



# 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

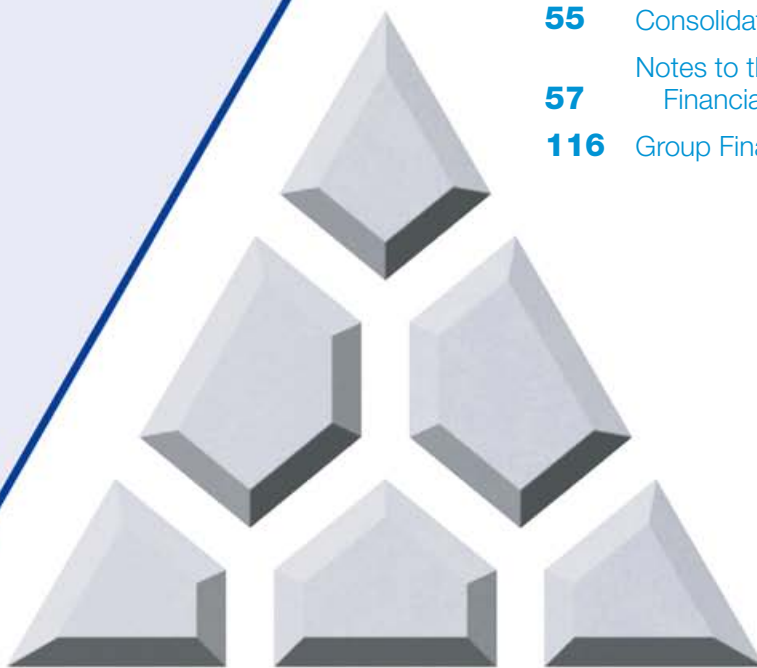


## 2016 ANNUAL REPORT



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## Corporate Information

### HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yaobai R&D Training Center  
No. 336 4th Shenzhou Road  
Aerospace Industrial Base  
Chang'an District  
Xi'an, Shaanxi Province, PRC

### REGISTERED OFFICE

47 Esplanade  
St Helier  
Jersey JE1 0BD

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

10/F, Wharf T&T Centre  
Harbour City  
7 Canton Road  
Tsim Sha Tsui  
Hong Kong

### COMPANY WEBSITE

[www.westchinacement.com](http://www.westchinacement.com)

### BOARD OF DIRECTORS

#### Executive Directors

Zhang Jimin (*Chairman*)  
Ma Weiping (*Chief Executive Officer*)

#### Non-Executive Directors

Ma Zhaoyang  
Liu Yan  
Qin Hongji

#### Independent Non-Executive Directors

Lee Kong Wai Conway  
Wong Kun Kau  
Tam King Ching Kenny

### COMPANY SECRETARY

Chan King Sau HKICPA

### AUTHORIZED REPRESENTATIVES

Ma Weiping  
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  
31 Pier Road  
St Helier  
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

| <i>RMB' Million (unless otherwise specified)</i>     | <b>Year ended</b>  | Year ended  | % Change   |
|--|--------------------|-------------|------------|
|  | <b>31 December</b> | 31 December |            |
|  | <b>2016</b>        | 2015        |            |
| Total Cement and Clinker Sales Volume (million tons) | <b>17.8</b>        | 17.1        | 4.1%       |
| Cement Sales Volume (million tons)                   | <b>17.6</b>        | 16.8        | 4.8%       |
| Revenue  | <b>3,719.3</b>     | 3,500.9     | 6.2%       |
| Gross Profit   | <b>676.7</b>       | 463.5       | 46.0%      |
| EBITDA   | <b>1,311.7</b>     | 965.8       | 35.8%      |
| Profit/(Loss) Attributable to Owners of the Company  | <b>10.3</b>        | (309.2)     | 133.3%     |
| Basic Earnings/(Loss) Per Share <sup>(1)</sup>       | <b>0.2 cents</b>   | (6.2 cents) | 103.2%     |
| Interim Dividend                                     | <b>Nil</b>         | Nil         | Nil        |
| Proposed Final Dividend                              | <b>Nil</b>         | Nil         | Nil        |
| Gross Profit Margin                                  | <b>18.2%</b>       | 13.2%       | 5.0 ppt    |
| EBITDA Margin  | <b>35.3%</b>       | 27.6%       | 7.7 ppt    |
|  | <b>31 December</b> | 31 December |            |
|  | <b>2016</b>        | 2015        |            |
| Total Assets   | <b>11,181.6</b>    | 11,382.5    | (1.8%)     |
| Net Debt <sup>(2)</sup>                              | <b>2,667.4</b>     | 3,375.7     | (21.0%)    |
| Net Gearing <sup>(3)</sup>                           | <b>45.1%</b>       | 57.2%       | (12.1 ppt) |
| Net Assets Per Share                                 | <b>109 cents</b>   | 109 cents   | (0.0%)     |

*Notes:*

- (1) The improvement in basic earnings per share were largely due to the improved average selling prices ("ASPs") and there being no write-off of construction in progress during 2016 as compared to that of RMB124.4 million in 2015.
- (2) Net debt equal to total borrowings, medium-term notes and senior notes less bank balances and cash 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 presence in Xinjiang and Guizhou Provinces. As at 31 December 2016, the Group had a total production capacity of 29.2 million tons, comprised of 20 NSP cement production lines, with 23.3 million tons in Shaanxi Province, 4.1 million tons in Xinjiang Province and 1.8 million tons in Guizhou Province.

The Group’s cement production is geared towards the economic development of Western China, driven by the Chinese Government’s “Western Development Policy” and the “Silk Road Economic Development Plan”. The Group aims to serve the development needs of Shaanxi, Xinjiang, Guizhou 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 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.





# Business Overview



# Business Overview

## Xinjiang Province



## Guizhou Province





## Business Overview

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 has maintained a strong market position in its Southern Shaanxi core markets, where high levels of market share coupled with good infrastructure demand have resulted in continued average selling price (“ASPs”) premiums and more stable margins. However, ASPs have remained poor in Central Shaanxi, with a continuation of competitive pricing by all producers. During the second half of 2016, improved market discipline with lower supply among all producers had actually led to the rising ASPs in Shaanxi, Xinjiang and Guizhou Provinces. Moreover, the Group has been able to maintain the trend of falling costs established since 2015. Input prices have fallen during the first half of 2016, and the Group has continued to implement efficiency gains and cost-cutting measures. Taken together, these have partially eased the impact of poor ASPs on the Group’s margins.

Energy conservation and emission controls are increasingly important factors in the cement industry and the Group continues to work towards best of industry standards in these areas. All of the Group’s production facilities are NSP lines, mostly situated in close proximity to limestone quarries and the Group uses conveyor belts at many of its plants in order to minimise transportation related emissions. The Group has constructed heat-recycling plants at over 80% of its production capacity, reducing approximately 30% of electricity consumption and decreasing CO<sub>2</sub> emissions by approximately 20,000 tons per year per million tons of production. All of the Group’s plants have been installed with denitration (De-NOx) equipment, reducing nitrous oxide emissions by approximately 60% per ton of clinker produced, as well as Particulate Matter (PM) reduction equipment. The Group is also involved in hazardous and municipal waste incineration through Yaobai Environmental. The Group formally became a member of the Cement Sustainability Initiative since 2015, a voluntary global organization of 25 major cement producers operating under the World Business Council for Sustainable Development (WBCSD).

## 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 Group 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 Group 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                              |
| 2010 | The Group's first acquisitions, the Zhen'an and Danfeng Plants in Shangluo region, were completed in August and December.<br>The Group's two production lines in Hanzhong, the Yangxian and Mianxian Plants, were commissioned in January and July respectively.<br>The USD60 million syndicated loan was repaid in March.<br>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.<br>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.  | 12.5                             |
| 2011 | The Group successfully issued a USD400 million 5-Year Senior Note at 7.5% p.a. interest rate.<br>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.<br>The Group's third plant in Hanzhong region, the Hanzhong Xixiang Plant, was commissioned in May.<br>The Group acquired the Weinan Hancheng Plant in May.   | 16.2                             |
| 2012 | The Group's Shangluo Danfeng Line 2 Plant was commissioned in April.<br>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.<br>The Yutian Plant, Hotan, Xinjiang was commissioned in August.  | 23.7                             |
| 2013 | The Group successfully issued a RMB800 million 3-Year Mid-Term Note at 6.1% p.a. interest rate in March. Most of the proceeds were used to refinance short-term bank borrowings.   | 23.7                             |
| 2014 | The Group completed phase I of the Lantian Cement Kiln Waste Sludge Treatment Facility in January, the first of such facilities in Shaanxi Province and North West China. This marks an important step in the Group's on going efforts in environmental protection solutions, and a new revenue stream for the Group.<br>The Group successfully issued a USD400m 5-year senior note at 6.5% p.a. interest rate to redeem in full the previous senior notes issued in 2011.   | 23.7                             |
| 2015 | Completion of the construction of the 1.5 million ton Xinjiang Yili Plant and the 1.8 million ton Guizhou Huaxi Plant with full commissioning commencing in the first quarter of 2015.<br>Announcement in June of a subscription by Conch International Holdings (HK) Limited, a wholly owned subsidiary of Conch Cement for new shares in the Group equal to approximately 16.67% of total issued share capital of the Company as enlarged by the subscription shares.<br>The Group acquired the Yaowangshan Cement Plant, with a cement capacity of 2.2 million tons, in October taking Group total current capacity to 29.2 millions tons.<br>Subsequently, both Conch Cement and the Company, among others, entered into an acquisition agreement (the "Acquisition Agreement") in November whereby the Group purchases 4 cement plants in Central Shaanxi from Conch Cement totaling 10.4 million tons of cement capacity in consideration of an issue of 3,402,876,000 shares by the Company ("Consideration Shares"). After the issue of the Consideration Shares, Conch Cement will increase their holding in the Group to 57.57%. | 29.2                             |
| 2016 | As certain conditions precedent of the Acquisition Agreement were not satisfied or waived before 5:00 pm on 30 June 2016, the long stop date under the Acquisition Agreement, the Acquisition Agreement ceased and was determined.<br>The Group successfully issued the first tranche of the short-term notes with an aggregate principal amount of RMB800 million at the interest rate of 5.5% per annum, and with a term of one year to investors in the national inter-bank market in the PRC on 15 March 2016.<br>Fuping Municipal Waste Treatment Facility was commissioned in March.   | 29.2                             |

## Chairman's Statement

“ Resolution of the fragmented nature of the supply side is the primary importance in promoting a more stable market in the industry. ”



**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 2016.

### OVERVIEW

Without doubt, 2016 has continued to be a challenging year for the cement industry in China. Slowdowns in fixed asset investment and construction have impacted on demand for cement in the PRC, and our Group's operating regions and markets have not been spared. However, whilst demand has been slower than previous years, we continue to believe that it is the structure of the supply side that is of primary importance in the healthy development of the cement industry in China. Oversupply is self-evident, and it is the fragmented nature of that supply that hinders increased profitability in the cement industry.

