board's corporate goal and objectives;

— either determining, with delegated responsibility, or making recommendations to the Board on the remuneration packages of individual executive directors and senior management, and making recommendation to the Board on the remuneration of non-executive directors;

— reviewing and approving compensation payable to executive directors and senior management for any loss or termination of office or appointment or relating to dismissal or removal of directors for misconduct; and

— ensuring that no director or any of his associates is involved in deciding his own remuneration.

The table below sets out the details of Remuneration Committee meeting attendance of each Director during the year ended 31 December 2012.

Director	Number of Remuneration Committee meetings attended
Mr. Zhang Jimin	1/1
Mr. Wong Kun Kau	1/1
Mr. Tam King Ching Kenny	1/1
Mr. Lee Kong Wai Conway	1/1

REMUNERATION OF DIRECTORS

The Company has adopted full disclosure of remunerations of Directors with disclosure by name, amount and type in note 16 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has established a nomination committee with written terms of reference in compliance with the New Code. The nomination committee of the Company (the "Nomination Committee") currently consists of two independent non-executive Directors, namely Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive Director, namely Mr. Zhang Jimin, with Mr. Zhang Jimin serving as Chairman of the committee.

The primary functions of the Nomination Committee are to make recommendations to the Board regarding the appointment or re-appointment of members of the Board and succession planning for Directors. The Nomination Committee is also responsible for (i) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (ii) assessing the independence of independent non-executive Directors.

No meeting of the Nomination Committee was held during the year ended 31 December 2012.

INTERNAL CONTROL

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholders' investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management review and evaluate the control process, monitor any risk factors on a regular basis, and report to the Audit Committee on any findings and measures to address the variances and identified risks.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors understand and acknowledge their responsibility for making sure that the financial statements for each financial year are prepared to reflect the true and fair view of the state of affairs, results and cash flow of the Group and in compliance with relevant laws and disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected appropriate accounting policies and applied them consistently, made judgement and estimates that are prudent and reasonable, and have prepared the financial statements on a going concern basis. The Directors also ensure that the financial statements of the Group are published in a timely manner.

The statement by the external auditor of the Company regarding their reporting responsibilities of the financial statements of the Group is set forth in the Independent Auditors' Report on page 42 of this annual report.

EXTERNAL AUDITORS

Deloitte Touche Tohmatsu was appointed as auditors of the Company. The acknowledgement of their responsibilities on the financial statements is set forth in the Independent Auditors' Report on page 42 of this annual report.

The remuneration paid to Deloitte Touche Tohmatsu for services rendered in respect of the year ended 31 December 2012 is as follows:

	2012 RMB'000
Audit services	1,300
Non-audit services	300
Total	1,600

INVESTOR RELATIONS

The Company's investor relations department (the "IR Department") is focused on providing information and updates to investors and market participants in order to enhance our transparency and corporate governance.

The IR Department comprises two representatives responsible for communication with investors and market participants and is supported by a team of three representatives responsible for database management and maintenance. Databases containing full information on both publicly available information regarding our operating environment and detailed records of contacts with investors and market participants are maintained. The Company also maintains regular investor relations reports to Senior Management.

During the year, the executive Directors and investor relations representatives have participated in two full scale Non Deal Roadshows, covering investors in Asia, Europe and the United States, following the release of our 2011 Annual Results and our 2012 Interim Results. In addition, the Company has participated in at least 10 major investor conferences as well as other communications with investors and market participants.

The Company's website (www.westchinacement.com) is maintained with comprehensive information regarding our operations, financial information, announcements, annual and interim reports and shareholder circulars. The Company also has a dedicated Investor Relations email address (ir@westchinacement.com) allowing investors direct communication with our IR representatives.

SHAREHOLDER RIGHTS

Convening an extraordinary general meeting by shareholders

Procedures for shareholders to convene an extraordinary general meeting (including making proposals/moving a resolution at the extraordinary general meeting)

- Eligible Shareholders (as defined below) may submit a written requisition (the "Requisition") to the Directors or the company secretary of the Company, to require an extraordinary general meeting to be called by the Directors for the transaction of any business specified in the Requisition. For this purpose, "Eligible Shareholder(s)" means any one or more Shareholders holding at the date of deposit of the Requisition not less than five (5) percent of the paid up capital of the Company carrying the right of voting at general meetings of the Company.

- Eligible Shareholders who wish to convene an extraordinary general meeting must deposit the Requisition signed by the Eligible Shareholder(s) concerned at the registered office of the Company at 47 Esplanade, St Helier, Jersey JE1 0BD, for the attention of the company secretary of the Company.

- The Requisition must state clearly the name(s), the contact information of the Eligible Shareholder(s) concerned, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included, the details of the business(es) proposed to be transacted in the extraordinary general meeting, signed by the Eligible Shareholder(s) concerned. The Eligible Shareholder(s) concerned must prove his/her/their shareholding in the Company to the satisfaction of the Company.

- The Company will check the Requisition and the identity and the shareholding of the Shareholder will be verified with the Share Registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to consider convening an extraordinary general meeting within 2 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an extraordinary general meeting.

- If within 21 days from the date of deposit of the Requisition the Directors fails to proceed to convene such extraordinary general meeting within 2 months of such date, the Eligible Shareholders(s) concerned, or any of them representing more than one half of the voting rights of all of them, may themselves call for an extraordinary general meeting in accordance with the relevant provisions of the Companies (Jersey) Law 1991 and the memorandum and articles of association of the Company, but such extraordinary general meeting so called shall not be held after 3 months from that date, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the board shall be reimbursed by the Company to the Eligible Shareholder(s) concerned.

- At any extraordinary general meeting called pursuant to the Requisition, unless such meeting is called by the Directors, no business other than that stated in the Requisition as the objects of the meeting shall be transacted.

Making enquiry to the Board

Shareholders of the Company may send their enquiries and concerns to the Board by addressing them to the principal place of business of the Company in Hong Kong by post or email to ir@westchinacement.com.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Company has four executive Directors, two non-executive Directors and three independent non-executive Directors. Their biographical details are set out below:

Executive Directors

Mr. Zhang Jimin — Chairman

Mr. Zhang, aged 58, the founder of the Group, is currently the Chairman and executive Director of the Company. He is responsible mainly for the Group's overall strategic planning and investment decisions. Mr. Zhang is also a director of a number of the Group's subsidiaries including West China BVI, Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai, Xian Yaobai and Longqiao Yaobai.

Mr. Zhang has more than 25 years of experience in the cement industry. He was the factory manager of the Shaanxi Province Pucheng County Hanjing Town Second Cement Factory (one of the predecessors of our production facility in Pucheng) from 1985 to December 1990 and the manager of the Pucheng County Hanjing Town Cement Factory (another predecessor of our production facility in Pucheng) thereafter. These two small cement facilities represent the origins of West China Cement, demonstrating the growth of the Group under the management of Mr. Zhang.

Mr. Zhang has actively participated in various cement technology development projects and from 1992 to 1994 , he led the development of low heat slag cement and moderate-heat Portland cement, winning the Second Grade Science and Technology Progress Prize issued by the Government of Shaanxi Province.

Mr. Zhang also holds several industry associations and political positions. He is the Chairman of the Shaanxi Province Cement Association, an industry association jointly established by The Raw Materials Division of The Industry and Information Technology Department of Shaanxi Province and various cement production enterprises in Shaanxi, holding this position since December 2009. As the Chairman of the Shaanxi Province Cement Association, Mr. Zhang promotes information exchange between cement enterprises in Shaanxi, leading the association to formulate a self-regulatory regime, maintaining fair market competition, providing technology and human resources and assisting the Shaanxi Government in regulating the cement industry in Shaanxi Province. Mr. Zhang is also a Xi'an City representative of the 11th Standing Committee of the Shaanxi Provincial People's Congress and participates in the plenary sessions of the 11th Standing Committee of the Shaanxi Provincial People's Congress for discussion and approval of various matters in relation to the political and economical development of Shaanxi Province.

On 31 October 2012, Mr Zhang was also elected as Vice President of the China Cement Association (the "Association") at the 7th General Meeting of the Association held in Beijing on that date.

Through these social positions, Mr. Zhang is able to maintain close contact with industry partners and local government so as to keep abreast of the latest development of the cement industry and government policies. Mr. Zhang received professional training in economic management from Peking University in July 2001.

Mr. Tian Zhenjun — Chief Executive Officer

Mr. Tian, aged 52, is an executive Director of the Company. He is also the Chief Executive Officer of the Company and is responsible for the Group's overall administrative, human resources and operational management. Mr. Tian is a director of a number of the Group's subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai and Hetian Yaobai.

Mr. Tian received an undergraduate degree in accountancy from Shaanxi Finance & Economy College in December 2001. From August 1988 to August 1998, Mr. Tian served as the accounting manager of the Pucheng County Coal Mine, a local state-owned enterprise. He joined Shaanxi Yaobai in September 1998 and has held several positions in our Group, including general accountant, director of the finance department, assistant general manager and sales manager. Mr. Tian became a certified accountant in the PRC in October 1994.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Jianli — Deputy Chief Executive Officer

Mr. Wang, aged 49, is an executive Director of the Company. He is a deputy chief executive officer of the Group and is also a director of a number of the Group's subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai,Xixiang Yaobai and Hetian Yaobai. He is mainly responsible for the Group's overall production management, technology quality assurance, safety and environmental protection, efficiency management and project management.

Mr. Wang graduated from Xi'an University of Technology (formerly known as Shaanxi College of Machinery) with a bachelor's degree in engineering in December 1990. Mr. Wang has more than 28 years of experience in the cement industry. He worked at the Shaanxi Design & Research Institute of Building Materials, an integrated research institute supervised by the Science and Technology Department of Shaanxi Province and specializes in the scientific research and designing of construction materials. From December 1982 to February 2002, he held a range of positions including technician, assistant engineer, engineer, senior engineer, deputy director of design institute, director of design institute and assistant to the dean; and he had been engaged in the design and technical management of cement plants during such period.

Mr. Wang has been the Chief Engineer of the Group since March 2002 and was in charge of the design and construction of our various cement production lines at amongst others Pucheng, Lantian, Xunyang, Yangxian, Mianxian, Xixiang and Xinjiang Yutian. Through such engagement, he has accumulated valuable management experience and technical knowledge. Mr. Wang has also published technical theses in cement industry journals.

Ms. Low Po Ling — Deputy Chief Executive Officer & IR Director

Ms. Low, aged 37, is an executive Director of the Company. She is also a deputy chief executive officer of the Group and Investor Relations Director. She is responsible mainly for the Group's strategic development, merger and acquisition advisory and capital market and investor relations.

Ms. Low has over 10 years experience in the accounting and finance industries and has worked in Malaysia, Singapore and the United Kingdom. Before joining our Group, Ms. Low was an associate director of Goldenway Capital and Chang'an Capital. The former is a corporate finance advisory and investment company in Beijing and the latter is a private equity investment company in Beijing. Previously, she was an associate consultant of PricewaterhouseCoopers Consulting SdnBhd in Kuala Lumpur Malaysia; a senior auditor of BDO International in Singapore; a consultant of BDO London and a corporate finance executive with PKF (UK) LLP in London.

Ms. Low has been a member of the Association of Chartered Certified Accountants (ACCA) since 2000 and became a fellow member in 2003. She has considerable corporate finance experience and has participated in numerous successful equity and debt fund raisings and initial public offering projects.

Non-executive Directors

Mr. Ma Zhaoyang — Non-executive Director

Mr. Ma, aged 44, was appointed as a non-executive Director of the Company on 29 July, 2010. Mr. Ma received a master's degree in management from Northwestern Polytechnic University in May 1998. Mr. Ma has been a professor of management at Northwestern Polytechnic University in Shaanxi, China since 1996. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma was appointed a non-executive Director of the Company and assumes an advisory role with the Company in respect of the overall strategic planning and operation of its business. Mr. Ma has been the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada since June 2009. He has also been a non-executive director of Taihua PLC, a pharmaceutical company listed on the LSE, where he has assumed an advisory role since December 2006. He is currently and has been an independent non-executive director of Xi'an Kaiyuan Holding Group Co., Ltd., a company listed on the Shenzhen Stock Exchange which is principally engaged in department store retail businesses and where he has assumed an advisory role since May 2006.

Mr. Ma Weiping — Non-executive Director

Mr. Ma, aged 51, was appointed as a non-executive Director of the Company in June 2012. He has over 20 years of management and technical experience in the building materials industry in both the United States of America and China. From 1996 to 2002, Mr. Ma served as a senior process engineer and project manager for Holcim in Michigan, United States. From 2002 to 2005, Mr. Ma served as a vice president of marketing and sales for Lafarge (China) in Beijing and served in a similar position for Lafarge Shuion Cement from 2005 to 2008. From 2008 to 2009, he served as a general manager and vice president for Lafarge A&C in Chongqing. Preceding his appointment as a non-executive Director, from 2009 to June 2012, Mr. Ma was also a chief representative and managing director of Fuping Cement, a company wholly owned by Italcementi Group. Mr. Ma currently cooperates with Italcementi Group in South-East Asia.

Mr. Ma received a bachelor's degree in Inorganic and Non-Metallic Materials from Tongji University, Shanghai in 1982, a master's degree in Solid State Science and a Ph.D in Material Science and Engineering from Pennsylvania State University in 1991 and 1994, respectively. Mr. Ma also obtained a Master of Business Administration in Integration Management from Michigan State University in 2002.

Independent non-executive Directors

Mr. Lee Kong Wai Conway —
Independent non-executive Director

Mr. Lee, aged 58, was appointed an independent non-executive Director of the Company on 29 July, 2010. Mr. Lee serves as Chairman of the audit committee of the Company, member of the remuneration committee of the Company, and also member of the nomination committee of the Company. He is mainly responsible for reviewing and advising the financial reporting process, audit process, internal control and risk management systems of the Group and providing independent advice to the Board on various financial and corporate governance matters.

Mr. Lee received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young over the past 29 years and held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of China Taiping Insurance Holdings Company Limited, Chaowei Power Holdings Limited, China Modern Dairy Holdings Limited, Gome Electrical Appliances Holding Limited, Citic Securities Company Limited and NVC Lighting Holding Limited, companies listed on the main board of the HKSE since October 2009, July 2010, November 2010, March 2011, November 2011 and November 2012, respectively. He was also an independent non-executive director of Sino Vanadium Inc., a company listed on the TSX Venture Exchange in Canada between October 2009 and December 2011. Mr. has been appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China since 2007.

Mr. Wong Kun Kau —
Independent non-executive Director

Mr. Wong, aged 52, was appointed an independent non-executive Director of the Company on 29 July, 2010. Mr. Wong serves as the members of audit committee and remuneration committee of the Company. He is mainly responsible for bringing an independent judgement to bear on issues of strategy, policy, performance, accountability and resources of the Company. Making use of his extensive experience in investment and capital market, he is also responsible for advising the Company on its investment strategies and business development.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Wong received a bachelor's degree in social sciences from the University of Hong Kong in November 1982. He has 28 years of experience in fund management, securities broking and corporate financing involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganizations and other general corporate advisory activities. Mr. Wong has extensive experience in the Greater China region markets. He is the founder and currently the managing partner of Bull Capital Partners Ltd, a direct investment fund management company. Before founding Bull Capital Partners Ltd., Mr. Wong was the Head of Asia Investment Banking of BNP Paribas Capital (Asia Pacific) Limited from 2002 to 2007. Mr. Wong is also a non-executive Director of Sun. King Power Electronics Group Limited, a company listed on the main board of the HKSE since October 2010 and an independent non-executive director of Anhui Conch Cement Company Limited, a company listed on the main board of the HKSE since October 1997.

Mr. Tam King Ching Kenny —
Independent non-executive Director

Mr. Tam, aged 63, was appointed as an independent non-executive Director of the Company on July 29, 2010. Mr. Tam serves as chairman of remuneration committee of the Company and also the members of the audit committee and nomination committee of the Company. He is mainly responsible for overseeing the policy and structure of the remuneration for Directors and senior management of the Company. He is also responsible for monitoring the Company's performance in achieving agreed corporate goals and objectives, and taking the lead where potential conflicts of interest arise.

Mr. Tam received a bachelor's degree in commerce from the Concordia University in November 1975. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Tam is serving as a member of the Small and Medium Practitioners Leadership Panel and Practice Review Committee in the Hong Kong Institute of Certified Public Accountants. He is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam also serves as an independent non-executive director of five other listed companies on the main board of the HKSE, namely, Kingmaker Footwear Holdings Limited, CCT Telecom Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited and Van Shung Chong Holdings Limited since May 1994, December 1999, February 1996, July 2004 and September 2004, respectively, and a listed company on the GEM board of the HKSE, namely, North Asia Strategic Holdings Limited, till February 2013.

SENIOR MANAGEMENT

Yaobai Group

Mr. Li Wenyu — Deputy Chief Executive Officer

Mr. Li, aged 52, is mainly responsible for sales and marketing of our products. He is also a director of Shaanxi Yaobai and Longqiao Yaobai. Mr. Li received professional training in business operations from Northwest University of China in March 2003. Mr. Li served as the director of supply and marketing division of PuchengShangwang Construction Material Co., Ltd. from February 1993 to October 1997 and has been involved in the building materials industry for many years. In 1997, Mr. Li joined Shaanxi Yaobai and has held several positions in the Group including head officer of general logistics department, sales manager, general manager and chief sales officer.

Mr. Chen Zhixin — Chief Administrative Officer

Mr. Chen, aged 52, is also a director of a number of the Group's subsidiaries including Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai and Jianghua Yaobai. Mr. Chen received an undergraduate degree in commanding communications from the PLA Commanding Communications Academy in July 2000. From February 1978 to December 2002, Mr. Chen worked for the army of the PRC. From December 2002 to September 2005, he worked as vice general manager of the Shaanxi West Cyber Information Co. Ltd. Mr. Chen joined Shaanxi Yaobai in September 2005 and has held several positions in our Group including assistant to the general manager of Shaanxi Yaobai, vice general manager of Shaanxi Yaobai, general manager of a branch office of Shaanxi Yaobai and general manager of Ankang Yaobai.

Mr. Li Yongji — Chief Financial Officer

Mr. Li, aged 34, is mainly responsible for finance and operating management of Yaobai Group. Mr. Li is also a director of Longqiao Yaobai. Mr. Li received a diploma in accounting from Xi'an Jiaotong University in December 2004. Mr. Li joined the Group in August 2002 and has worked in several departments of the Group including finance department, Lantian project department, and investment and development department. Mr. Li obtained the certificate for medium level accountant issued by Finance Department of PRC in May 2005 and a certified tax planner in the PRC in March 2009.

Mr. Yang Junqi — Chief Audit Officer

Mr. Yang, aged 36, is mainly responsible for auditing management of Yaobai Group. Mr. Yang took MBA training course for senior managements from Northwest University of China in December 2004 and received a diploma in accounting from Xi'an Jiaotong University in June 2008. Mr. Yang joined Shaanxi Yaobai in July 1998 and has held several positions in the Group including manager of the finance department, assistant chief financial officer, deputy operating supervisor and chief accountant and chief financial officer of Shaanxi Yaobai.

West China Cement Limited

Mr. Chan King Sau — Chief Financial Officer and Company Secretary

Mr. Chan, aged 35, joined the Company on 1 June, 2010. Mr. Chan was an assistant financial controller of the Company before being appointed as chief financial officer of the Company. He was also appointed as the company secretary of the Company since June 2012. From September 2000 to August 2008, Mr. Chan worked for Ernst & Young, in a range of positions including staff accountant, senior accountant and manager. From September 2008 to October 2009, Mr. Chan worked for Nineyou International Limited, an online game operator as chief financial officer and company secretary. He graduated from University of Hong Kong with a bachelor's degree in finance in November 2000. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

DIRECTORS' REPORT

The Directors are pleased to present the annual report of the Company, including the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group's principal business activities are the manufacture and sales of cement and cement products. The activities of the principal subsidiaries are set out on pages 97 to 99 of this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2012.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 43.

The Board has recommended the payment of a final dividend of RMB0.02 per share for the year ended 31 December 2012.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2012 (the "Annual General Meeting") 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 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 to be held on 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 is 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, 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).

TAX RELIEF

The Company is not aware of any tax relief or exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set forth in the movement in reserves on page 101 and the consolidated statement of changes in equity on page 46, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies (Jersey) Law 1991 as amended (the "Law"), amounted to approximately RMB2,663.3 million, of which approximately RMB90.9 million has been proposed as a final dividend for the year ended 31 December 2012. Under the Law, a company may make distribution to its shareholders out of the share premium account provided that the other requirements of the Law are followed.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2012 amounted to RMB2.7 million (2011: RMB1.9 million).

PROPERTY, PLANT AND EQUIPMENT

Details of movement of property, plant and equipment of the Group, during the year ended 31 December 2012 are set out in note 18 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of the movements in share capital and share options of the Company during the year under review are set forth in note 27 and note 36 to the consolidated financial statements, respectively.

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.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Articles and the laws of Jersey, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, total sales attributable to the top five customers of the Group were less than 9% of total sales of the Group.

For the financial year ended 31 December 2012, total purchase attributable to the largest supplier accounted for approximately 17% of the total purchase of the Group and total purchases attributable to the top five suppliers of the Group were approximately 46% of total purchases of the Group.

At no time during the year did any Director or any shareholder of the Company have an interest in any of the Group's five largest suppliers or customers.

DIRECTORS' REPORT

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Zhang Jimin *(Chairman)*
Mr. Tian Zhenjun *(Chief executive officer)*
Mr. Wang Jianli
Ms. Low Po Ling

Non-executive Directors

Mr. Ma Zhaoyang
Mr. Ma Weiping

Independent non-executive Directors

Mr. Lee Kong Wai Conway
Mr. Wong Kun Kau
Mr. Tam King Ching Kenny

According to Article 23 of the Articles, any Director so appointed shall hold office until the next following Annual General Meeting of the Company and shall then be eligible for re-election at such meeting. A circular containing the explanatory statement on repurchase by the Company of its shares, the biographical details of the director candidates and the notice of Annual General Meeting will be sent to shareholders of the Company.

None of the Directors has any financial, business, family or other material/relevant relationships with one another.

DIRECTORS' AND SENIOR MANAGEMENTS BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set forth on pages 27 to 31 of the Annual Report.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS OF THE COMPANY

Details of the emoluments of the Directors and the five highest paid individuals of the Company during the year ended 31 December 2012 are set in note 16 and note 17 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident fund legislation, subject to a cap of HKD1,250 per month.

Particular of the Group's retirement benefit schemes for its employees in Mainland China are set out in note 37 to the consolidated financial statements.