In its current shape, the Shaanxi cement market illustrates the effect of this fragmentation. Cement demand in 2016 has continued to be weak, with Fixed Asset Investment ("FAI") growth in Shaanxi Province rising slightly from 8% in 2015 to 12% in 2016. The effect of this low demand growth has been most severe in Central Shaanxi, an area of both oversupply and supply side fragmentation amongst a number of producers. In Southern Shaanxi, the level of fragmentation and oversupply is less than in the centre of the province, resulting in a more rational and disciplined market with higher levels of profitability. Improving the market discipline of the industry supply side in Shaanxi Province is therefore advantageous, and can promote a more stable industry that is able to withstand fluctuations in demand resulting from construction spending cyclicality.

Therefore, in spite of the tough operating environment in 2016, I am very pleased that the collaboration with Conch Cement has led to a more stable supply side and market outlook in Shaanxi Province and surrounding areas, since its share subscription in our Company in June 2015. I believe that further collaboration with Conch Cement thus improving the trading prospects for the Group into 2017 and beyond.

### FINANCIAL RESULTS

In 2016, the Group has again been able to rely on its superior performance in its Southern Shaanxi core markets to mitigate poor operations in Central Shaanxi. Group cement and clinker sales volumes have increased slightly from 17.1 million tons in 2015 to 17.8 million tons in 2016 and the Group's profitability has been positively affected by the improving pricing environment as a result of the improved market discipline with lower supply among all producers during the second half of 2016, which resulted in a 46.0% rise in gross profit as compared to 2015. In addition, the Group has maintained stronger cash flows, with EBITDA increased from close to RMB1 billion in 2015 to RMB1.3 billion in 2016. The Group's net gearing ratio has in turn improved from 57% in 2015 to 45% in 2016, as a result of the improved gross profit and cash flows mentioned above, which resulted in a healthier statement of financial positions in the Group.

### DIVIDEND

Due to the Group recording a slight net profit only for the year ended 31 December 2016, the Board does not recommend payment of a final dividend for this financial year.

### OPERATIONS

As described above, the Group has continued to have some success in its operations in Southern Shaanxi whilst confronting a difficult operating environment in Central Shaanxi. Average selling prices ("ASPs") have been especially weak in the centre of the the province but I am pleased that the Group has been able to maintain disciplined supply in the south with ASP premiums in this region of approximately RMB40 per ton as compared with Central Shaanxi. Peak- shifting production and voluntary production halts to limit supply in low seasons have become an important feature of the Central Shaanxi market but ASPs have been weak in 2016 due to slow demand intensifying competition on the fragmented supply side. Operations in Xinjiang and Guizhou have remained difficult, although ASPs have improved through the improved market discipline as a result of the voluntary production halts by all producers during low seasons and volumes were still strong in Guizhou due to the superior position of our plant there. In the face of the price weaknesses, I am very pleased by the progress the Group's

## Chairman's Statement

management has made in cost cutting and efficiency gains, leading to falls in the cost of production per ton of cement produced of approximately RMB7, which has somewhat stabilised the Group's per ton gross margins. In spite of the demand slowdown, urbanization and infrastructure project demand have continued to be important demand drivers and the Group has maintained market share in the east of the province in addition to our relative success in the south where our plants are well placed to capture both infrastructure and rural demand.

The Group has further expanded its capacity, through an acquisition in Shaanxi Province in November 2015 and annual cement capacity currently stands at 29.2 million tons in 2016. The Group has no current further expansion plans in 2017.

### ENVIRONMENTAL PROTECTION SOLUTIONS & SAFETY

The Group's work in energy conservation, emission controls and environmental protection solutions have continued to be a major focus in 2016. The Group have already finished the installation of De-nitration ("De-Nox") equipment and plant upgrades to limit Particulate matter ("PM") emissions at all of its plants in Shaanxi, Xinjiang and Guizhou Provinces. All upgrades to meet new emission standards as stipulated by the Cement Industrial Air Pollution Emissions Standards law were completed and the Group will continue to further reduce emissions through incremental upgrades.

The investment agreement ("Investment Agreement") with Wuhu Conch Investment Ltd ("Wuhu Conch"), China Conch Venture Holdings Limited ("Conch Venture") and Red Day Limited (Shaanxi Quanchuangke Industrial and Trading Co., Ltd was subsequently nominated to take up Red Day Limited's rights and obligations under the investment agreement), was completed in the first half of 2016. Pursuant to the Investment Agreement both parties will inject capital into Yaobai Environmental Technology Engineering Co. Ltd ("Yaobai Environmental"), and will provide financial resources and technological expertise for the expansion of this business line. Yaobai Environmental became owned as to 60% by Wuhu Conch, 20% by Shaanxi Quanchuangke Industrial and Trading Co. Ltd., and 20% by Yaobai Special Cement Group Co., Ltd.\* ("Yaobai Special Cement"), a wholly-owned subsidiary of the Company.

The parties have agreed to develop Yaobai Environmental into the only platform for the treatment of dangerous and hazardous waste for the parties within the PRC, and the Group is looking forward to the further development of this business line together with its new partners. Yaobai Environmental's operations currently included Phase I and Phase II of the Lantian Cement Kiln Waste Sludge Treatment Facility ("Lantian Waste Treatment Facility"), which have been in full operation since 2015 and 2016, respectively, and the Municipal Waste Treatment Facility at the Group's Fuping Plant ("Fuping Waste Treatment Facility"), which has been operating since March 2016. Moreover, a Solid Waste Treatment Facility at the Group's Mianxian Plant ("Mianxian Waste Treatment Facility") is under construction in 2016 and expected to complete in 2017.

The Group has continued its work to raise Health and Safety standards and monitoring the completion of Phase II of the "Sustainable Safety Development Project," with Phase III of this project commencing in 2016. In addition, I am very pleased that the Group joined the Cement Sustainability Initiative (CSI), a voluntary global organization of 25 major cement producers operating under the World Business Council for Sustainable Development (WBCSD). This initiative will help the Group further raise its standards in all aspects of environmental impact and safety procedures.

### OUTLOOK

The tough operating environment faced by the Group in 2016 reflected problems in both the supply side structure of the cement industry in Shaanxi Province as well as lacklustre demand in Shaanxi Province and in the PRC as a whole. The demand scenario in Shaanxi Province remains reasonable and this demand is underpinned by continued urbanisation and infrastructure development, partly driven by the Western Development and Silk Road Economic Development Policies of the PRC Government. A number of major infrastructure projects are proceeding in the region, and there have been major new starts in 2017, the Company is cautiously optimistic about the outlook for infrastructure construction and urbanisation into 2017 and beyond. However, it is the resolution of the fragmented nature of the supply side that is of primary importance in promoting a more stable market for cement, which in turn will benefit the Group.



## Chairman's Statement

Conch International Holdings (HK) Limited, a wholly-owned subsidiary of Anhui Conch Cement Co., Ltd ("Conch Cement"), had 1,147,565,970 shares in the Company, representing approximately 21.17% of the Company's issued share capital as at 31 December 2016. This will enable the Group and Conch Cement to achieve synergies in the manufacturing and sale of cement in Shaanxi Province, and can unify the operation and management of cement production capacity in the region thereby improving business efficiency and enhancing the effect of development strategies for both parties in the region. I believe that further collaboration between the two groups will lead to a significantly more stable supply side and market outlook for the region, significantly improving the trading prospects for the Group in 2017 and beyond.

On behalf of the Board, I would like to take this opportunity to thank our management, employees, bankers and advisors for their efforts in 2016. 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*

13 March 2017

# Management Discussion and Analysis

## BUSINESS REVIEW

### Overview

The Group has continued to face a tough operating environment in the year ended 31 December 2016. Sales volume in Shaanxi Province remained stable with a little growth, and low demand in the Xi'an Metropolitan Area and Central Shaanxi region led to occasional voluntary production halts by all producers during low season periods. Sales volumes in Xinjiang and Guizhou Provinces remained slow, with only a little sales growth recorded during the year. The sales volume of cement and clinker of the Group for the year ended 31 December 2016 was 17.8 million tons, representing a slight increase from the 17.1 million tons recorded in 2015. This volume however included a contribution of approximately 1 million from the Yaowangshan Cement Plant which was acquired in November 2015. Excluding this new plant, the Group has seen a stable sales volume in 2016 on a like-for-like basis.

The Group has maintained a strong market position in the Southern Shaanxi core markets, where high levels of market share coupled with good infrastructure demand have resulted in continued ASP premiums and more stable margins. However, ASPs have remained poor in Central Shaanxi, with a continuation of competitive pricing among all producers. During the second half of 2016, improved market discipline with lower supply among all producers had actually led to the rising ASPs in Shaanxi, Xinjiang and Guizhou Provinces. The Group has moreover been able to maintain the trend of falling costs established since 2015. Input prices were stable in 2016 and the Group has continued to implement efficiency gains and cost cutting measures. Taken together, these have partially eased the impact of poor ASPs on the Group's margins.

The Group has maintained healthy cash flows, with EBITDA of RMB1,311.7 million for the year ended 31 December 2016, which is higher than the RMB965.8 million recorded in 2015. However, the Group's annual results at the net profit level was still significantly affected by the decrease in the exchange rate of the RMB against the USD in the 2016.

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

The Group's capacity as at 31 December 2016 has reached 29.2 million tons of cement with the acquisition of the Yaowangshan Cement Plant in November 2015. The Group has no other plants under construction.

### Operating Environment

Like in 2015, a key feature of the Group's operational performance in 2016 has been the continued differentiation between the Group's stable cement ASPs in Southern Shaanxi (where the Group's cement capacity amounts to 9.7 million tons), as compared with those in Central Shaanxi (where the Group's cement capacity amounts to 13.6 million tons). Such difference was due to the different supply side factors between the two areas but has also been influenced by contrasting demand factors between these two areas.

Shaanxi Province as a whole has seen quite a slight rise in Fixed Asset Investment ("FAI") growth rates in the year ended 31 December 2016. FAI growth in 2016 was approximately 12% year on year, representing a slight increase from the 8% rewarded in 2015. The slight rise in FAI growth has led to a stable demand for cement products from all producers in the Central Shaanxi area, and this increase in demand has been prominent in the residential property and infrastructure markets, resulting in stable ASPs in this area. Southern Shaanxi, has continued to enjoy higher infrastructure led construction growth. FAI growth rates in the south have been above the provincial average and supported a more stable cement market with continued ASP premiums as compared to the centre of the province.