DIRECTORS' INTERESTS IN SIGNIFICANT CONTRACTS

No contract of significance in relation to the Group's business, to which the Company, its holding company, its controlling shareholder, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, and subsisted at the end of the financial year under review or at any time during the year under review.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors and non-executive Directors of the Company entered into a service contract with the Company for terms of one year and three years which may only be terminated in accordance with the provisions of the service contract by either party giving to the other not less than three months' prior notice in writing.

The Company has entered into an appointment letter with each of the independent non-executive Directors of the Company for a term of one year, and appointment of which will only be terminated by either party giving to the other not less than three months prior notice in writing.

No Director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than normal statutory compensation.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has given an annual confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the independence guideline set forth in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Directors' and Chief Executive's Interests and Short Positions" and the "Share Option Schemes" below, at no time during the year ended 31 December 2012 was the Company, or any of its holding company or subsidiaries, a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTION

The related party transaction as disclosed in note 38 to the consolidated financial statements did not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2012, being the date of this report, the interests and short positions of the Directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(1) Interests in shares of the Company

As at 31 December 2012:

Name of Director	Number of ordinary shares held as at 31 December 2012 Capacity	Total *(Note 1)*	Approximate % of issued share capital of the Company as at 31 December 2012
Zhang Jimin	Interest of a controlled corporate	1,752,039,900 (L) *(Note 2)*	38.53%
Ma Zhaoyang	Interest of a controlled corporate	213,679,950 (L) *(Note 3)*	4.70%
Low Po Ling	Beneficial Owner	11,180,000 (L)	0.25%

Notes:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) These shares are held by Asia Gain Investments Limited ("Asia Gain") which is beneficially and wholly-owned by Zhang Jimin.

(3) These shares are held by Techno Faith Investments Limited ("Techno Faith") which is beneficially and wholly-owned by Ma Zhaoyang.

(2) Interests in underlying shares of the Company - equity derivatives of the Company

As at 31 December 2012:

Name of Director	Capacity	Number of underlying shares in respect of the share options granted under the Post-IPO Share Option Scheme	Approximate % of issued share capital of the Company as at 31 December 2012
Tian Zhenjun	Beneficial Owner	3,000,000	0.066%
Wang Jianli	Beneficial Owner	2,000,000	0.044%
Ma Zhaoyang	Beneficial Owner	300,000	0.007%
Lee Kong Wai Conway	Beneficial Owner	300,000	0.007%
Wong Kun Kau	Beneficial Owner	300,000	0.007%
Tam King Ching Kenny	Beneficial Owner	300,000	0.007%

Save as disclosed above, as at 31 December 2012, none of the Directors, chief executives of the Company and their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares or debentures of the Company or any or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the HKSE pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the HKSE pursuant to the Model Code.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

During the year ended 31 December 2012, the Directors were not aware of any business or interest of the Directors or any substantial shareholder of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interest which any such person had or might have with the Group.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at 31 December 2012, being the date of this report, the persons other than a Director or chief executive of the Company who had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of SFO were as follows:

Name of shareholder	Capacity	As at 31 December 2012 Number of ordinary shares of £0.002 each held *(Note 1)*	As at 31 December 2012 Approximate % of issued share capital of the Company
Asia Gain *(Note 2)*	Beneficial owner	1,752,039,900 (L)	38.53%
Zhang Jimin *(Note 2)*	Interest of a controlled corporation	1,752,039,900 (L)	38.53%
Cimfra (China) Limited ("Cimfra") *(Note 3)*	Beneficial owner	284,200,000 (L)	6.25%
Ciments Français SA ("Ciments") *(Note 3)*	Interest of a controlled corporation	284,200,000 (L)	6.25%
Italcementi S.p.A. ("Italcementi") *(Note 3)*	Interest of a controlled corporation	284,200,000 (L)	6.25%
Genesis Asset Managers, LLP	Beneficial owner	316,999,184 (L)	6.97%
Genesis Fund Managers, LLP	Beneficial owner	263,898,000 (L)	5.80%
FIL Limited	Beneficial owner	233,292,000 (L)	5.13%

Notes:

(1) The letter "L" denotes the person's long position in such securities and the letter "S" denotes the person's short position in such securities.

(2) Asia Gain is beneficially and wholly-owned by Zhang Jimin.

(3) Cimfra is beneficially and wholly-owned by Ciments and Italcementi.

Save as disclosed above, the Company has not been notified by any person who had interests or short position in the shares or underlying shares of the Company as at 31 December 2012 which were required to be notified to the Company pursuant to part XV of the Securities and Futures Ordinance or which are recorded in the register required to be kept by the Company under the section 336 of the Securities and Futures Ordinance.

ENFORCEMENT OF THE DEED OF NON-COMPETITION

Each of Mr. Zhang Jimin, Asia Gain, Ms. Zhang Lili and Central Glory Holdings Limited has undertaken to the Company, subject to the exceptions mentioned in the Company's prospectus dated 10 August 2010 (the "Prospectus") that each of them will not engage in any cement production business and details of such deed of non-competition dated 29 July 2010 are set out in the Prospectus .

The Company has received from each of Mr. Zhang Jimin, Asia Gain, Ms. Zhang Lili and Central Glory Holdings Limited an annual confirmation that it/he/she has complied with its/his/her obligations under the deed of non-competition during the year ended 31 December 2012.

SHARE OPTION SCHEMES

The Company has adopted a share option scheme (the "Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme") on 27 October 2006 and 31 March 2010, respectively.

A. Share Option Scheme

The Share Option Scheme was an old scheme adopted on 27 October 2006, when the Company was listed on the Alternative Investment Market (the "AIM") of the London Stock Exchange. All of the share options granted under this scheme have been exercised as at 31 December 2011. No more new share option will be granted under this scheme. This scheme has been superseded by the Post-IPO Share Option Scheme adopted on 31 March 2010.

B. Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme:

1. Purpose of the Post-IPO Share Option Scheme:

The Post-IPO Share Option Scheme is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph 2 below) had or may have made to the Group. The Post-IPO Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

2. Participants of the Post-IPO Share Option Scheme

The Board may, at its discretion, offer to grant an option to the following persons (collectively the "Eligible Participants") to subscribe for such number of new shares as the Board may determine:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and

(iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to the Company or any of its subsidiaries.

3. Total number of shares available for issue under the Post-IPO Share Option Scheme and percentage of issued share capital as at 23 August 2010:

The maximum number of shares which maybe issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme shall not in aggregate exceed 411,553,185 shares (representing 10% of the issued share capital of the Company as at 23 August 2010).

4. **Maximum entitlement of each participant under the Post-IPO Share Option Scheme:**
The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Post-IPO Share Option Scheme and any other share option schemes of the Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

   (i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

   (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his/her associates (as defined in the Listing Rules) abstaining from voting.

5. **The period within which the shares must be exercised under the Post-IPO Share Option Scheme:**
An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall not be more than 10 years from the date of grant of options subject to the provisions for early termination set out in the Post-IPO Share Option Scheme.

6. **The minimum period for which an option must be held before it can be exercised:**
There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.

7. **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid:**
Options granted must be taken up within 21 days of the date of offer, upon payment of HKD1 per grant.

8. **The basis of determining the exercise price:**
Determined by the Board but shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the HKSE daily quotation sheets on the date of grant of options, which must be a trading day; (ii) the average closing price of the ordinary shares as stated in the HKSE daily quotation sheets for the five business days immediately preceding the date of grant of options; and (iii) the nominal value of an ordinary share.

9. **The remaining life of the Post-IPO Share Option scheme:**
It will remain in force for a period of 10 years.

Movements of the share options granted under the Post-IPO Share Option Scheme

During the year ended 31 December 2012:

Category and name of participant	Date of grant of share options	Exercise price (HKD)	Exercise period	Number of ordinary shares subject to share options granted under the Post-IPO Share Option Scheme: Outstanding as at 1 January 2012	Granted during the year ended 31 December 2012	Exercised during the year ended 31 December 2012	Lapsed during the year ended 31 December 2012	Outstanding as at 31 December 2012
Directors								
Tian Zhenjun	23 March 2011	3.41	23 March 2012 to 22 March 2021	3,000,000	–	–	–	3,000,000
Wang Jianli	23 March 2011	3.41	23 March 2012 to 22 March 2021	2,000,000	–	–	–	2,000,000
Ma Zhaoyang	23 March 2011	3.41	23 March 2012 to 22 March 2021	300,000	–	–	–	300,000
Lee Kong Wai, Conway	23 March 2011	3.41	23 March 2012 to 22 March 2021	300,000	–	–	–	300,000
Wong Kun Kau	23 March 2011	3.41	23 March 2012 to 22 March 2021	300,000	–	–	–	300,000
Tam King Ching, Kenny	23 March 2011	3.41	23 March 2012 to 22 March 2021	300,000	–	–	–	300,000
Other employees (Group A)	23 March 2011	3.41	23 March 2012 to 22 March 2021	9,000,000	–	–	–	9,000,000
Other employees (Group B)	23 March 2011	3.41	23 March 2014 to 22 March 2021	3,200,000	–	–	1,000,000	2,200,000
Total				18,400,000	–	–	1,000,000	17,400,000

Note:

1. The closing price of the shares of the Company immediately before the date on which the share options were granted was HKD3.32 per share.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December 2012 and as at the date of this annual report.

AUDITORS

Deloitte Touche Tohmatsu will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board of Directors
Zhang Jimin
Chairman

18 March 2013

INDEPENDENT AUDITORS' REPORT

Deloitte.
德勤

TO THE MEMBERS OF WEST CHINA CEMENT LIMITED
(incorporated in Jersey with limited liability)

We have audited the consolidated financial statements of West China Cement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 101, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors of the company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

18 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	**2012** **RMB'000**	2011 RMB'000
Revenue	*7*	**3,524,117**	3,190,479
Cost of sales		**(2,848,920)**	(2,306,088)
Gross profit		**675,197**	884,391
Other income	*8*	**155,833**	156,693
Selling and marketing expenses		**(32,754)**	(31,537)
Administrative expenses		**(202,117)**	(183,123)
Other gains and losses, net	*9*	**490**	111,245
Interest income	*10*	**1,928**	10,407
Finance costs	*11*	**(139,993)**	(184,787)
Profit before tax	*12*	**458,584**	763,289
Income tax expense	*13*	**(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)	*15*	**0.083**	0.155
— Diluted (RMB)	*15*	**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	*18*	**7,829,666**	6,352,020
Prepaid lease payments	*19*	**450,000**	292,269
Mining rights	*20*	**139,249**	131,663
Other intangible assets	*21*	**171,826**	110,293
Deferred tax assets	*23*	**36,755**	24,901
		8,627,496	6,911,146
Current assets			
Inventories	*24*	**468,602**	381,926
Trade and other receivables and prepayments	*25*	**683,973**	561,474
Restricted bank deposits	*26*	**149,881**	36,526
Bank balances and cash	*26*	**368,936**	529,612
		1,671,392	1,509,538
Total assets		**10,298,888**	8,420,684
EQUITY			
Share capital	*27*	**124,715**	119,119
Share premium		**2,136,463**	1,855,760
Equity reserve	*28*	**(302,264)**	(333,180)
Statutory reserve	*28*	**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 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	29	**144,000**	205,000
Senior notes	30	**2,468,506**	2,462,009
Asset retirement obligation	31	**12,991**	10,446
Deferred tax liabilities	23	**9,636**	10,964
Other liabilities	32	**51,971**	44,251
		2,687,104	2,732,670
Current liabilities			
Trade and other payables	33	**1,484,434**	841,774
Senior notes	30	**78,544**	78,762
Income tax payable		**23,812**	22,937
Borrowings	29	**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