An important mitigating factor of the low ASPs has been the continued decrease in costs. This is the result of the Group's implementation of efficiency and cost cutting measures. Efficiency gains in the use of inputs have resulted in the decrease of cost of production of approximately RMB6.7 per ton of cement and clinker produced as compared with 2015.

## Management Discussion and Analysis

### Southern Shaanxi

The Group's operations and markets in Southern Shaanxi remained relatively stable during 2016. The supply side remained rational, as a result of little new capacity and effective closure of obsolete and small-scale clinker kiln and cement grinding capacity over recent years, as well as long transportation distances from other regions. The Group has effectively maintained strong market leadership in this area, promoting a disciplined supply side.

Demand in this region remained reasonable during 2016, supported by continued growth in railway and road infrastructure project construction. The Xi'an to Chengdu High Speed Railway and the Baoji to Hanzhong Expressway have been, amongst others, particularly important demand drivers; and the construction of the Ankang to Yangpingguan Double Track Railway and the Zhashui to Shanyang Expressway has also added to this demand scenario. Rural and urban development in Southern Shaanxi continued to be supported by the Hanjiang to Weihe River Water Transport Project and the Southern Shaanxi Resettlement Project continued to be important for both cement demand and development in this region.

Whilst sales volumes of cement in Southern Shaanxi have increased by approximately 6.5% to approximately 7.68 million tons in 2016 (2015: 7.21 million tons), the above supply and demand scenario has led to relatively strong pricing for the Group's products in this area. There has been some pressure on ASPs, especially in Hanzhong District, due to the low pricing in surrounding areas, but the good infrastructure project demand and insulation from outside competition supported pricing in Ankang District in particular. During 2016, the Group recorded cement ASPs in Southern Shaanxi of approximately RMB223 per ton (2015: RMB223 per ton) (excluding VAT), which is higher than the Group's total ASP of RMB207 per ton, with capacity utilization at approximately 79% (2015: 74%).

### Central Shaanxi

The Central Shaanxi market remained tough with low demand, especially from the Xi'an Metropolitan market, leading to cement sales volume falls of between 10% and 15% amongst all producers in this region. This low demand scenario has been exacerbated by the imbalances between supply and demand already existing in the area. Central Shaanxi is an area that has seen a significant build-out of new capacity since 2010 and, although all new capacity has been completed since early 2014 with no further additions planned for the foreseeable future, the effect of such new capacity is still being reflected through intense competition.

The low demand scenario in 2016 was prominent in both residential and infrastructure markets, and has led to voluntary production halts by all producers during low season periods. During 2016, the Group continued to maintain its market share in Eastern Xi'an, Fuping County and the rest of Weinan District where urbanisation remains a key demand driver. The Group has also supplied cement to a number of infrastructure projects, including the construction of Line 5 and 6 of the Xi'an Metro and Nangoumen Reservoir as well as the expansion of Xi'an Railway Station.

Excluding the 1.0 million tons (2015: 78,000 tons) of sales volume contributed by the Yaowangshan Cement Plant, which was newly acquired in November 2015, sales volumes in Central Shaanxi decreased by close to 14.5% to approximately 6.11 million tons in 2016 (2015: 7.15 million tons). Fortunately, improved market discipline with lower supply among all producers had actually led to the rising ASPs in the second half of 2016. Over the period as a whole, the Group has recorded cement ASPs in Central Shaanxi of RMB182 per ton (2015: RMB183 per ton) (excluding VAT), which is lower than the Group's total ASP of RMB207 per ton, with capacity utilization at approximately 52% (2015: 63%).

## Management Discussion and Analysis

### Xinjiang & Guizhou Provinces

Operations at the Group's plants in Xinjiang Province remained slow in 2016. The Group has sold approximately 1.01 million tons of mostly low-grade cement from its Southern Xinjiang Luxin and Yutian plants. In addition, the Group's Northern Xinjiang Yili Plant has been fully commissioned since April 2015 and has contributed a further 560,000 tons of sales, resulting in a total sales volume in Xinjiang of approximately 1.57 million tons, as compared to the total sales volume of 1.30 million tons in 2015. During 2016, ASPs in Xinjiang have improved through the voluntary production halts by all producers during the low season periods and the improved market discipline, the Group has recorded cement ASPs at approximately RMB261 per ton (excluding VAT) (2015: RMB215 per ton), which is higher than the Group's total ASP of RMB207 per ton, with capacity utilization at approximately 38% (2015: 35%).

In Guizhou Province, the Group's new Guiyang Huaxi Plant has also been fully commissioned since April 2015 and contributed approximately 1.3 million tons of cement as compared to the sales volume of 1.08 million tons in 2015. Whilst volumes at the Huaxi Plant have been good, due to its location advantage in close proximity to Guiyang City and the Guiyang — Anshun ("Gui-An") New Area, ASP was low due to market introductory entry pricing levels in 2015 and have been improved after entering the market with improved market discipline in 2016. During 2016, the Group has recorded cement ASPs in Guizhou of approximately RMB183 per ton (excluding VAT) (2015: RMB155 per ton), with capacity utilization at approximately 72% (2015: 81%).

### Energy Conservation, Emissions & Environmental

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

The Group has residual heat recovery systems installed at most of its production facilities. As at 31 December 2016, these systems are operational at 13 out of 20 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce Carbon dioxide ("CO<sub>2</sub>") emissions by approximately 20,000 tons per million tons of cement production.

The Group has already completed the installation of De-nitration ("De-NO<sub>x</sub>") equipment at its Xinjiang Luxin and Xinjiang Yutian Plants, thus completing the installation of this equipment at all of the Group's plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrous oxide ("NO<sub>x</sub>") emissions by approximately 60% per ton of clinker produced, bringing NO<sub>x</sub> emissions to within the new standards stipulated by the Cement Industrial Air Pollution Emissions Standards effective from July 2015. Modifications of production lines to meet particulate matter ("PM") emission standards have been completed prior to the current period, resulting in all of the Group's plants having been upgraded to meet new PM emission standards as well. Waste water recycling systems have also been upgraded at the Group's Yaowangshan and Fuping Plants during the year, further increasing the efficiency of waste water recycling.

### Yaobai Environmental — Waste Treatment

In November 2015, the Company announced that its wholly-owned subsidiary, 堯柏特種水泥集團有限公司 Yaobai Special Cement Group Co., Ltd.\* ("Yaobai Special Cement"), entered into an investment agreement ("Investment Agreement") with 蕪湖海螺投資有限公司 Wuhu Conch Investment Ltd.\* ("Wuhu Conch", a wholly-owned subsidiary of China Conch Venture Holdings Limited ("Conch Venture") which is listed on the main board of the Stock Exchange (stock code: 586)) and Red Day Limited ("Red Day", a company incorporated in the British Virgin Islands which is 100% owned by Mr. Ma Zhaoyang ("Mr. Ma"), a non-executive Director) pursuant to which Wuhu Conch and Red Day agreed to inject RMB90 million and RMB30 million, respectively, into 西安堯柏環保科技工程有限公司 Xi'an Yaobai Environmental Technology Engineering Co., Ltd.\* ("Yaobai Environmental"), the Group's waste treatment subsidiary at the relevant time.

## Management Discussion and Analysis

In the beginning of 2016, the Investment Agreement was completed and Yaobai Environmental became owned as to 60% by Wuhu Conch, 20% by 陝西全創科工貿有限公司 Shaanxi Quanchuangke Industrial and Trading Co. Ltd., a PRC company wholly-owned by Mr. Ma, which is nominated by Red Day to take up all its rights and obligations under the Investment Agreement pursuant to the terms of the Investment Agreement, and 20% by Yaobai Special Cement. Yaobai Environmental ceased to be an indirect wholly-owned subsidiary of the Company.

The parties have agreed to develop Yaobai Environmental into the only platform for the treatment of dangerous and hazardous waste for the parties within the PRC. The capital injection from the investors under the Investment Agreement will provide additional financial resources to Yaobai Environmental and pave the way for further collaboration among the parties.

Yaobai Environmental's operations currently include Phase I and Phase II of the Lantian Cement Kiln Waste Sludge Treatment Facility ("Lantian Waste Treatment Facility"), which have been in full operation since 2015 and 2016, respectively, and the Municipal Waste Treatment Facility at the Group's Fuping Plant ("Fuping Waste Treatment Facility"), which has been operating since March 2016. Moreover, a Solid Waste Treatment Facility at the Group's Mianxian Plant ("Mianxian Waste Treatment Facility") is under construction in 2016 and expected to complete in 2017.

### Safety and Social Responsibility

The Group's safety and environmental protection department continuously monitors and reviews safety procedures in accordance with evolving environmental and safety regulations in the PRC. In 2016, the Group focused its EHS (Environmental, Health & Safety) efforts on completing the publication of several handbooks and guidelines regarding work safety measures as well as the initiation of a number of other safety related training courses. In addition, the Group will process the third phase of the "Sustainable Safety Development Project" under the auspices of its strategic partner Italcementi S.P.A. In 2016, this third phase of the project has involved continuous training for both management and on-site employees, on-site inspections and audits, stringent safety reports and on-going suggestions for safety improvements at all of the Group's plants.

In order to further improve its environmental impact and safety procedures, the Group joined the Cement Sustainability Initiative (CSI), a voluntary global organization of 25 major cement producers operating under the World Business Council for Sustainable Development (WBCSD). Each CSI member is required to demonstrate commitments and achievements, including regular audits, to the following broad areas: CO<sub>2</sub> & Climate Protection, Responsible use of fuels and raw materials, Employee Health & Safety, Emission Reduction, Local Environmental Impact, Water and Reporting Practices.

During the year, charitable donations made by the Group amounted to approximately RMB3 million, including donations of cement to improverished schools and villages.

### Expansion and Acquisitions

In November 2015, the Group completed the acquisition of 銅川藥王山生態水泥有限公司 (Tongchuan Yaowangshan Ecological Cement Co., Ltd.) ("Yaowangshan Cement"), whose cement plant ("Yaowangshan Cement Plant") is located in Tongchuan District of Shaanxi Province with an annual cement production capacity of approximately 2.2 million tons and a strong emphasis on environmental-friendly cement production technology. After that, the Group has no other on-going cement plant construction/acquisition projects. The absence of any further expansion plan is consistent with the current development of the cement industry in PRC.

On 27 November 2015, the Company announced that, pursuant to an acquisition agreement ("Acquisition Agreement"), the Group had conditionally agreed to acquire, and Anhui Conch Cement Co., Ltd. had conditionally agreed to sell, the entire equity interest in four target companies principally engaged in manufacture and sale of cement in the Shaanxi Province. As certain conditions precedent of the Acquisition Agreement were not satisfied or waived before 5:00 p.m. on 30 June 2016, the long stop date under the Acquisition Agreement, the Acquisition Agreement has ceased and was determined.

The Group therefore had no significant material acquisitions or disposals during the year.



## Management Discussion and Analysis

### PROSPECTS

The tough operating environment faced by the Group in 2016 reflected problems in both the supply side structure of the cement industry in Shaanxi Province as well as lacklustre demand in Shaanxi Province and in the PRC as a whole. Whilst demand in Shaanxi was stable in 2016, with a similar cement sales volume as compared with 2015, the Company is cautiously optimistic about the outlook for infrastructure construction and urbanisation into 2017 and beyond. However, it is the resolution of the fragmented nature of the supply side that is of primary importance in promoting a more stable market and improvement to production capacity for the region, which in turn will benefit the Group.

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

Conch International Holdings (HK) Limited, a wholly-owned subsidiary of Anhui Conch Cement Co., Ltd (“Conch Cement”), had 1,147,565,970 shares in the Company, representing approximately 21.17% of the Company’s issued share capital as at 31 December 2016. Conch Cement is a leading PRC cement company, with its H-shares listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 914) and its A-shares listed on the Shanghai Stock Exchange (stock code: 600585).

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

The Group believes that further collaboration between the two groups will lead to a significantly more stable supply side and market outlook for the region, significantly improving the trading prospects for the Group in 2017 and beyond.

### Operations – Shaanxi

Under the current macro economic conditions in the PRC and Shaanxi Province, the Group does not expect to see a significant pick up in demand in 2017 as compared with 2016. Infrastructure demand is expected to remain reasonable and there are a number of major new projects that have commenced or are expected to commence in 2017, but significant growth is not expected. Urban property demand is also uncertain but rural demand is expected to remain stable with continued urbanization trends supporting rural growth rates.

In regards to the supply side, the Group does see increasing discipline amongst producers in 2017, both as a result of the low pricing environment and in light of the business collaboration between the Group and Conch Cement, which is expected to improve the sales coordination across the provinces and stronger bargaining power on selling prices.

In Central Shaanxi, voluntary production halts by all producers are expected to remain an important feature, especially during low season periods, and this can support ASPs. There are a number of infrastructure projects that have recently started or are expected to start in 2017. The largest of these, the Inner Mongolia to Jiangxi Coal Transportation Railway (Shaanxi Section) has commenced construction in March 2016 and is expected to consume over 800,000 tons of cement in 2017. In addition, the constructions of Heyang to Tongchuan Expressway, Central Shaanxi Intercity Railways, Xi’an to Yan’an High Speed Railway, Line 9 of Xi’an Metro, Yan’an Airport, Xi’an Xiangyang International Airport Phase III, Dongzhuang Reservoir and other urban regeneration projects are expected to start in 2017, which are expected to boost demand in this area.

In Southern Shaanxi, the Group expects to maintain its relatively strong performance due to reasonable infrastructure construction activity, an already disciplined supply side and the potential for increasingly stable pricing in the surrounding areas of Central Shaanxi and Northern Sichuan. Construction at the large railway, road and water projects in Southern Shaanxi is expected to proceed normally in 2017. The Ankang to

## Management Discussion and Analysis

Yangpingguan Double Track Railway, Shanyang to Zhashui Expressway, Pingli to Zhenping Expressway and Hanjinag Xunyang Hydropower Station are all continuing with bulk consumption. In addition, the Group expects to see good demand from a number of new construction projects in 2017, including the Ankang to Langao Expressway, Xixiang-Zhenba Expressway, Shiquan-Ningshan Expressway, Xi'an-Wuhan High Speed Railway, Xi'an-Chongqing High Speed Railway, Ankang Airport, Zhen'an Hydropower Station and other projects related to the Hanjiang to Weihe River Water Transfer project.

### Operations – Xinjiang & Guizhou

Operations in Xinjiang and Guizhou are likely to remain subdued in 2017. In Southern Xinjiang, where the Group has two plants and a total of 2.6 million tons of capacity, there are a number of on-going small infrastructure projects, which are expected to contribute to demand in 2017. These include the Yutian Ji Yin Hydro Project, the Hotan Airport Extension, the Moyu to Hetian Section Expansion of the 3012 National Road and the Pishan Akeqiao Hydro Project. In Northern Xinjiang, the volumes and pricing of the 1.5 million ton Yili Plant have remained low since commencing operation in April 2015. The Group expects to see more volume sold from the Yili Plant in 2017 and an improvement in pricing once the plant is established in the local market and the new capacity is absorbed. In Guizhou, the 1.8 million ton Huaxi Plant, which is very well located close to Guiyang City Centre, has commenced operations since April 2015. The Group expects this plant to continue benefiting from its location advantage in 2017, with a continuation of strong volumes coupled with ASP improvements as the plant establishes itself in the local market.

### Costs

The Group will continue to implement a number of cost cutting measures, which are expected to benefit COGS and selling, general and administrative expenses in 2017. These measures include administrative and head office cost cuts, headcount reductions and staff incentives to promote efficient use of raw materials and resources. These cost savings are accompanied by lower interest expenses as well as the benefit gained from low coal costs in general. The Group has already seen a positive effect from these cost cutting measures in 2016 and expects increasing benefits in 2017.

### Environment, Health & Safety

Plant upgrades to meet new NOx and PM emission standards as stipulated by the Cement Industrial Air Pollution Emissions Standards law have now been completed at all of the Group's plants and the Group will continue to further reduce emissions through incremental upgrades. The Group plans further implementation of measures to strengthen environmental management and monitoring and will also continue to implement the third phase of the "Sustainable Safety Development Project" under the auspices of its strategic partner Italcementi S.P.A. The Group also expects to benefit from its membership of the Cement Sustainability Initiative (CSI) in gaining expertise and know how in all aspects of environmental control and health & safety.

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

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by 6.2% from RMB3,500.9 million for the year ended 31 December 2015 to RMB3,719.3 million for the year ended 31 December 2016. Cement sales volume rose by 4.8%, from approximately 16.8 million tons to approximately 17.6 million tons during the year. Including clinker sales, total sales volume for the year ended 31 December 2016 amounted to approximately 17.8 million tons, compared to the 17.1 million tons sold in 2015.

## Management Discussion and Analysis

During the year, the cement sales from the Yaowangshan Cement Plant, which was acquired in November 2015, was approximately 1.0 million tons (2015: 78,000 tons). Excluding this plant, the Group has seen a stable sales volume in 2016 on a like-for-like basis.

Overall cement prices have been slightly higher than those seen in 2015, and this has resulted in higher revenues. Cement ASPs for the year ended 2016 were RMB207 per ton as compared with RMB200 per ton in 2015. The reasons for these fluctuations in ASPs are discussed in the “Operating Environment” section above.

### Cost of Sales

Cost of sales rose slightly by 0.2% from RMB3,037.4 million for the year ended 31 December 2015 to RMB3,042.6 million for the year ended 31 December 2016.

There were savings in material costs of 11.6% during 2016 mainly as a result of the fall in the limestone price and an approximate 5.2% fall in limestone consumption volume as compared with 2015, due to the utilization efficiency gains. The average cost per ton of limestone decreased by approximately 8.1% to RMB15.8 per ton from RMB17.2 per ton in 2015.

The average cost per ton of coal increased by approximately 4.8% to RMB326 per ton from RMB311 per ton in 2015.

The average cost of electricity, after taking savings from the waste heat recycling systems into account, decreased by approximately 4.5% to RMB0.404 per kwh from RMB0.423 per kwh in 2015.

Total depreciation costs increased by approximately 15.1%, or approximately RMB80.8 million, as compared with 2015. This was mainly due to increase in operating capacities following the full commissioning of the Xinjiang Yili and Guiyang Huaxi Cement Plants in April 2015 and the acquisition of the Yaowangshan Cement Plant in November 2015, as well as other plant modifications and upgrades relating to more stringent emission standards that do not have a direct bearing on sales volume or capacity increases.

The decrease in material costs and electricity costs have been mainly offset by higher depreciation costs and coal costs. There have been no material changes in staff costs and environmental protection costs.

### Gross Profit and Gross Profit Margin

Gross profit increased by RMB213.2 million, or 46.0%, from RMB463.5 million for the year ended 31 December 2015 to RMB676.7 million for the year ended 31 December 2016. The increase in gross profit was mainly due to the increase in ASPs as described above. Gross profit margins therefore increased from 13.2% for the year ended 31 December 2015 to 18.2% for the year ended 31 December 2016.

### Administrative and Selling & Marketing Expenses

Administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization. These expenses decreased by 10.5% from RMB270.6 million for the year ended 31 December 2015 to RMB242.2 million for the year ended 31 December 2016. Selling & Marketing expenses fell by 1.2% from RMB43.0 million to RMB42.5 million as compared with 2015. The decrease in administrative expenses and selling & marketing expenses were mainly due to the implementation of cost cutting measures throughout 2016.

### Other Income

Other income comprises VAT refunds, which is a form of government incentive for the recycling of industrial waste as a production input, and other government subsidies. Other income increased by approximately 38.1% from RMB109.4 million for the year ended 31 December 2015 to RMB151.1 million for the year ended 31 December 2016, mainly due to the increase in VAT rebates. The ratio of VAT rebates over revenue was 3.7% for the year (2015: 2.7%). The rise in the VAT rebates was mainly due to the rises in ASPs, with higher ASPs resulting in higher output VAT which in turn results in higher net VAT and rebates as well as the increase in the ratio of cement produced by using recycled industrial waste.

### Other Gains and Losses, net

Other losses decreased by RMB113.2 million from RMB297.6 million for the year ended 31 December 2015 to a RMB184.4 million for the year ended 31 December 2016. The change was mainly due to the net effect of two main factors. Firstly, there was an unrealized foreign exchange loss of RMB175.4 million relating to the Group's Senior Notes, as a result of the depreciation of the RMB against the USD in 2016, as compared with a foreign exchange loss of RMB157.1 million for the year ended 31 December 2015. Secondly, the Group has taken a written-off of the construction in progress of RMB124.4 million on a historic construction project in Weinan in 2015, while there is no such written-off in 2016.