The consolidated financial statements on pages 43 to 101 were approved and authorised for issue by the Board of Directors on 18 March 2013 and are signed on its behalf by:

Zhang Jimin
DIRECTOR

Tian Zhenjun
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Equity reserve RMB'000 *(Note 28)*	Share option reserve RMB'000	Statutory reserve RMB'000 *(Note 28)*	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	118,850	2,001,917	(341,304)	593	220,388	1,540,448	3,540,892	33,124	3,574,016
Profit and total comprehensive income for the year	–	–	–	–	–	662,128	662,128	(1,727)	660,401
Profit appropriations	–	–	–	–	155,886	(155,886)	–	–	–
Acquisition of additional interests in a subsidiary *(Note 28)*	–	–	8,124	–	–	–	8,124	(33,124)	(25,000)
Acquisition of subsidiaries *(Note 34)*	–	–	–	–	–	–	–	110,793	110,793
Recognition of equity-settled share-based payments *(Note 36(c))*	–	–	–	4,812	–	–	4,812	–	4,812
New shares issued for exercise of share options *(Note 36(a))*	269	4,091	–	(593)	–	–	3,767	–	3,767
Dividend recognised as distribution *(Note 14)*	–	(150,248)	–	–	–	–	(150,248)	–	(150,248)
At 31 December 2011	119,119	1,855,760	(333,180)	4,812	376,274	2,046,690	4,069,475	109,066	4,178,541
Profit and total comprehensive income for the year	–	–	–	–	–	364,881	364,881	7,645	372,526
Profit appropriations	–	–	–	–	29,513	(29,513)	–	–	–
Acquisition of additional interests in a subsidiary *(Note 28)*	–	–	30,916	–	–	–	30,916	(80,916)	(50,000)
Acquisition of subsidiaries *(Note 34)*	5,596	341,128	–	–	–	–	346,724	55,076	401,800
Recognition of equity-settled share-based payments *(Note 36(c))*	–	–	–	4,360	–	–	4,360	–	4,360
Dividend recognised as distribution *(Note 14)*	–	(60,425)	–	–	–	–	(60,425)	–	(60,425)
At 31 December 2012	124,715	2,136,463	(302,264)	9,172	405,787	2,382,058	4,755,931	90,871	4,846,802

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	**2012** **RMB'000**	2011 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**458,584**	763,289
Adjustments for:			
Finance costs		**139,993**	184,787
Interest income		**(1,928)**	(10,407)
Exchange gains		**(6,012)**	(112,460)
Depreciation of property, plant and equipment		**440,824**	316,928
Loss on disposal of property, plant and equipment		**996**	431
Amortisation of prepaid lease payments		**10,155**	6,690
Amortisation of mining rights		**10,647**	6,040
Amortisation of other intangible assets		**2,184**	2,129
Allowance (reversal for allowance) for doubtful debts		**424**	(5,153)
Government grants credited to income		**(4,555)**	(4,101)
Bargain purchase gain		**–**	(3,173)
Share option expenses		**4,360**	4,812
Operating cash flows before movements in working capital		**1,055,672**	1,149,812
Increase in inventories		**(13,657)**	(77,828)
Decrease (increase) in trade and other receivables and prepayments		**122,380**	(56,333)
Increase (decrease) in trade and other payables		**283,285**	(78,574)
Cash generated from operations		**1,447,680**	937,077
Income tax paid		**(73,370)**	(149,583)
Net cash from operating activities		**1,374,310**	787,494

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTES	**2012 RMB'000**	2011 RMB'000
INVESTING ACTIVITIES			
Interest received		**1,928**	10,407
Purchase of property, plant and equipment		**(563,136)**	(1,658,913)
Addition of prepaid lease payments		**(36,715)**	(16,701)
Purchase of mining rights		**(7,044)**	(71,629)
Purchase of other intangible assets		**(52)**	(166)
Proceeds from disposal of property, plant and equipment		**5,920**	3,470
Government grants received for acquisition of property, plant and equipment		**12,154**	12,837
Advances to subsidiaries before the acquisition date	*34*	**(617,142)**	–
Acquisition of subsidiaries, net of cash acquired	*34*	**(83,556)**	(665,252)
Withdrawal of restricted bank deposits		**6,906**	12,258
Placement of restricted bank deposits		**(120,261)**	(32,662)
Net cash used in investing activities		**(1,400,998)**	(2,406,351)
FINANCING ACTIVITIES			
New borrowings raised		**1,458,872**	810,000
Net proceeds from issuance of senior notes		**–**	2,563,240
Proceeds from exercise of share option		**–**	3,767
Repayment of borrowings		**(1,200,360)**	(1,285,939)
Dividends paid		**(60,425)**	(150,248)
Acquisition of additional interests in a subsidiary	*28*	**(50,000)**	(25,000)
Interest paid		**(283,981)**	(145,782)
Net cash (used in) from financing activities		**(135,894)**	1,770,038
Net increase in cash and cash equivalents		**(162,582)**	151,181
Cash and cash equivalents at 1 January		**529,612**	374,459
Effect of foreign exchange rate changes		**1,906**	3,972
Cash and cash equivalents at 31 December, represented by bank balances and cash		**368,936**	529,612

1. GENERAL INFORMATION

West China Cement Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sale of cement in western China, the People's Republic of China (the "PRC").

The Company was incorporated in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD and the principal place of business is Unit 1903, Tower A, Gaoke Plaza, Hi-Tech Industrial Development Zone, Xi'an, Shaanxi Province, the PRC.

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE").

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its principal subsidiaries.

2. 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.

3. 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.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") *(Cont'd)*

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.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and on the historical basis. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and subsidiaries controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Total comprehensive income of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Business combinations *(Cont'd)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount of the, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Acquisition of a subsidiary classified as an asset acquisition

In respect of the acquisition of a subsidiary that does not constitute a business, the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, intangible assets, see accounting policy on intangible assets) and liabilities assumed is identified and recognised by the Group. The cost of the Group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and presents amounts receivable for goods sold in the normal course of business, net of discount and sales related tax.

Revenue from the sale of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue recognition *(Cont'd)*

Interest income form a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Prepaid lease payments

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease.

Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Group's defined contribution retirement plans, including state-managed retirement schemes in PRC and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Except for mining assets (see notes (a) and (b) below), depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The annual rates of depreciation for above items of property, plant and equipment, other than construction in progress and mining assets, are as follows:

Category of property, plant and equipment	Rate
Property and plant	5%
Motor vehicles	12%
Electronic and other equipment	19%
Machinery	8%

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment *(Cont'd)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining assets amongst others, include the following:

(a) Stripping costs

Stripping costs incurred during the development of a limestone mine are capitalized into property, plant and equipment. Stripping costs incurred during the production phase which provide improved access to ore is recognised as a non-current asset ("stripping activity asset") when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part. Capitalized stripping costs are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

(b) Asset retirement obligation

The Group recognizes provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and mineral assets under property, plant and equipment when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortised as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at costs less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Mining rights

The cost of acquiring rights for the Group to extract a mine over a certain period is capitalized and subsequently stated at cost less accumulated amortisation and impairment loss. Amortisation of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on the unit of production method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income or interest expense is recognised on an effective interest basis.

Financial assets

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash, as well as restricted bank deposits) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets set out below).

Impairment of loans and receivables

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation;

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of loans and receivables *(Cont'd)*

For certain categories of loans and receivables carried at amortised cost, such as trade receivables and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 60–90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of trade receivables and other receivables is reduced by the impairment through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including borrowings, trade and other payables and senior notes are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Equity-settled share-based payment transactions

The share options granted to employees are measured at the fair value of the share options at the grant date. The fair value determined is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

Impairment losses on tangible and intangible assets (excluding goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

5. FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (borrowings and senior notes as detailed in Notes 29 and 30, offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves as detailed in Notes 27 and 28, and retained earnings).

The directors of the Company review the capital structure on a semi-annual basis. In order to maintain or adjust the capital structure, the Group will balance its overall capital structure through adjust the payment of dividends paid to shareholders, issue new shares or issue of new debt or the redemption of existing debt.

b. Categories of financial instruments

	2012 **RMB'000**	2011 RMB'000
Financial assets		
— Loans and receivables (including cash and cash equivalents)	**830,431**	909,425
Financial liabilities		
— Amortised cost	**5,037,358**	3,969,740

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, restricted bank deposits, bank balances and cash, trade and other payables, borrowings and senior notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate risk. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk

The Group undertakes transactions, mainly the issuance of senior notes and new shares as well as borrowings, denominated in foreign currencies other than the functional currency of RMB. Hence, exposures to exchange rate fluctuations arise.

5. FINANCIAL INSTRUMENTS *(Cont'd)*

c. Financial risk management objectives and policies *(Cont'd)*

Market risks *(Cont'd)*

(i) Foreign currency risk *(Cont'd)*

The Group does not use derivative financial instruments to hedge its foreign currency risk. However, management monitors foreign currency exposure and will consider hedging significant exposure should the need arise. The carrying amounts of Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	31/12/2012	31/12/2011	**31/12/2012**	31/12/2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States Dollar ("US$")				
— Bank balances and cash	**–**	–	**10,230**	25,019
— Senior notes	**2,547,050**	2,540,771	**–**	–
— Borrowings	**96,192**	–	**–**	–
Other foreign currency (including Hong Kong Dollar, Great Britain Pound and Singapore Dollar)				
— Bank balances and cash	**–**	–	**3,898**	5,396

The Group is mainly exposed to the fluctuation in US$ against RMB.

The directors' assessment of the reasonably possible change in foreign exchange rate is 10% which is also the sensitivity rate used when reporting foreign currency risk internally to key management personnel. For a 10% weakening of RMB against US$, there will be a decrease in the post-tax profit for the year of RMB261,858,000 (2011: RMB251,575,000) and there would be an equal but opposite impact on the post-tax profit for the year for a 10% strengthen of RMB against US$.

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate borrowings and senior notes (as detailed in Note 29 and Note 30). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (as detailed in Note 29). The Group's variable-rate borrowings are mainly affected by movements in Interbank Borrowing Rates and the interest rates quoted by People's Bank of China. It also affected by the fluctuation of LIBOR arising from the Group's US$ denominated borrowings. The Group does not have formal policies on managing interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The directors of Company are of the opinion that the Group's exposure to cash flow interst rate risk in relation to variable-rate bank deposits is considered insignificant.

The Group's sensitivity to interest rate risk has been determined based on the exposure for non-derivative instruments at the end of each of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

5. FINANCIAL INSTRUMENTS *(Cont'd)*

c. Financial risk management objectives and policies *(Cont'd)*

Market risks *(Cont'd)*

(ii) Interest rate risk *(Cont'd)*

If interest rate had been 50 basis points higher/lower based on and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2012 would be decreased/increased by approximately RMB3,695,000 (2011: decreased/increased by RMB844,000).

Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables, bank balances and cash, restricted bank deposits. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group also reviews the recoverable amount of each individual debt regularly at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on trade receivables is significantly reduced. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers and independent third parties from whom the balances are receivable.

The credit risk on liquid funds is limited because the counter parties are authorised banks in the PRC and Hong Kong.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirement. The Group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities, by continuing monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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.