## Management Discussion and Analysis

### Interest Income

Interest income decreased by RMB1.6 million from RMB18.3 million for the year ended 31 December 2015 to RMB16.7 million for the year ended 31 December 2016.

### Finance Costs

Finance costs increased by RMB29.0 million, or 12.3%, from RMB236.5 million for the year ended 31 December 2015 to RMB265.5 million for the year ended 31 December 2016. Gross finance costs, before adjusting for interest capitalization, decreased from RMB265.5 million for the year ended 31 December 2015 to RMB264.4 million for the year ended 31 December 2016.

Since there is no plant under construction in 2016, none of the interest is capitalized as part of the costs of assets for the year ended 31 December 2016 as compared with that of RMB30.1 million for the year ended 31 December 2015, which led to the decrease in finance costs.

### Income Tax Expense

Income tax expenses increased by RMB53.7 million, or 105.7%, from RMB50.8 million for the year ended 31 December 2015 to RMB104.5 million for the year ended 31 December 2016. Current income tax expense increased by RMB27.2 million to RMB111.7 million, whereas deferred tax credits decreased by RMB26.5 million to RMB7.2 million for the year ended 31 December 2016.

The increase in current income tax expenses was mainly due to the increase in the gross profit as a result of the increase in ASPs as described above. The decrease in deferred tax credits was mainly due to the decrease in the recognition of tax losses as deferred tax assets. During the year, RMB1.8 million of deferred tax assets relating to tax losses were recognized and credited to the profit and loss (2015: RMB24.9 million)

The detailed income tax expenses for the Group are outlined in note 11 to the consolidated financial statements below.

### Profit/(Loss) Attributable to the Owners of the Company

Profit attributable to the owners of the Company improved from a loss of RMB309.2 million for the year ended 31 December 2015 to a profit of RMB10.3 million for the year ended 31 December 2016. This significant improvement is primarily due

to the increase in gross profit as a result of the improved ASPs and the lack of any written-off of construction in progress in 2016 (2015: RMB124.4 million).

Basic earnings per share for the year ended 31 December 2016 improved from a loss per share of RMB6.2 cents for the year ended 31 December 2015 to earnings per share of RMB0.2 cents for the year ended 31 December 2016.

## FINANCIAL AND LIQUIDITY POSITION

As at 31 December 2016, the Group's total assets decreased by 1.8% to RMB11,181.6 million (2015: RMB11,382.5 million) while total equity increased by 0.2% to RMB5,913.4 million (2015: RMB5,903.9 million).

As at 31 December 2016, the Group had cash and cash equivalents, as well as restricted bank deposits, amounting to RMB1,345.6 million (2015: RMB528.2 million). After deducting total borrowings, Senior Notes and short term notes ("STN") (2015: medium term notes ("MTN")) of RMB4,013.0 million (2015: RMB3,903.9 million), the Group had net debt of RMB2,667.4 million (31 December 2015: RMB3,757.7 million). 100% (2015: 84.7%) of borrowings are at a fixed interest rate. As at 31 December 2015, the Group also held wealth management products operated by banks of RMB253.1 million at an annual return rate of 5.1% and maturing in September 2016. There is no such investment in 2016 after it was matured. Please refer to notes 28, 29, 30, 31 and 41 of the consolidated financial statements below for the details of the borrowings, Senior Notes, MTN, STN and the respective pledge of assets.

As at 31 December 2016, the Group's net gearing ratio, measured as net debt to equity, was 45.1% (2015: 57.2%).

Consistent with industry norms, the Group continuously monitors its gearing ratio and manages its capital to optimise the cost of capital and to safeguard the Group's ability to continue as a going concern. As at 31 December 2016, the Group had net current assets of RMB115.4 million (2015: net current liabilities of RMB727.5 million), which is a considerable improvement of RMB842.9 million in the Group's liquidity position.

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

## Management Discussion and Analysis

### CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities.

### CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure, measured as the additions of property, plant and equipment, prepaid lease payments and mining rights, for year ended 31 December 2016 amounted to RMB98.0 million (2015: RMB363.0 million). Capital commitments as at 31 December 2016 amounted to RMB2.6 million (2015: RMB14.3 million). Both capital expenditure and capital commitments were mainly related to the construction of new production facilities and waste treatment facilities and upgrading of existing production facilities. The Group has funded these commitments from operating cash flow and available banking facilities.

### EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group employed a total of 4,331 (2015: 4,661) full-time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2016, employees benefit expenses were RMB298.2 million (2015: RMB299.5 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 November 2015, the Group entered into an agreement to acquire a 100% equity interest of Yaowangshan Cement for a consideration of approximately RMB391.65 million and the assignment of a shareholders loan in the amount of approximately RMB375.58 million. Yaowangshan Cement is located in the Yaowangshan region of Tongchuan District, Shaanxi Province. The Yaowangshan Cement Plant that it operates is primarily engaged in the production and sale of cement, with an annual capacity of approximately 2.2 million tons of cement and a strong emphasis on environmentally friendly cement production technology.

On 27 November 2015, the Company announced that, pursuant to an acquisition agreement ("Acquisition Agreement"), the Group had conditionally agreed to acquire, and Anhui Conch Cement Co., Ltd. had conditionally agreed to sell, the entire equity interest in four target companies principally engaged in manufacture and sale of cement in the Shaanxi Province. As certain conditions precedent of the Acquisition Agreement were not satisfied or waived before 5:00 p.m. on 30 June 2016, the long stop date under the Acquisition Agreement, the Acquisition Agreement has ceased and was determined.

Save as disclosed above, the Group had no other significant material acquisitions or disposals during the year ended 31 December 2016.

### FOREIGN EXCHANGE RISK MANAGEMENT

During the year ended 31 December 2016, 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 September 2014 were denominated in foreign currency. Renminbi is not a freely convertible currency. Future exchange rates of the Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes on a domestic and/or international level, and the demand and supply of the Renminbi. The appreciation or devaluation of the Renminbi against foreign currencies may have an impact on the operating results of the Group. The Group currently does not maintain a foreign currency hedging policy. However, the management team of the Company will continue to monitor foreign exchange exposure and will consider hedging its foreign currency exposure should the need arise.



# 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.

Code provision A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “Corporate Governance Code”) provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Qin Hongji, a non-executive Director, was unable to attend the Company’s annual general meeting held on 13 May 2016 due to other business engagements.

During the year ended 31 December 2016, the Company has applied the principles of and has complied with all code provisions of the Corporate Governance Code and Corporate Governance Report (the “Code”) as set forth in Appendix 14 of the Listing Rules.

## MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by the directors of Listed Issuers (the “Model Code”) as set forth in Appendix 10 of the Listing Rules as its own code of conduct for dealing in securities by the Directors. Specific enquiries have been made with all the Directors and each of them has confirmed and declared that they have complied with the required standards as set out in the Model Code during the year ended 31 December 2016.

## 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 2016, comprised eight Directors, including two executive Directors, three non-executive Directors and three independent non-executive Directors. Board members are listed below:

#### Executive Directors:

Mr. Zhang Jimin (*Chairman*)  
Dr. Ma Weiping (*Chief Executive Officer*)

#### Non-executive Directors:

Mr. Ma Zhaoyang  
Ms. Liu Yan  
Mr. Qin Hongji

#### Independent non-executive Directors:

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

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.

## Corporate Governance Report

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 30 to 33 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 2016, the roles and duties of the Chairman and the Chief Executive Officer of the Company were carried out by different individuals and had been clearly defined in writing.

During the year ended 31 December 2016, the Chairman of the Board was Mr. Zhang Jimin and the Chief Executive Officer was Dr. Ma Weiping. The positions of Chairman and Chief Executive Officer were 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.

## Corporate Governance Report

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 2016, 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 2016 are as follows:

| Directors                                  | External training | In-house seminars |
|--|-------------------|-------------------|
| <b>Executive Directors</b>                 |                   |                   |
| Mr. Zhang Jimin                            | –                 | 2/2               |
| Dr. Ma Weiping                             | –                 | 2/2               |
| <b>Non-Executive Directors</b>             |                   |                   |
| Mr. Ma Zhaoyang                            | –                 | 2/2               |
| Ms. Liu Yan                                | –                 | 2/2               |
| Mr. Qin Hongji                             | –                 | 2/2               |
| <b>Independent Non-Executive Directors</b> |                   |                   |
| Mr. Lee Kong Wai Conway                    | 4                 | 2/2               |
| Mr. Wong Kun Kau                           | –                 | 2/2               |
| Mr. Tam King Ching Kenny                   | 19                | 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 2016, five 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 2016 ("2016 AGM") during the year ended 31 December 2016:

| Directors                | Number of Board meetings attended | 2016 AGM attended |
|--------------------------|-----------------------------------|-------------------|
| Mr. Zhang Jimin          | 2/2                               | 1/1               |
| Dr. Ma Weiping           | 2/2                               | 1/1               |
| Mr. Ma Zhaoyang          | 1/2                               | 1/1               |
| Ms. Liu Yan              | 2/2                               | 1/1               |
| Mr. Qin Hongji           | 2/2                               | 0/1               |
| Mr. Lee Kong Wai Conway  | 2/2                               | 1/1               |
| Mr. Wong Kun Kau         | 2/2                               | 1/1               |
| Mr. Tam King Ching Kenny | 2/2                               | 1/1               |

## Corporate Governance Report

Code provision A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “Corporate Governance Code”) provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Qin Hongji, a non-executive Director, was unable to attend the Company’s annual general meeting held on 13 May 2016 due to other business engagements.

### AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has been established in compliance with Rules 3.21 and Rules 3.22 of the Listing Rules and with written terms of reference in compliance with the Code. The primary duties of the Audit Committee are to review and monitor the financial reporting and internal control principles of the Company and to assist the Board to fulfill its responsibilities over audit. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. Wong Kun Kau and Mr. Tam King Ching Kenny. Mr. Lee Kong Wai Conway is the chairman of the Audit Committee. The Audit Committee has reviewed the Group’s consolidated financial statements for the year ended 31 December 2016.

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 reporting 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;

## Corporate Governance Report

- 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 2016.

| <b>Directors</b>         | <b>Number of<br/>Audit Committee<br/>meetings attended</b> |
|--------------------------|--|
| Mr. Lee Kong Wai Conway  | 3/3  |
| Mr. Wong Kun Kau         | 3/3  |
| Mr. Tam King Ching Kenny | 3/3  |

### REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") has been established in compliance with paragraph B1 of the Code and 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 packages 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.



## Corporate Governance Report

The table below sets out the details of Remuneration Committee meeting attendance of each Director during the year ended 31 December 2016.

| <b>Director</b>          | <b>Number of<br/>Remuneration Committee<br/>meetings attended</b> |
|--------------------------|---|
| 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 14 to the consolidated financial statements.

### NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") has been established in compliance with paragraph A.5 of the Code and 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.

The Company recognises and embraces the benefits of diversity of Board members and have adopted a board diversity policy (the "Board Diversity Policy") in August 2013. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

The nomination committee will give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

No meeting of the Nomination Committee was held during the year ended 31 December 2016.

### 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.

## Corporate Governance Report

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 2016, 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 47 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 47 of this annual report.

The remuneration paid and payable to Deloitte Touche Tohmatsu for services rendered in respect of the year ended 31 December 2016 is as follows:

|                    | <b>2016</b>    |
|--------------------|----------------|
|                    | <b>RMB'000</b> |
| Audit services     | <b>1,600</b>   |
| Non-audit services | <b>940</b>     |
| <b>Total</b>       | <b>2,540</b>   |

### 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 2015 Annual Results and our 2016 Interim Results. In addition, the Company has participated in a number of major investor conferences as well as other communications with investors and market participants.

The Company's website ([www.westchinacement.com](http://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](mailto:ir@westchinacement.com)) allowing investors direct communication with our IR representatives.

## Corporate Governance Report

### 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](mailto:ir@westchinacement.com).

## Directors and Senior Management

### DIRECTORS

At the date of this report, the Company has two executive Directors, three 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 62, 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. Mr. Zhang was also the Vice President of the China Cement Association.

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.

##### **Dr. Ma Weiping – Chief Executive Officer**

Dr. Ma, aged 55, was appointed as a non-executive Director of the Company in June 2012 and redesignated as an executive Director and chief executive officer of the Company in February 2015. 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, Dr. Ma served as a senior process engineer and project manager for Holcim in Michigan, United States. From 2002 to 2005, Dr. 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, Dr. Ma was also a chief representative and managing director of Fuping Cement, a company wholly owned by Italcementi Group. Dr. Ma currently cooperates with Italcementi Group in South-East Asia.

Dr. 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. Dr. Ma also obtained a Master of Business Administration in Integration Management from Michigan State University in 2002.

## Directors and Senior Management

### Non-executive Directors

#### Mr. Ma Zhaoyang – Non-executive Director

Mr. Ma, aged 48, 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.

#### Ms. Liu Yan – Non-executive Director

Ms. Liu, aged 50, is currently the head of the finance department of Conch Cement, a substantial shareholder of the Company. She has extensive experience in financial management, internal audit and internal risk management and control. Ms. Liu graduated from Tongling University majoring in planning and statistics in 1987.

From March 2006 to April 2010, Ms. Liu served as the head of finance department of Anhui Tongling Conch Cement Co., Ltd. ("Anhui Tongling"), a wholly-owned subsidiary of Conch Cement. From April 2010 to July 2013, Ms. Liu held various positions such as deputy chief accountant of Anhui Tongling and chief accountant of Suzhou Conch Cement Co., Ltd., a wholly-owned subsidiary of Conch Cement. From July 2013 to December 2014, Ms. Liu served as deputy head of the finance department of Conch Cement.

#### Mr. Qin Hongji – Non-executive Director

Mr. Qin, aged 53, is currently the regional head of Conch Cement in Shangan, and general manager of Pingliang Conch Cement Co., Ltd and Linxia Conch Cement Co., Ltd, both wholly-owned subsidiaries of Conch Cement. He has extensive experience in the operation and management of cement production organisation and external communication and coordination. Mr. Qin graduated from Anhui Construction Engineering School majoring in cement technology in July 1984 and from Wuhan University of Technology majoring in silicate technology in December 1989.

From November 1998 to April 1999, Mr. Qin served as the head of the department of safety production of Baimashan Cement Plant of Conch Cement. From March 2008 to June 2013, Mr. Qin held various leading positions such as regional deputy head of Conch Cement in Shanghai, general manager of Taicang Conch Cement Co., Ltd, general manager of Shanghai Mingzhu Conch Cement Co., Ltd. and general manager of Shanghai Conch Cement Co., Ltd, all subsidiaries of Conch Cement.

### Independent non-executive Directors

#### Mr. Lee Kong Wai Conway – Independent non-executive Director

Mr. Lee, aged 62, 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 Chaowei Power Holdings Limited, China Modern Dairy Holdings Limited, Gome Electrical Appliances Holding Limited, NVC Lighting Holding Limited, Yashili International Holdings Limited, WH Group Limited and China Rundong Auto Group Limited, companies listed on the main board of the HKSE, since July 2010, November 2010, March 2011, November 2012, November 2013, August 2014 and August 2014, respectively. He was also an independent non-executive director of China Taiping Insurance Holdings Company Limited, Merry Garden Holdings Limited and Citic Securities Company Limited, companies also listed on the main board of the HKSE, from October 2009 to August 2013, from July 2014 to September 2015, and from November 2011 to May 2016 respectively, and Sino Vanadium Inc., which was



## Directors and Senior Management

listed on TSX Venture Exchange in Canada, between October 2009 and December 2011. Mr. Lee 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 56, 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.

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, an independent non-executive director of Conch Cement, Lifestyle Properties Development Limited and China Shengmu Organic Milk Limited, companies listed on the main board of the HKSE, from May 2012 to June 2016, since September 2013 and July 2014, respectively, and an independent non-executive director of REF Holdings Limited, a company listed on the GEM Board of the HKSE, since September 2015.

### **Mr. Tam King Ching Kenny – Independent non-executive Director**

Mr. Tam, aged 67, 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 Chartered Professional Accountants of Ontario, Canada. Mr. Tam is a member of the Small and Medium Practitioners Committee and the Insolvency SD Vetting 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 has also served as an independent non-executive director of seven other listed companies on the main board of the HKSE, namely, Kingmaker Footwear Holdings Limited, CCT Fortis Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited and BeijingWest Industries International Limited, CCT Land Holdings Limited and Wisdom Education International Holdings Company Limited, since May 1994, December 1999, February 1996, July 2004, September 2004, January 2014, February 2016 and January 2017, respectively, and served as an independent non-executive director of a listed company on the GEM board of the HKSE, namely, North Asia Strategic Holdings Limited, till February 2013.

## Directors and Senior Management

### SENIOR MANAGEMENT

#### Yaobai Group

##### **Mr. Wang Jiujun – Deputy Chief Executive Officer and Chief Administration Officer**

Mr. Wang, aged 43, is mainly responsible for marketing planning, finance, administrative management of Yaobai Group. He is also a director of Hancheng Yaobai, Shifeng Yaobai and Shaanxi Fuping. Mr. Wang received a diploma in international accounting from Shaanxi Finance & Economy College in July 1995. He joined us in March 1998 and has held several positions in our Group including accountant, general accountant, finance manager, deputy manager and general manager of subsidiaries of our Group.

##### **Mr. Liu Jianjun – Deputy Chief Executive Officer and Chief Technology Officer**

Mr. Liu, aged 48, is mainly responsible for production, quality, technology and equipment operation. He received a diploma in business management from The Open University of China in 2012. Mr. Liu joined us since 1998 and has held several positions in our Group including Manager of Pucheng Plant, General Manager of Lantian Plant and General Manager of Hanzhong District. Mr. Liu has rich experience in production technology. He has won several prizes from Shaanxi Building Materials Industry Association of Technology Innovation.

##### **Mr. Chu Yufeng – Chief Financial Officer**

Mr. Chu, aged 38, is mainly responsible for financial management of Yaobai Group. Mr. Chu joined Shaanxi Yaobai as deputy chief financial officer in July 2012 and he was the deputy administration, finance and control director of Shaanxi Fuping from November 2010 to June 2012. Mr. Chu received a master degree in business administration from an international business joint program organised by Maastricht School of Management (MSM) of Netherlands and Independent University of Bangladesh in June 2005. He also graduated with a bachelor's degree in commerce in international accounting from Xi'an JiaoTong University in June 1999.

#### West China Cement Limited

##### **Mr. Chan King Sau – Chief Financial Officer and Company Secretary**

Mr. Chan, aged 39, 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 2016.

### 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 110 to 111 of this Annual Report. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2016.

### BUSINESS REVIEW

The business review of the Group as at 31 December 2016 is set out under the section headed "Management Discussion and Analysis" of this annual report on pages 13 to 21.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group has formulated some policies in accordance with environmental regulations, including, conducting environmental impact assessment for various types of materials or machines prior to making any purchasing decision; enhancing awareness of environmental protection among all employees by organizing environmental protection activities, training programmes and promotions. Top management of the Group plays a leading role in establishing a well-defined structure and system for environmental management by outlining corresponding responsibility, scope and policy.

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

The Group has residual heat recovery systems installed at most of its production facilities. As at 31 December 2016, these systems are operational at 13 out of 20 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce Carbon dioxide ("CO<sub>2</sub>") emissions by approximately 20,000 tons per million tons of cement production.

The Group completed the installation of De-nitration ("De-NO<sub>x</sub>") equipment at all of the Group's plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrous oxide ("NO<sub>x</sub>") emissions by approximately 60% per ton of clinker produced, bringing NO<sub>x</sub> emissions to within the new standards stipulated by the Cement Industrial Air Pollution Emissions Standards effective from July 2015. Modifications of production lines to meet particulate matter ("PM") emission standards have been completed prior to the current period, resulting in all of the Group's plants having been upgraded to meet new PM emission standards as well. New clinker storage sheds have also been completed at the Group's Lantian and Fuping Plants during the year, further reducing dust emissions.

### MAIN RISKS AND UNCERTAINTIES

The main activities of the Group include production and sales of cement. It is exposed to a variety of risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. Details of the above main risks and measures for risk reduction are set out in the note 42 of the consolidated financial statements below.

## Directors' Report

During the year under review, the Group's business and profitability growth were affected by the fluctuations and uncertainties of macroeconomic situations of China. Discrepancies of the monetary policies among major developed economies are expected to cause uncertainties in the PRC economy, which could materially and adversely affect the building and infrastructure industry in China and in turn, the demand of cement. The long-term business and profitability growth of the Group are expected to be impacted by variables of the Chinese macro-economy continuously (including but not limited to credit demand, fixed asset investment and total output value growth) and qualitative factors (such as the development of political and economic policies of various countries in the world).

### RELATIONSHIPS WITH MAJOR STAKEHOLDERS

The Group's success also relies on the support of major stakeholders including employees, customers, suppliers, regulators and shareholders.