5. FINANCIAL INSTRUMENTS *(Cont'd)*

c. Financial risk management objectives and policies *(Cont'd)*

Liquidity risk *(Cont'd)*

The management monitors the utilisation of bank borrowings and senior notes and ensures compliance with relevant agreements covenants. As of 31 December 2012, the Group has obtained full waivers from all the relevant banks against its non-compliance with certain covenants relating to use of loan proceeds during the year, as detailed in Note 29.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. To the extent that interest payments are floating rate the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average effective interest rate %	Less than 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2012						
Trade and other payables	–	1,154,523	13,593	–	1,168,116	1,168,116
Borrowings (principal and interest)						
— variable rates	2.30–7.22	789,069	111,024	–	900,093	871,192
— fixed rates	5.6-15	414,699	49,041	–	463,740	445,000
— non-interest bearing	–	2,000	–	4,000	6,000	6,000
Senior notes	8.04	188,565	188,565	2,797,048	3,174,178	2,547,050
		2,548,856	362,223	2,801,048	5,712,127	5,037,358

	Weighted average effective interest rate %	Less than 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Total undiscounted cash flow RMB'000	Carrying amount RMB'000
At 31 December 2011						
Trade and other payables	–	646,493	11,476	–	657,969	657,969
Borrowings (principal and interest)						
— variable rates	6.06–7.22	593,493	203,911	–	797,404	765,000
— non-interest bearing	–	1,000	2,000	3,000	6,000	6,000
Senior notes	8.04	189,027	189,027	2,992,928	3,370,982	2,540,771
		1,430,013	406,414	2,995,928	4,832,355	3,969,740

The amounts included above for variable interest rate non-derivative financial liabilities are subject to change if changes in interest rates differ to those estimates of interest rates determined at the end of the reporting period.

5. FINANCIAL INSTRUMENTS *(Cont'd)*

d. Fair values of financial instruments

The fair values of financial assets and financial liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values other than senior notes, which set out in Note 30.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill and customer relationship

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the impairment loss and recoverable amount calculation are set out in Note 22.

Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. These estimates may change in the future as a result of technical innovations and competitor actions. The directors of the Company will increase depreciation charges where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the long-term growth rates used for extrapolation purposes. During the year ended 31 December 2012, the overall decline in construction and development activities in certain locations in which the Group's subsidiaries operate as well as the on-going economic uncertainty have led to a decreased demand in those business locations. As the result of unexpected lower performance of the business locations, the Group carried out a review of the recoverable amount of the plants and the related equipment in those business locations. The review led to the recognition of no impairment loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 15.27% per annum and the average long term growth rate was 6% to 18%. No impairment assessment was performed in 2011 as there was no indication of impairment.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Income tax

There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the year in which such determination is made.

As at 31 December 2012, deferred tax asset of RMB36,755,000 (2011: RMB24,901,000) has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

Impairment on trade and other receivables

The Group makes allowance for and write-off of bad and doubtful debts based on an assessment of the recoverability of the receivables. Receivables may be impaired where events or changes in circumstances indicate that the balances may not be collectable. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the receivables and doubtful debts expenses in the year in which such estimate has been changed. As at 31 December 2012, the aggregate carrying amount of trade and other receivables is approximately RMB483,936,000 (2011: RMB345,912,000). Details of movements of allowance for doubtful debts are disclosed in Note 25.

Operating licences

The Group's licences to operate at each of mines expire at various dates from December 2012 to December 2022. The directors of the Company believe that the Group will be able to renew these licences at their option and at minimal cost, provided the Group complies with the terms of the licence. The useful lives of the Group's mining assets included in property, plant and equipment of approximately RMB645,119,000 (2011: RMB566,953,000), and mining rights of approximately RMB139,249,000 (2011: RMB131,663,000) and the Group's operating results would be adversely affected if any licences could not be renewed.

Impairment of inventories

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the directors' judgment and estimates. Where expectation is different from an original estimate, the difference will impact the carrying values of inventories and may result in write-downs of inventories in the period in which such estimates have been changed.

Asset retirement obligation

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, the Group is presently not involved in any environmental remediation and has not incurred any amounts for environmental remediation relating to its operations. The environmental provision is based on the directors' best estimate of future expenditure (Note 31). Under existing legislation, the directors of the Company believe that there are no further probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards, which could require increased expenditure in the future.

7. 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.

8. OTHER INCOME

	2012 **RMB'000**	2011 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 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.

9. OTHER GAINS AND LOSSES, NET

	2012 **RMB'000**	2011 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 *(Note 34)*	**–**	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.

10. INTEREST INCOME

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

11. FINANCE COSTS

	2012 RMB'000	2011 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 *(Note 31)*	**676**	545
	139,993	184,787

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

12. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 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

13. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current tax	**74,245**	112,972
Deferred tax *(Note 23)*	**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).

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

	2012 RMB'000	2011 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

13. INCOME TAX EXPENSE *(Cont'd)*

(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.

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.

14. DIVIDEND

	2012 RMB'000	2011 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.

15. EARNINGS PER SHARE

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

	2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	364,881	662,128

Number of shares	2012 '000	2011 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share and diluted earnings per share	4,415,611	4,258,993

The calculation of diluted earnings per share did not take into account the share options of the Company for the year ended 31 December 2012 and 2011 because the exercise price of the Company's share options was higher than the average market price of the Company's share, and hence their effects would have been anti-dilutive.

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors were as follows:

2012	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share options scheme accrued RMB'000	Total RMB'000
Executive directors					
Zhang Jimin	–	1,200	–	–	1,200
Low Po Ling	–	720	2	–	722
Wang Jianli	–	817	23	528	1,368
Tian Zhenjun	–	1,006	12	793	1,811
Non-executive directors					
Ma Zhaoyang	244	–	–	79	323
Ma Weiping	132	–	–	–	132
Independent non-executive directors					
Lee Kong Wai Conway	244	–	–	79	323
Wong Kun Kau	244	–	–	79	323
Tam King Ching Kenny	244	–	–	79	323
	1,108	3,743	37	1,637	6,525

2011	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share options scheme accrued RMB'000	Total RMB'000
Executive directors					
Zhang Jimin	–	1,210	17	–	1,227
Low Po Ling	–	720	–	–	720
Wang Jianli	–	809	21	557	1,387
Tian Zhenjun	–	1,011	21	836	1,868
Non-executive directors					
Ma Zhaoyang	248	–	–	84	332
Independent non-executive directors					
Lee Kong Wai Conway	248	–	–	84	332
Wong Kun Kau	248	–	–	84	332
Tam King Ching Kenny	248	–	–	84	332
	992	3,750	59	1,729	6,530

16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Cont'd)*

Mr Tian Zhenjun is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

Neither the chief executive nor any of the directors waived any emoluments in both years.

Mr. Ma Weiping was appointed as non-executive director on 18 June 2012.

17. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2011: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures in Note 16 above. The emoluments of the remaining two (2011: two) individuals were as follows:

	2012	2011
	RMB'000	RMB'000
Basic salaries and allowances	**1,601**	1,485
Pension costs — defined contribution plans	**22**	31
Share options expenses	**528**	665
	2,151	2,181

The above employees' emoluments were within the following bands:

	Number of employees	
	2012	2011
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**1**	1

18. PROPERTY, PLANT AND EQUIPMENT

	Property and plant	Motor vehicles	Electronic and other equipment	Machinery	Mining assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2011	1,389,334	29,205	42,804	1,929,313	377,888	549,392	4,317,936
Additions	76,043	19,584	6,960	35,207	6,880	1,727,328	1,872,002
Acquisition of subsidiaries *(Note 34)*	363,960	5,144	67,769	543,358	1,000	–	981,231
Transfers	224,293	4,455	55,582	283,514	250,420	(818,264)	–
Disposals	(36)	(4,150)	(269)	(910)	–	–	(5,365)
At 31 December 2011	2,053,594	54,238	172,846	2,790,482	636,188	1,458,456	7,165,804
Additions	17,869	947	3,346	20,187	1,010	762,127	805,486
Acquisition of subsidiaries *(Note 34)*	232,426	9,452	624	740,260	19,055	118,083	1,119,900
Transfers	484,482	–	4,160	436,281	89,416	(1,014,339)	–
Disposals	–	(3,065)	(958)	(4,777)	–	–	(8,800)
At 31 December 2012	**2,788,371**	**61,572**	**180,018**	**3,982,433**	**745,669**	**1,324,327**	**9,082,390**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2011	131,874	5,718	10,252	325,050	25,426	–	498,320
Depreciation charge	88,549	5,461	19,953	159,156	43,809	–	316,928
Disposals	(11)	(769)	(158)	(526)	–	–	(1,464)
At 31 December 2011	220,412	10,410	30,047	483,680	69,235	–	813,784
Depreciation charge	123,568	8,563	18,475	258,903	31,315	–	440,824
Disposals	–	(782)	(183)	(919)	–	–	(1,884)
At 31 December 2012	**343,980**	**18,191**	**48,339**	**741,664**	**100,550**	**–**	**1,252,724**
CARRYING VALUES							
At 31 December 2012	**2,444,391**	**43,381**	**131,679**	**3,240,769**	**645,119**	**1,324,327**	**7,829,666**
At 31 December 2011	1,833,182	43,828	142,799	2,306,802	566,953	1,458,456	6,352,020

Details of property, plant and equipment pledged are set out in Note 39.

19. PREPAID LEASE PAYMENTS

	2012	2011
	RMB'000	RMB'000
Current asset *(Note 25)*	**21,880**	18,633
Non-current asset	**450,000**	292,269
	471,880	310,902

	RMB'000
COST	
Balance at 1 January 2011	183,778
Addition	16,701
Acquisition of subsidiaries *(Note 34)*	122,837
Balance at 31 December 2011	323,316
Addition	36,715
Acquisition of subsidiaries *(Note 34)*	134,418
Balance at 31 December 2012	494,449
AMORTISATION	
Balance at 1 January 2011	5,724
Charge for the year	6,690
Balance at 31 December 2011	12,414
Charge for the year	10,155
Balance at 31 December 2012	22,569
CARRYING AMOUNT	
As at 31 December 2012	471,880
As at 31 December 2011	310,902

Prepaid lease payments of the Group are medium-term leases in the People's Republic of China. The balances are amortised over their unexpired terms as at 31 December 2012, ranging between 36 years to 50 years.

Details of prepaid lease payments pledged are set out in Note 39.

20. MINING RIGHTS

	RMB'000
COST	
Balance at 1 January 2011	71,285
Addition	71,629
Acquisition of a subsidiary *(Note 34)*	1,207
Balance at 31 December 2011	144,121
Addition	7,044
Acquisition of a subsidiaries *(Note 34(a))*	11,189
Balance at 31 December 2012	162,354
AMORTISATION	
Balance at 1 January 2011	6,418
Charge for the year	6,040
Balance at 31 December 2011	12,458
Charge for the year	10,647
Balance at 31 December 2012	23,105
CARRYING AMOUNT	
As at 31 December 2012	139,249
As at 31 December 2011	131,663

Mining rights are granted from the respective Land and Resource Bureaus. The useful lives of the mining rights range from 8 years to 55 years.