#### Employees

Employees are considered to be the most important and valuable assets of the Group. The purpose of human resources management of the Group is to reward and praise the staff with excellent performances through the provision of generous remuneration package, the implementation of the comprehensive performance evaluation plan and the share option scheme. In addition, the Group also formulates an appropriate training plan based on various positions and duties and titles and provides certain opportunities and platforms to assist its employees to develop and get promoted within the Group.

#### Customers

The major customers of the Group are railway construction companies, real estate developers and concrete manufacturers etc. The Group is committed to provide its customers with quality products and services so as to strive for sustained growth in respect of revenue and profitability. The Group has adopted various means to strengthen communication with its customers to provide excellent and quality products and services so as to increase market penetration.

#### Suppliers

Maintaining good relationships with the suppliers is essential to the Group in respect of the supply chain and when facing business challenges and regulatory requirements. It can achieve cost efficiency and promote long term commercial benefits. Major suppliers include raw material suppliers, system and equipment suppliers, external consultants providing professional services, suppliers of office supplies or commodities and other business partners providing the Group with value added services.

#### Regulators

As a company listed in Hong Kong, the Company is subject to the regulations of the Securities and Futures Commission of Hong Kong and the Hong Kong Stock Exchange. Moreover, various PRC government authorities, including the Ministry of Land and Resources, the State Environmental Protection Administration, the General Administration of Quality Supervision Inspection and Quarantine, the Ministry of Commerce of the PRC, the Ministry of Construction of the PRC and other relevant regulators, have the authority to issue and implement regulations governing various aspects of cement production. The Group expects to constantly update and ensure compliance with new rules and regulations issued by these regulators.

During the year ended 31 December 2016, the Group has complied with the relevant laws and regulations that have a significant impact on the Company.

#### Shareholders

One of the corporate objectives of the Group is to enhance the corporate value for its shareholders. The Group distributes dividends to its shareholders in order to reward them for their support while boosting its business development to achieve sustainable profit growth and taking into account the capital adequacy level, liquidity and its business expansion needs.

## Directors' Report

### RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income on page 51.

No dividend was declared by the Company during the year ended 31 December 2016.

### ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 12 May 2017 (Friday). A notice convening the annual general meeting will be despatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") in due course.

### CLOSURE OF REGISTER OF MEMBERS

In order to be eligible for attending and voting at the forthcoming annual general meeting of the Company to be held at 12 May 2017 (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 9 May 2017 (Tuesday). The register of members of the Company will be closed from 10 May 2017 (Wednesday) to 12 May 2017 (Friday), both days inclusive, during which period no transfer of shares will be registered.

### 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 115 and the consolidated statement of changes in equity on page 54, respectively.

### DISTRIBUTABLE RESERVES

As at 31 December 2016, 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 RMB3,197 million.

### CHARITABLE DONATIONS

Charitable donations made by the Group during the year ended 31 December 2016 amounted to RMB2.9 million (2015: RMB6.1 million).

### PROPERTY, PLANT AND EQUIPMENT

Details of movement of property, plant and equipment of the Group, during the year ended 31 December 2016 are set out in note 17 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 26 and note 38 to the consolidated financial statements, respectively.



## Directors' Report

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

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

### 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.

### EQUITY-LINKED AGREEMENTS

Save as disclosed in the section headed "Share Option Schemes", as at the end of and during the year ended 31 December 2016, the Company did not enter into (i) any agreement that will or may result in the Company issuing Shares; or (ii) any agreement requiring the Company to enter into any agreement specified in (i).

### PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, in so far as the Companies (Jersey) Law 1991 allows, the Directors shall be indemnified out of the assets of the Company against any loss or liability incurred by him by reason of being or having been a Director.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, total sales attributable to the top five customers of the Group were approximately 5.8% of total sales of the Group.

For the financial year ended 31 December 2016, total purchase attributable to the largest supplier accounted for approximately 3.2% of the total purchase of the Group and total purchases attributable to the top five suppliers of the Group were approximately 12.9% 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

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

#### Executive Directors

Mr. Zhang Jimin (*Chairman*)

Dr. Ma Weiping (Chief executive officer)

#### Non-executive Directors

Mr. Ma Zhaoyang

Ms. Liu Yan

Mr. Qin Hongji

#### Independent non-executive Directors

Mr. Lee Kong Wai Conway

Mr. Wong Kun Kau

Mr. Tam King Ching Kenny

## Directors' Report

According to Article 23 of the Articles, any Director so appointed shall hold office until the next 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 30 to pages 33 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 2016 are set in note 14 and note 15 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 HKD1,500 per month.

Particular of the Group's retirement benefit schemes for its employees in Mainland China are set out in note 39 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.

## Directors' Report

### 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 2016 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

#### Connected Transaction — Investment Agreement in Relation to and Deemed Disposal of Equity Interest of Yaobai Environmental

In November 2015, the Company announced that its wholly-owned subsidiary, 堯柏特種水泥集團有限公司 Yaobai Special Cement Group Co., Ltd.\* ("Yaobai Special Cement"), entered into an investment agreement ("Investment Agreement") with 蕪湖海螺投資有限公司 Wuhu Conch Investment Ltd.\* ("Wuhu Conch", a wholly-owned subsidiary of China Conch Venture Holdings Limited ("Conch Venture") which is listed on the main board of the Stock Exchange (stock code: 586)) and Red Day Limited ("Red Day"), pursuant to which Wuhu Conch and Red Day agreed to inject RMB90 million and RMB30 million, respectively, into 西安堯柏環保科技工程有限公司 Xi'an Yaobai Environmental Technology Engineering Co., Ltd.\* ("Yaobai Environmental"), the Group's waste treatment subsidiary at the relevant time. As Red Day is wholly-owned by Mr. Ma Zhaoyang ("Mr. Ma"), a non-executive Director of the Company, the Investment Agreement constituted a connected transaction of the Company under Chapter 14A of the Listing Rules.

In the beginning of 2016, the Investment Agreement was completed and Yaobai Environmental is then owned as to 60% by Wuhu Conch, 20% by 陝西全創科工貿有限公司 Shaanxi Quanchuangke Industrial and Trading Co. Ltd., a PRC company wholly-owned by Mr. Ma, which is nominated by Red Day to take up all its rights and obligations under the Investment Agreement pursuant to the terms of the Investment Agreement, and 20% by Yaobai Special Cement. Yaobai Environmental ceased to be an indirect wholly-owned subsidiary of the Company.

For further information, please refer to the announcement of the Company dated 2 November 2015.

Save as disclosed above, no other related party transactions set out in Note 40 to the consolidated financial statements constituted connected transactions or continuing connected transactions under chapter 14A of the Listing Rules.

## Directors' Report

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 31 December 2016, 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 2016:

| Name of Director | Capacity                           | Number of ordinary shares held as at 31 December 2016 |                               | Approximate % of issued share capital of the Company as at 31 December 2016 |
|------------------|------------------------------------|---|-------------------------------|---|
|                  |                                    |   | Total                         |   |
| Zhang Jimin      | Interest of a controlled corporate |   | 1,756,469,900 (L)<br>(Note 2) | 32.40%  |
| Ma Zhaoyang      | Interest of a controlled corporate |   | 221,587,950 (L)<br>(Note 3)   | 4.09%   |

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") and Red Day Limited which are beneficially and wholly-owned by Ma Zhaoyang.

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

As at 31 December 2016:

| 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 2016 |
|-----------------------|------------------|--|-----------|---|
|                       |                  |  |           |   |
| Zhang Jimin           | Beneficial Owner |  | 8,175,000 | 0.151%  |
| Ma Weiping            | Beneficial Owner |  | 9,075,000 | 0.167%  |
| Ma Zhaoyang           | Beneficial Owner |  | 1,775,000 | 0.033%  |
| Lee Kong Wai, Conway  | Beneficial Owner |  | 1,775,000 | 0.033%  |
| Wong Kun Kau          | Beneficial Owner |  | 1,775,000 | 0.033%  |
| Tam King Ching, Kenny | Beneficial Owner |  | 1,775,000 | 0.033%  |

## Directors' Report

Save as disclosed above, as at 31 December 2016, 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 2016, 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' INTERESTS IN SECURITIES

As at 31 December 2016, 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 2016                                    |  |
|---|--------------------------------------|---|--|
|   |                                      | Number of ordinary shares of £0.002 each held<br>(Note 1) | Approximate % of issued share capital of the Company |
| Asia Gain (Note 2)  | Beneficial owner                     | 1,756,469,900 (L)   | 32.40%   |
| Conch International Holdings (HK) Limited ("Conch") (Note 3)  | Beneficial owner                     | 1,147,565,970 (L)   | 21.17%   |
| Anhui Conch Cement Co., Ltd. ("Conch Cement") (Note 3)        | Interest in a controlled corporation | 1,147,565,970 (L)   | 21.17%   |
| 安徽海螺集團有限責任公司 (Note 3)   | Interest in a controlled corporation | 1,147,565,970 (L)   | 21.17%   |
| China Conch Venture Holdings Limited ("China Conch") (Note 3) | Interest in a controlled corporation | 1,147,565,970 (L)   | 21.17%   |
| AllianceBernstein L.P   | Beneficial owner                     | 271,782,000 (L)   | 5.01%  |

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) Conch is beneficially and wholly-owned by Conch Cement, which is owned as to 36.78% by 安徽海螺集團有限責任公司. 安徽海螺集團有限責任公司 is indirectly controlled by China Conch.

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 2016 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.



## Directors' Report

### 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 2016.

### SHARE OPTION SCHEMES

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

#### 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 and as at the date of this annual report:

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).

The total number of shares available for issue under the Post-IPO Share Option Scheme is 354,753,185 as at the date of this annual report, representing approximately 6.54% of the Company's issued share capital as at the date of this annual report.