21. OTHER INTANGIBLE ASSETS

	Goodwill	Customer relationships	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost				
At 1 January 2011	45,274	20,610	108	65,992
Acquisition of subsidiaries *(Note 34)*	49,133	–	46	49,179
Addition	–	–	166	166
At 31 December 2011	94,407	20,610	320	115,337
Acquisition of subsidiaries *(Note 34)*	63,130	–	535	63,665
Addition	–	–	52	52
At 31 December 2012	157,537	20,610	907	179,054
Accumulated amortisation				
At 1 January 2011	–	2,874	41	2,915
Charge for the year	–	2,015	114	2,129
At 31 December 2011	–	4,889	155	5,044
Charge for the year	–	2,015	169	2,184
At 31 December 2012	–	6,904	324	7,228
Carrying amount				
At 31 December 2012	157,537	13,706	583	171,826
At 31 December 2011	94,407	15,721	165	110,293

The customer relationships amounting to RMB20,610,000 are non-contractual customer relationships acquired through the acquisition of a subsidiary, Shangluo Yaobai Xiushan Cement Co., Ltd ("Xiushan Yaobai ") in December 2009. In the few years prior to the acquisition, Xiushan Yaobai has provided cement service for some large companies. Management estimates the Group will keep their business relationship with some or all of the existing customers in the future. It is believed by the management that the customer relationships will bring in net future cash flows to the Group, and is thus identified as an intangible asset. They are amortised over a period of 10 years, which the directors of the Company believe is the period over which the Group can retain the customers.

22. IMPAIRMENT TESTING ON GOODWILL AND CUSTOMER RELATIONSHIPS

For the purposes of impairment testing, goodwill and customer relationships set out in Note 21 have been allocated to four individual cash generating units (CGUs). The carrying amounts of goodwill and customer relationship allocated to these units are as follows:

The management regularly determines if there is impairment of any of its CGUs containing goodwill.

	Goodwill		**Customer relationships**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cement plant-Xiushan Yaobai	**45,274**	45,274	**13,706**	15,721
Cement plant-Luxin	**49,133**	49,133	**–**	–
Cement plant-Shifeng	**55,872**	–	**–**	–
Cement plant-Fuping	**7,258**	–	**–**	–
	157,537	94,407	**13,706**	15,721

During the year, the directors of the Company determine that there is no impairment in any of its CGUs containing goodwill or customer relationships.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts of the above CGUs have been determined based on the value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period with growth rate of 6% (2011: 5%), and discount rate of 15.27% (2011: 15.43%). This growth rate is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rates. The key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed their recoverable amounts.

23. DEFERRED INCOME TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012	2011
	RMB'000	RMB'000
Deferred tax assets	**36,755**	24,901
Deferred tax liabilities	**(9,636)**	(10,964)
	27,119	13,937

23. DEFERRED INCOME TAX *(Cont'd)*

The movement in deferred tax assets and liabilities during the year is as follows:

	Impairment of doubtful debts and accrued expenses RMB'000	Deferred income RMB'000	Loans recorded at amortised cost RMB'000	Tax losses RMB'000	Assets booked at fair value on acquisition RMB'000	Total RMB'000
At 1 January 2011	8,245	8,879	(1,593)	–	(7,366)	8,165
Credited (charge) to profit or loss	(3,249)	1,764	1,593	9,262	714	10,084
Acquisition of subsidiaries	–	–	–	–	(4,312)	(4,312)
At 31 December 2011	4,996	10,643	–	9,262	(10,964)	13,937
Credited (charge) to profit or loss	(4,104)	(2,606)	–	(6,578)	1,475	(11,813)
Acquisition of subsidiaries	9,682	–	–	32,057	(16,744)	24,995
At 31 December 2012	**10,574**	**8,037**	**–**	**34,741**	**(26,233)**	**27,119**

At the end of the reporting period, the Group has unused tax losses of RMB224,317,000 (2011: RMB42,921,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB221,969,000 (2011: RMB37,049,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB2,348,000 (2011: RMB5,872,000) due to the unpredictability of future profit streams. The tax losses unrecognised for deferred income tax assets that will expire as follows:

	2012 RMB'000	2011 RMB'000
Expire in 2014	**–**	737
Expire in 2015	**–**	2,837
Expire in 2016	**2,100**	2,298
Expire in 2017	**248**	–
	2,348	5,872

Deferred taxation was not provided for in the consolidated financial statements of the Group for the year ended 31 December 2012 and 2011 in respect of the undistributed profits of relevant PRC subsidiaries, as the management confirmed that the balance of retained earnings as at 31 December 2012 in the relevant PRC subsidiaries generated after 2008 will not be distributed to its foreign investor in the foreseeable future.

The aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognised amounted to approximately RMB2,014,394,000 (2011: RMB2,157,349,000).

24. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials and consumables	**295,493**	193,726
Work in progress	**101,685**	111,283
Finished goods	**71,424**	76,917
	468,602	381,926

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2012 RMB'000	2011 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 *(Note 19)*	**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 RMB'000	2011 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.

25. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Cont'd)*

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).

Aging of trade receivables which are past due but not impaired

	2012 **RMB'000**	2011 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 **RMB'000**	2011 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.

26. BANK BALANCE AND CASH/RESTRICTED BANK DEPOSITS

	2012 RMB'000	2011 RMB'000
Restricted bank deposits		
— dominated in RMB	**149,881**	36,526
Bank balances and cash		
— dominated in RMB	**354,808**	499,197
— dominated in US$	**10,230**	25,019
— dominated in other currency	**3,898**	5,396
	368,936	529,612

Bank balances and cash and restricted bank deposits carry interest at market rates of 0.42% (2011: 0.50%) per annum.

Restricted bank deposits represent bank deposits of RMB29,881,000, RMB20,000,000 and RMB100,000,000 (2011: RMB18,946,000, RMB17,580,000 and RMBnil) set aside as securities for the trade facilities, bills payable and bank loans, respectively (Note 39). The Group used the trade facilities in projects bidding process which were required by contractors.

27. SHARE CAPITAL

	Number of shares '000	Share capital GBP'000
Authorised		
Ordinary shares of GBP0.002 each at 31 December 2011 and 2012	10,000,000	20,000

	Number of shares	Share capital	
			Shown in the consolidated financial statements
	'000	GBP'000	RMB'000
Ordinary shares of GBP0.002 each as at 1 January 2011	4,250,500	8,501	118,850
Exercise of share options *(Note 36)*	12,500	25	269
Ordinary shares of GBP0.002 each as at 31 December 2011	4,263,000	8,526	119,119
Acquisition of subsidiaries *(Note 34)*	284,200	568	5,596
Ordinary shares of GBP0.002 each as at 31 December 2012	**4,547,200**	**9,094**	**124,715**

28. OTHER RESERVES

Equity reserve

Equity reserve comprise of:

(i) On 27 October 2006, the Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. The difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date amounted to RMB341,304,000 resulting from this reverse acquisition was recognised in equity reserve.

(ii) On 10 January 2011, the Group signed an agreement with the non-controlling shareholder of Longqiao to acquire the remaining 20% equity interests in Longqiao from the non-controlling shareholder. The difference amounted to RMB8,124,000 between the consideration paid of RMB25,000,000 and the non-controlling interest decreased of RMB33,124,000 was recognised directly in equity reserve.

(iii) On 19 March 2012, the Group signed an agreement with the non-controlling shareholder of Ankang Yaobai Jianghua to acquire the remaining 20% equity interests in Ankang Yaobai Jianghua from the non-controlling shareholder. The difference amounted to RMB30,916,000 between the consideration paid of RMB50,000,000 and the non-controlling interest decreased of RMB80,916,000 was recognised directly in equity reserve.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the group companies established in the PRC, the group companies in the PRC are required to appropriate 10% of the profit after taxation determined under the accounting principles and financial regulations applicable in the PRC to the statutory reserve until the balances reach 50% of their respective registered capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital.

29. BORROWINGS

	2012 RMB'000	2011 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 RMB'000	2011 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.

29. BORROWINGS *(Cont'd)*

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 **RMB'000**	2011 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 39.

30. 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.

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

30. SENIOR NOTES *(Cont'd)*

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

	2012 RMB'000	2011 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.

31. ASSET RETIREMENT OBLIGATION

	2012 RMB'000	2011 RMB'000
1 January	10,446	8,444
Acquisition of subsidiaries *(Note 34)*	1,869	524
Additional provision	–	933
Unwinding of discount	676	545
31 December	12,991	10,446

According to a regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognised for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly.

32. OTHER LIABILITIES

	2012 RMB'000	2011 RMB'000
Non-current		
Deferred income for purchase of equipment *(note (a))*	41,971	44,251
Deferred income for construction of properties *(note (b))*	10,000	–
	51,971	44,251

(a) Deferred income represents government grants to the Group's subsidiaries for the purchase of domestic equipment. The balance will be amortised based on the remaining useful life of the equipment of 5–12 years.

(b) Deferred income represents government grants to the Group's subsidiaries for construction of properties. The balance will be amortised based on the remaining useful life of the relevant properties.

33. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 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 *(Note 34(a) & (c))*	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

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

	2012 RMB'000	2011 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.

34. ACQUISITION OF SUBSIDIARIES

(a) On 29 March 2012, the Group acquired 65% interest in Shifeng Cement Co. Ltd. (實豐水泥有限公司, "Shifeng Cement") from independent third parties for a cash consideration of RMB106,206,000. Shifeng Cement is principally engaged in cement manufacturing and was acquired with the primary objective of improving the Group's market position. This acquisition has been accounted for using the acquisition method. The assets and liabilities recognised at the date of acquisition are as follows:

	Fair value RMB'000
Cash and cash equivalents	154
Trade and other receivables	37,308
Inventories	11,559
Property, plant and equipment	576,177
Prepaid lease payments	30,154
Mining rights	11,189
Deferred tax assets	7,434
Trade and other payables	(7,527)
Asset retirement obligation	(1,869)
Amount due to the Group *(note 1)*	(587,142)
	77,437
Goodwill arising on acquisition:	
Consideration *(note 2)*	106,206
Non-controlling interests	27,103
Less: Net assets acquired	(77,437)
Goodwill	55,872
Net cash outflow arising on acquisition	
Consideration paid in cash	73,800
Less: Cash and cash equivalents acquired	(154)
Cash outflow on acquisition	73,646

Acquisition-related costs amounting to RMB80,000 have been excluded from the consideration transferred and have been recognised as an expense in 2012, within the administrative expenses in the consolidated statement of comprehensive income.

The non-controlling interest is measured at the proportionate share of net assets acquired.

Note 1: The Group has provided funds of approximately RMB587,142,000 to Shifeng Cement before the acquisition date for the repayment of a) amounts due to the previous owners of approximately RMB451,700,000, and b) external payables of RMB135,442,000.

Note 2: Subsequent to the acquisition date, the Group reached a separate arrangement with the previous owners of Shifeng Cement to pay the balance of the consideration of approximately RMB32,406,000 on a date to be mutually agreed later, which was included in other payables as of 31 December 2012.

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(a) *(Cont'd)*

Goodwill arising on acquisition of Shifeng Cement allows the Group to extend its market presence with respect to cement operation and the anticipated future operating synergies from the combination.

The trade and other receivables acquired with a fair value of RMB37,308,000 had gross contractual amounts of RMB37,308,000. None of the trade and other receivables has been impaired and it is expected that the full contractual amount can be collected.

Included in the profit for the year is RMB32,661,000 attributable to the additional business generated by Shifeng Cement. Revenue for the period includes RMB328,517,000 in respect of Shifeng Cement.

Had the acquisition been completed on 1 January 2012, the revenue of the Group for the year ended 31 December 2012 would have been RMB3,568,220,000, and the profit for the year would have been RMB339,298,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is intended to be a projection of future results.

(b) On 26 June 2012, the Group acquired 100% interest in Fuping Cement Co. Ltd. (富平水泥有限公司, "Fuping Cement") from a non-controlling shareholder of Shifeng Cement for a consideration satisfied by the issuance of 284,200,000 ordinary shares of the Company. Fuping Cement is principally engaged in cement manufacturing and was acquired with the primary objective of improving the Group's market position. This acquisition has been accounted for using the acquisition method. The net assets recognised at the date of acquisition are as follows:

	Fair value RMB'000
Cash and cash equivalents	10,088
Trade and other receivables	89,840
Inventories	61,460
Investment in an associate — 35% interest in Shifeng Cement	27,103
Property, plant and equipment	451,739
Prepaid lease payments	61,588
Other intangible assets	535
Deferred tax assets	17,561
Trade and other payables	(87,768)
Borrowings	(292,680)
	339,466
Goodwill arising on acquisition:	
284,200,000 ordinary shares issued, at fair value	346,724
Less: Net assets acquired	(339,466)
Goodwill	7,258
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	10,088
Cash inflow on acquisition	10,088

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(b) *(Cont'd)*

The Company issued 284,200,000 ordinary shares as consideration for the 100% interest in Fuping Cement. The fair value of the shares is the published price of the shares of the Company at the acquisition date, which was HKD1.50 each, equivalent to approximately RMB1.22 each. The fair value of the consideration given is therefore approximately HKD426,300,000, or equivalent to approximately RMB346,724,000.

Acquisition-related costs amounting to RMB3,917,000 have been excluded from the consideration transferred and have been recognised as an expense in 2012, within the administrative expenses in the consolidated statement of comprehensive income.

The trade and other receivables acquired with a fair value of RMB89,840,000 had gross contractual amounts of RMB92,374,000.

Included in the profit for the year is RMB30,703,000 attributable to the additional business generated by Fuping Cement. Revenue for the period includes RMB212,873,000 in respect of Fuping Cement.

Had the acquisition been completed on 1 January 2012, the revenue of the Group for the year ended 31 December 2012 would have been RMB3,696,277,000, and the profit for the year would have been RMB415,447,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2012, nor is intended to be a projection of future results.

Subsequent to the Group's acquisition of 100% interest in Fuping Cement from the non-controlling shareholder of Shifeng Cement on 26 June 2012, the Group holds, together with its 65% interest of Shifeng Cement acquired on 29 March 2012, a 100% interest in Shifeng Cement. The acquisition of 35% interest in Shifeng Cement is accounted for as equity transaction.

(c) On 13 September 2012, the Group acquired 80% equity interest in Guizhou Linshan Cement Co. Ltd. (貴州麟山水泥有限責任公司, "Guizhou Linshan Cement"), from an independent third party for a cash consideration of RMB220,305,000.

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(c) *(Cont'd)*

As at the date of acquisition, Guizhou Linshan has not yet commenced operation and its cement production line was still under construction. The underlying set of assets acquired is not capable of being conducted and managed as a business to generate revenue. As such, the Group determined that the acquisition of Guizhou Linshan does not constitute a business combination for accounting purpose. The following table summarises the fair value of Guizhou Linshan's assets and liabilities acquired at the date of acquisition:

	RMB'000
Property, plant and equipment	91,984
Prepaid lease payment	42,676
Prepayments and other receivables	8
Amounts due from non-controlling shareholder of a subsidiary *(note 1)*	44,471
Cash and cash equivalents	180,707
Other payables	(54,465)
Amounts due to the Group *(note 2)*	(30,000)
	275,381
Non-controlling interests	(55,076)
Consideration	220,305
Net cash outflow arising from acquisition	
Cash consideration paid *(note 3)*	(200,705)
Less: Cash and cash equivalents acquired	180,707
	(19,998)

Note 1: Under the acquisition, RMB44,471,000 was paid by Guizhou Linshan on behalf of the non-controlling shareholder for purchasing certain assets.

Note 2: The Group has provided funds of RMB30,000,000 to Guizhou Linshan Cement before the acquisition date for the financing of construction in progress.

Note 3: Subsequent to the acquisition date, the Group reached a separate arrangement with the previous owners of Guizhou Linshan Cement to pay the balance of the consideration of approximately RMB19,600,000 on a date to be mutually agreed later, which was included in other payables as of 31 December 2012.

The non-controlling interests are measured at the non-controlling interests' proportionate share of the net assets acquired.

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(d) On 6 January 2011, a subsidiary of the Group, Shaanxi Yaobai acquired 80% equity interests in a cement production business through establishing a new company, namely Ankang Yaobai Jianghua Cement Co. Ltd. (安康堯柏江華水泥有限公司, "Ankang Yaobai Jianghua"), together with a 20% non-controlling shareholder, namely Shaanxi Ankang Jianghua Group Cement Co. Ltd. (陝西安康江華集團水泥有限公司, "Jianghua").

Pursuant to an agreement (the "Agreement") entered into by Shaanxi Yaobai, Jianghua and a Jianghua's fellow subsidiary, namely Ankang Jianghua Mining Resources Co. Ltd. (安康市江華礦產資源有限責任公司, "Jianghua Mining") on 31 December 2010, the Group injected cash of RMB320,000,000; and Jianghua injected a group of assets and liabilities with fair value of RMB80,013,000 into Ankang Yaobai Jianghua as paid-in-capital, respectively.

The above group of assets and liabilities injected by Jianghua constitute cement production business covering producing and selling cements. This transaction has been accounted for as a business combination using the acquisition method.

As at 6 January 2011, Ankang Yaobai Jianghua was injected to the following assets and liabilities:

	Contributed by		
	Jianghua	**The Group**	**Total**
	RMB'000	RMB'000	RMB'000
Cash	–	320,000	320,000
Property, plant and equipment	299,662	–	299,662
Prepaid lease payments	78,819	–	78,819
Amount due to Jinaghua	(298,468)	–	(298,468)
Net assets	80,013	320,000	400,013

Gain arising on acquisition:

	RMB'000
Consideration transferred	–
Non-controlling interests (20% in Yaobai Jianghua) issued to the former equity holder, Jianghua	80,003
Less: net assets acquired from Jianghua	(80,013)
Gain arising on acquisition	(10)

The amount of approximately RMB298,468,000 due to Jianghua represents the value of assets contributed by Jianghua in excess of its share of paid-in-capital.

Since the Group have paid advances to Jianghua for this acquisition for amount of RMB100,000,000 and RMB220,000,000 in November 2009 and December 2010, respectively, there was no cash flow arising on the acquisition in 2011.

The non-controlling interests are measured at the proportionate share of net assets acquired.

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(d) *(Cont'd)*

Included in the profit for the year 2011 is RMB4,568,000 attributable to the additional business generated by Ankang Yaobai Jianghua. Revenue for the year 2011 includes RMB274,641,000 in respect of Ankang Yaobai Jianghua.

Had the acquisition been effected at 1 January 2011, the revenue of the Group for the year 2011 would have been RMB3,190,479,000, and the profit for the year 2011 would have been RMB671,411,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

(e) On 30 June 2011, the Group acquired 80% equity interests in a cement production business through establishing a new company, namely Hancheng Yaobai Yangshanzhuang Cement Company Limited (韓城堯柏陽山莊水泥有限公司, "Hancheng Yangshanzhuang"), together with a 20% non-controlling shareholder, namely Shanxi Yangshanzhuang Cement Company Limited (陝西陽山莊水泥有限公司, "Yangshanzhuang ").

Pursuant to an agreement entered into by the Group and Yangshanzhuang, the Group injected cash of RMB530,000,000; and Yangshanzhuang injected a group of assets and liabilities with fair value of RMB33,953,000 into Hancheng Yangshanzhuang, respectively.

The above group of assets and liabilities injected by Yangshanzhuang constitute cement production business covering producing and selling cements. This transaction has been accounted for as a business combination and using the acquisition method.

As at 30 June 2011, the Hancheng Yangshanzhuang were injected to the following assets and liabilities:

	Contributed by		
	Yangshanzhuang	**The Group**	**Total**
	RMB'000	RMB'000	RMB'000
Cash	–	530,000	530,000
Property, plant and equipment	530,973	–	530,973
Prepaid lease payments	32,980	–	32,980
Amount due to Yangshanzhuang	(530,000)	–	(530,000)
Amount due to the Group	–	(410,000)	(410,000)
Net assets	33,953	120,000	153,953

	RMB'000
Gain arising on acquisition:	
Non-controlling interests (20% in Hancheng Yangshanzhuang)	30,790
Less: net assets contributed by Yangshanzhuang	(33,953)
Gain arising on acquisition	(3,163)
Cash outflow arising on acquisition	
Cash paid to Yangshanzhuang	530,000

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(e) *(Cont'd)*

The amount of approximately RMB530,000,000 due to Yangshanzhuang represents the value of assets contributed by Yangshanzhuang in excess of its share of paid-in-capital.

The non-controlling interest is measured at the proportionate share of net assets acquired.

Included in profit for the year 2011 is loss of RMB13,201,000 attributable to the additional business generated by Hancheng Yangshanzhuang. Revenue for the year 2011 includes RMB84,012,000 in respect of Hancheng Yangshanzhuang.

Had the acquisition been effected at 1 January 2011, the revenue of the Group for the year 2011 would have been RMB3,298,878,000, and the profit for the year would have been RMB693,710,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

(f) On 31 May 2011, the Group acquired 100% interest in Luxin from an independent third party for a cash consideration of RMB160,000,000. Luxin is principally engaged in cement manufacturing in Xinjiang. This acquisition has been accounted for using the acquisition method. The net assets acquired at the date of acquisition are as follows:

	Fair value RMB'000
Property, plant and equipment	150,596
Prepaid lease payments	11,038
Mining rights	1,207
Other intangible assets	46
Inventories	37,200
Trade and other receivables and prepayments	37,339
Bank balances and cash	24,748
Deferred tax liabilities	(4,312)
Trade and other payables	(56,995)
Amount due to a former equity holder	(90,000)
	110,867
Goodwill arising on acquisition:	
Consideration transferred	160,000
Less: net assets acquired	(110,867)
Goodwill	49,133
Net cash outflow arising on acquisition	
Consideration paid in cash	160,000
Less: Cash and cash equivalents acquired	(24,748)
Cash outflow on acquisition	135,252

34. ACQUISITION OF SUBSIDIARIES *(Cont'd)*

(f) *(Cont'd)*

Goodwill arising in the acquisition of Luxin allows the Group to extend its market presence in Xinjiang Province with respect to cement operation and the anticipated future operating synergies from the combination.

The trade and other receivables acquired with a fair value of RMB37,339,000 had gross contractual amounts of RMB37,339,000.

Acquisition-related costs amounting to RMB350,000 have been excluded from the consideration transferred and have been recognised as an expense in 2011, within the administrative expenses in the consolidated statement of comprehensive income.

Included in the profit for the year 2011 are RMB48,817,000 attributable to the additional business generated by Luxin. Revenue for the year 2011 includes RMB111,511,000 in respect of Luxin.

Had the acquisition been effected at 1 January 2011, the revenue of the Group for the year 2011 would have been RMB3,226,986,000, and the profit for the year 2011 would have been RMB676,930,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is intended to be a projection of future results.

35. CAPITAL COMMITMENTS

	2012 **RMB'000**	2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,277,947**	571,426

36. SHARE-BASED PAYMENTS

(a) Pre-IPO Share Option Scheme and warrants

The Company has adopted a share option scheme on 27 October 2006 (the "Pre-IPO Share Option Scheme"). All outstanding options under the Pre-IPO Share Option Scheme have been exercised as at 31 December 2011.

(b) Post-IPO Share Option Scheme

The Company's share option scheme (the "Post-IPO Share Option Scheme"), was adopted pursuant to a resolution passed on 23 March 2011 for the primary purpose of providing incentives to directors and eligible employees through the subscription of the Company's shares, and will expire 10 years after the date of grant.

The total number of shares in respect of which options may be granted under the Post-IPO Share Option Scheme is not permitted to exceed 10% of the issued shares capital of the Company as at 23 August 2010, which aggregated at 411,533,185 shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

36. SHARE-BASED PAYMENTS *(Cont'd)*

(b) Post-IPO Share Option Scheme *(Cont'd)*

Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant. Options may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall not be more than 10 years from the date of grant of options. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

As at 31 December 2012 and 2011, the details of share options granted with exercise price at HK$3.41 per share are as follows:

Date of grant	Vesting period	Exercisable period	Number of options exercisable 2012	2011	Life of options
23 March 2011	23 March 2011 to 22 March 2012	23 March 2012 to 22 March 2021	3,800,000	3,800,000	10 years
23 March 2011	23 March 2011 to 22 March 2013	23 March 2013 to 22 March 2021	3,800,000	3,800,000	10 years
23 March 2011	23 March 2011 to 22 March 2014	23 March 2014 to 22 March 2021	4,350,000	4,600,000	10 years
23 March 2011	23 March 2011 to 22 March 2015	23 March 2015 to 22 March 2021	4,350,000	4,600,000	10 years
23 March 2011	23 March 2011 to 22 March 2016	23 March 2016 to 22 March 2021	550,000	800,000	10 years
23 March 2011	23 March 2011 to 22 March 2017	23 March 2017 to 22 March 2021	550,000	800,000	10 years
			17,400,000	18,400,000	

1,000,000 options of Post-IPO Share Option Scheme lapsed in 2012, as given up by the resigned employees. No options are exercised during the year. There is no exercising and lapsing of the share options of Post-IPO Share Option Scheme in 2011.

36. SHARE-BASED PAYMENTS *(Cont'd)*

(c) Fair value of the share options

The total fair value of the share options granted on 23 March 2011 was HK$62,744,000, and was determined at the date of grant using the Black-Scholes option pricing model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options. The following assumptions were used to calculate the fair values of share options:

	2011
Weighted average share price	HK$3.41
Exercise price	HK$3.41
Expected option life	1.5 years to 6.5 years
Expected volatility	44%
Dividend yield	0.55%
Risk-free interest rate	0.43% to 2.05%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

The Group recognised the total expense of RMB4,360,000 for the year ended 31 December 2012 (2011: RMB4,812,000) in relation to share options granted by the Company.

37. RETIREMENT BENEFITS PLANS

The employees of the Group's subsidiaries are members of a state-managed defined contribution retirement scheme operated by the PRC government. The subsidiary is required to contribute 20% of payroll costs to the retirement. In addition, the Group participate in the Mandatory Provident Fund Scheme for its employees in Hong Kong. The Group and its employees in Hong Kong contribute 5% of the Hong Kong employees' monthly salary to the scheme. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The total expense recognised in the profit or loss of RMB18,497,000 (2011: RMB14,719,000) represents contributions paid or payable under the retirement benefit scheme.

38. RELATED PARTY DISCLOSURES

(a) The Group acquired mining rights from a non-controlling shareholder of a subsidiary with consideration of RMB50,000,000 on 30 June 2011.

(b) Amount due from related parties

	2012 **RMB'000**	2011 RMB'000
Amount due from a non-controlling shareholder of a subsidiary	**44,471**	–

38. RELATED PARTY DISCLOSURES *(Cont'd)*

(c) Key management compensation

The key management includes directors (executive and non-executive) of the Company and senior management of the Group. The compensation paid or payable to the key management for employee services is shown below:

	2012 RMB'000	2011 RMB'000
Salaries and other short-term employee benefits	8,246	8,883
Post-employment benefits	104	161
Share-based payments	2,638	3,061
	10,988	12,105

39. 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 RMB'000	2011 RMB'000
Restricted bank deposit *(Note 26)*	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 30).

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries as at the end of the reporting period are as follows:

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company 2012	2011	Principal activities
Directly held						
West China Cement Co., Ltd.	Ordinary	British Virgin Islands	HK$7,800	100%	100%	Investment holding
Faithful Alliance Limited 集誠有限公司	Ordinary	Hong Kong	HK$100	100%	100%	Investment holding
Shannxi Yaobai 堯柏特種水泥集團有限公司	Ordinary	Shaanxi, PRC	RMB1,620,000,000	100%	100%	Production and sale of cement

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company 2012	2011	Principal activities
Lantian Yaobai 西安藍田堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	100%	100%	Production and sale of cement
Ankang Yaobai 安康堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB345,000,000	100%	100%	Production and sale of cement
Hanzhong Yaobai 漢中堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB135,000,000	100%	100%	Production and sale of cement
Hanzhong Mianxian Yaobai Cement Co. Ltd. 漢中勉縣堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB140,000,000	100%	100%	Production and sale of cement
Xi'an Yaobai Material Co.Ltd. 西安市堯柏物資有限公司	Ordinary	Shaanxi, PRC	RMB35,000,000	100%	100%	Purchase and sale of raw material
Hanzhong Xixiang Yaobai Cement Co, Ltd. 漢中西鄉堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB105,000,000	100%	100%	Production and sale of cement
Shangluo Yaobai Longqiao Cement Co. Ltd ("Longqiao") 商洛堯柏龍橋水泥有限公司	Ordinary	Shaanxi, PRC	RMB125,000,000	100%	100%	Production and sale of cement
Xiushan Yaobai Cement Co, Ltd. 商洛堯柏秀山水泥有限公司	Ordinary	Shaanxi, PRC	RMB20,000,000	100%	100%	Production and sale of cement
Ankang Yaobai Jianghua 安康堯柏江華水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	100% *(Notes 28 & 34)*	80%	Production and sale of cement
Hanchen Yaobai Yangshanzhuang 韓城堯柏陽山莊水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	80%	80%	Production and sale of cement
Luxin 和田魯新建材有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	100%	100%	Production and sale of cement
Hetian Yaobai Cement Co, Ltd. 和田堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB236,000,000	100%	100%	Production and sale of cement

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company 2012	2011	Principal activities
Hancheng Yangshanzhuang Hualong Transportation Co, Ltd. 韓城市陽山莊華龍運輸有限公司	Ordinary	Shaanxi, PRC	RMB1,000,000	**100%**	100%	Production and sale of cement
Weinan PuchengYaobai. Cement Co, Ltd. 渭南蒲城堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB200,000,000	**100%**	100%	Production and sale of cement
Shifeng Cement Co, Ltd. 實豐水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	**100%** ***(Note 34)***	–	Production and sale of cement
Fuping Cement Co, Ltd. 富平水泥有限公司	Ordinary	Shaanxi, PRC	RMB597,000,000	**100%** ***(Note 34)***	–	Production and sale of cement
Guizhou Linshan. Cement Co, Ltd. 貴州麟山水泥有限公司	Ordinary	Guizhou, PRC	RMB233,381,000	**80%** ***(Note 34)***	–	Production and sale of cement

(a) Except for West China Cement Co., Ltd. and Faithful Alliance Limited, the above English names of the entities have not been registered with the authorities and are used throughout this consolidated financial statements for discussion only.

(b) Other than the senior notes issued by the Company, none of subsidiaries had issued debt securities at the end of the year.

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2012 **RMB'000**	2011 RMB'000
ASSETS		
Non-current assets		
Unlisted investments in subsidiaries	**1,664,646**	1,582,846
Amount due from subsidiaries	**3,564,385**	2,770,437
	5,229,031	4,353,283
Current assets		
Dividend receivable from a subsidiary	**109,000**	170,000
Cash and cash equivalents	**12,573**	23,607
	121,573	193,607
Total assets	**5,350,604**	4,546,890
EQUITY		
Share capital	**124,715**	119,119
Share premium	**2,136,463**	1,855,760
Share option reserve	**9,172**	4,812
Retained earnings	**526,847**	18,965
Total equity	**2,797,197**	1,998,656
LIABILITIES		
Non-current liabilities		
Senior notes *(Note 30)*	**2,468,506**	2,462,009
Current liabilities		
Senior notes *(Note 30)*	**78,544**	78,762
Other payables	**6,357**	7,463
	84,901	86,225
Total liabilities	**2,553,407**	2,548,234
Total equity and liabilities	**5,350,604**	4,546,890
Net current assets	**36,672**	107,382
Total assets less current liabilities	**5,265,703**	4,460,665

41. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Movement in reserves

	Share capital RMB'000	Share premium RMB'000	Share option reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2011	118,850	2,001,917	593	(346,094)	1,775,266
Profit and total comprehensive income for the year	–	–	–	365,059	365,059
Recognition of equity-settled share-based payment *(Note 36(c))*	–	–	4,812	–	4,812
New shares issued for exercise of share options *(Note 36(a))*	269	4,091	(593)	–	3,767
Dividend recognised as distribution *(Note 14)*	–	(150,248)	–	–	(150,248)
At 31 December 2011	119,119	1,855,760	4,812	18,965	1,998,656
Loss and total comprehensive expense for the year	**–**	**–**	**–**	**507,882**	**507,882**
Acquisition of subsidiaries *(Note 34(b))*	**5,596**	**341,128**	**–**	**–**	**346,724**
Recognition of equity-settled share-based payment *(Note 36(c))*	**–**	**–**	**4,360**	**–**	**4,360**
Dividend recognised as distribution *(Note 14)*	**–**	**(60,425)**	**–**	**–**	**(60,425)**
At 31 December 2012	**124,715**	**2,136,463**	**9,172**	**526,847**	**2,797,197**

GROUP FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2008 RMB'000 (note 1)	2009 RMB'000 (note 1)	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
Revenue	866,126	1,516,766	2,960,781	3,190,479	**3,524,117**
Profit before tax	257,729	375,147	1,057,604	763,289	**458,584**
Income tax expense	(11,566)	(44,687)	(124,337)	(102,888)	**(86,058)**
Profit for the year	246,163	330,460	933,267	660,401	**372,526**
Attributable to:					
Owners of the Company	246,163	330,460	925,143	662,128	**364,881**
Non-controlling interests	—	—	8,124	(1,727)	**7,645**
	246,163	330,460	933,267	660,401	**372,526**

ASSETS AND LIABILITIES

	At 31 December				
	2008 RMB'000 (note 1)	2009 RMB'000 (note 1)	2010 RMB'000	2011 RMB'000	**2012** **RMB'000**
Total assets	1,926,073	3,673,579	5,545,674	8,420,684	**10,298,888**
Total liabilities	(995,989)	(2,378,353)	(1,971,658)	(4,242,143)	**(5,452,086)**
	930,084	1,295,226	3,574,016	4,178,541	**4,846,802**
Equity attributable to:					
Owners of the Company	930,084	1,270,226	3,540,892	4,069,475	**4,755,931**
Non-controlling interests	—	25,000	33,124	109,066	**90,871**
	930,084	1,295,226	3,574,016	4,178,541	**4,846,802**

Note:

1. The figures for the two years ended 31 December 2009 have been extracted from the prospectus of the Company dated 10 August 2010.