## Directors' Report

### 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.

## Directors' Report

### 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 2016:

| Category and name of participant | Date of grant of share options<br>(Note) | 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 2016  | Granted during the year ended 31 December 2016 | Exercised during the year ended 31 December 2016 | Lapsed during the year ended 31 December 2016 | Outstanding as at 31 December 2016 |
| <b>Directors</b>                 |  |                      |                                |   |  |  |   |                                    |
| Zhang Jimin                      | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 3,000,000   | —  | —  | 1,000,000                                     | 2,000,000                          |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 3,700,000   | —  | —  | 925,000                                       | 2,775,000                          |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 3,400,000   | —  | —  | —   | 3,400,000                          |
| Ma Zhaoyang                      | 23 March 2011                            | 3.41                 | 23 March 2012 to 22 March 2021 | 75,000  | —  | —  | 75,000  | —                                  |
|                                  | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 487,500   | —  | —  | 162,500                                       | 325,000                            |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 1,000,000   | —  | —  | 250,000                                       | 750,000                            |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 700,000   | —  | —  | —   | 700,000                            |
| Ma Weiping                       | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 487,500   | —  | —  | 162,500                                       | 325,000                            |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 1,000,000   | —  | —  | 250,000                                       | 750,000                            |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 8,000,000   | —  | —  | —   | 8,000,000                          |
| Lee Kong Wai, Conway             | 23 March 2011                            | 3.41                 | 23 March 2012 to 22 March 2021 | 75,000  | —  | —  | 75,000  | —                                  |
|                                  | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 487,500   | —  | —  | 162,500                                       | 325,000                            |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 1,000,000   | —  | —  | 250,000                                       | 750,000                            |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 700,000   | —  | —  | —   | 700,000                            |
| Wong Kun Kau                     | 23 March 2011                            | 3.41                 | 23 March 2012 to 22 March 2021 | 75,000  | —  | —  | 75,000  | —                                  |
|                                  | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 487,500   | —  | —  | 162,500                                       | 325,000                            |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 1,000,000   | —  | —  | 250,000                                       | 750,000                            |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 700,000   | —  | —  | —   | 700,000                            |

## Directors' Report

| Category and name of participant | Date of grant of share options<br>(Note) | 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 2016  | Granted during the year ended 31 December 2016 | Exercised during the year ended 31 December 2016 | Lapsed during the year ended 31 December 2016 | Outstanding as at 31 December 2016 |
| Tam King Ching, Kenny            | 23 March 2011                            | 3.41                 | 23 March 2012 to 22 March 2021 | 75,000  | —  | —  | 75,000  | —                                  |
|                                  | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 487,500   | —  | —  | 162,500                                       | 325,000                            |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 1,000,000   | —  | —  | 250,000                                       | 750,000                            |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 700,000   | —  | —  | —   | 700,000                            |
| <b>Other employees (Group A)</b> | 23 March 2011                            | 3.41                 | 23 March 2012 to 22 March 2021 | 3,400,000   | —  | —  | 3,400,000                                     | —                                  |
|                                  | 22 March 2013                            | 1.25                 | 22 March 2014 to 21 March 2023 | 17,812,500  | —  | —  | 5,937,500                                     | 11,875,000                         |
|                                  | 24 March 2014                            | 0.91                 | 24 March 2015 to 23 March 2024 | 37,700,000  | —  | —  | 9,425,000                                     | 28,275,000                         |
|                                  | 13 April 2015                            | 1.45                 | 13 April 2016 to 12 April 2025 | 14,900,000  | —  | —  | 3,700,000                                     | 11,200,000                         |
| <b>Other employees (Group B)</b> | 23 March 2011                            | 3.41                 | 23 March 2014 to 22 March 2023 | 1,650,000   | —  | —  | 550,000                                       | 1,100,000                          |
| <b>Total</b>                     |  |                      |                                | <b>104,100,000</b>  | <b>—</b>                                       | <b>—</b>   | <b>27,300,000</b>                             | <b>76,800,000</b>                  |

*Note:*

- The closing prices of the shares of the Company on 23 March 2011, 22 March 2013, 24 March 2014 and 13 April 2015, being the dates on which the Share Options were granted, were HK\$3.41, HK\$1.24, HK\$0.91 and HK\$1.45 per share, respectively.
- The vesting of Share Options granted under the Share Option Scheme on each of 23 March 2011, 22 March 2013, 24 March 2014 and 13 April 2015 is conditional upon the achievement of certain performance targets as set out in the respective offer letters, including among others, achievement of strategic goals and financial and operational performance targets, during the vesting period and the exercise period of the Share Options.

Subject to the abovementioned vesting or performance conditions, the Share Options with respect to a grantee will be exercisable in the following manner:

- 25% of the Share Options will be exercisable at any time on and after the end of first anniversary (or the end of third anniversary for some of the other employees of the Group) of the grant of the Share Options;
- up to 25% of the Share Options and any Share Options that have not been exercised as referred in paragraph (i) above will be exercisable at any time commencing from end of the second anniversary (or the end of fourth anniversary for some of the other employees of the Group) of the grant of the Share Options;
- up to 25% of the Share Options and any Share Options that have not been exercised as referred in paragraphs (i) and (ii) above will be exercisable at any time commencing from the end of third anniversary (or the end of fifth anniversary for some of the other employees of the Group) of the grant of the Share Options; and
- up to 25% of the Share Options and any Share Options that have not been exercised as referred in paragraphs (i) to (iii) above will be exercisable at any time commencing from the end of fourth anniversary (or the end of sixth anniversary for some of the other employees of the Group) of the grant of the Share Options.

No Share Options will be exercisable after the expiry of its term.

## Directors' Report

### 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 2016 and as at the date of this annual report.

### EVENTS AFTER THE REPORTING DATE

On 3 March 2017, the Group's wholly-owned subsidiary established in the PRC, Yaobai Special Cement issued unsecured short-term notes of RMB400 million with an interest rate of 6.98% per annum at 100% of the face value with a term of 1 year for the purpose of repayment of part of the bank loans and supplementing general working capital of the Group.

### 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*

13 March 2017

# Independent Auditor's Report

# Deloitte.

# 德勤

## TO THE SHAREHOLDERS OF WEST CHINA CEMENT LIMITED

*(incorporated in Jersey with limited liability)*

### OPINION

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 51 to 115, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Independent Auditor's Report

### Key audit matter

### How our audit addressed the key audit matter

#### ***Impairment assessment on goodwill and other non-current asset of Yaowangshan (as defined below)***

We identified goodwill and other non-current asset impairment assessment of the Company's wholly-owned subsidiary, YaoWangShan Cement Co., Ltd. ("Yaowanshan") as a key audit matter because the determination of the recoverable amount in the impairment assessment required significant management estimates with respect to the discount rate and the underlying cash flows for the projection period.

As disclosed in note 4 to the consolidated financial statements, Yaowangshan reported a net loss in the current year and hence it is an indication that the carrying value of goodwill and other non-current assets of Yaowangshan may be impaired. Accordingly, management performed an impairment assessment relating to goodwill and other non-current assets of Yaowangshan.

Details of the non-current assets, goodwill and related key sources of estimation uncertainty in the impairment assessment are set out in notes 17, 21 and 4 respectively.

Our procedures in relation to impairment assessment on goodwill and other non-current assets of Yaowanshan included:

- utilizing internal valuation specialists to independently assess the appropriateness of the methodology adopted, discount rate used and other critical judgments made by management in the determination of the recoverable amount;
- reconciling input data used in the determination to supporting evidence;
- considering the reasonableness of the management budgets when the input data were derived from budgets;
- evaluating the sensitivity analysis performed by management; and
- considering the adequacy on the disclosures of the determination of the recoverable amount in the consolidated financial statements.

## Independent Auditor's Report

### OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

## Independent Auditor's Report

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Cheng Pak Chuen, Patrick.

### **Deloitte Touche Tohmatsu**

Certified Public Accountants

Hong Kong

13 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

|   | NOTES | 2016<br>RMB'000    | 2015<br>RMB'000 |
|---|-------|--------------------|-----------------|
| Revenue   | 5     | <b>3,719,280</b>   | 3,500,931       |
| Cost of sales   |       | <b>(3,042,628)</b> | (3,037,447)     |
| Gross profit  |       | <b>676,652</b>     | 463,484         |
| Other income  | 6     | <b>151,076</b>     | 109,352         |
| Selling and marketing expenses                                      |       | <b>(42,454)</b>    | (42,953)        |
| Administrative expenses   |       | <b>(242,249)</b>   | (270,629)       |
| Other gains and losses, net   | 7     | <b>(184,356)</b>   | (297,560)       |
| Share of profit of associates                                       | 16    | <b>9,532</b>       | –               |
| Interest income   | 8     | <b>16,664</b>      | 18,277          |
| Finance costs   | 9     | <b>(265,467)</b>   | (236,508)       |
| Profit (loss) before tax  | 10    | <b>119,398</b>     | (256,537)       |
| Income tax expense  | 11    | <b>(104,460)</b>   | (50,820)        |
| Profit (Loss) and total comprehensive income (expense) for the year |       | <b>14,938</b>      | (307,357)       |
| Attributable to:  |       |                    |                 |
| – Owners of the Company   |       | <b>10,319</b>      | (309,205)       |
| – Non-controlling interests   |       | <b>4,619</b>       | 1,848           |
|   |       | <b>14,938</b>      | (307,357)       |
| Earnings (loss) per share   |       |                    |                 |
| – Basic (RMB)   | 13    | <b>0.002</b>       | (0.062)         |
| – Diluted (RMB)   | 13    | <b>0.002</b>       | (0.062)         |

# Consolidated Statement of Financial Position

At 31 December 2016

|   | NOTES | 2016<br>RMB'000   | 2015<br>RMB'000 |
|---|-------|-------------------|-----------------|
| <b>ASSETS</b>   |       |                   |                 |
| <b>Non-current assets</b>                                   |       |                   |                 |
| Investment in an associate                                  | 16    | 40,957            | –               |
| Property, plant and equipment                               | 17    | 7,564,018         | 8,256,747       |
| Prepaid lease payments                                      | 18    | 486,675           | 498,429         |
| Mining rights   | 19    | 272,714           | 281,842         |
| Other intangible assets                                     | 20    | 192,973           | 195,315         |
| Deferred tax assets   | 22    | 45,931            | 54,405          |
| Amount due from non-controlling shareholder of a subsidiary | 24    | 63,225            | 53,260          |
|   |       | <b>8,666,493</b>  | 9,339,998       |
| <b>Current assets</b>                                       |       |                   |                 |
| Inventories   | 23    | 508,893           | 575,656         |
| Trade and other receivables and prepayments                 | 24    | 660,545           | 685,493         |
| Short-term investments                                      |       | –                 | 253,128         |
| Restricted bank deposits                                    | 25    | 86,978            | 73,397          |
| Bank balance and cash                                       | 25    | 1,258,668         | 454,823         |
|   |       | <b>2,515,084</b>  | 2,042,497       |
| <b>Total assets</b>   |       | <b>11,181,577</b> | 11,382,495      |
| <b>EQUITY</b>   |       |                   |                 |
| Share capital   | 26    | 141,519           | 141,519         |
| Share premium and reserves                                  | 27    | 5,721,111         | 5,714,901       |
| Equity attributable to owners of the Company                |       | <b>5,862,630</b>  | 5,856,420       |
| Non-controlling interests                                   |       | <b>50,727</b>     | 47,480          |
| <b>Total equity</b>   |       | <b>5,913,357</b>  | 5,903,900       |

## Consolidated Statement of Financial Position

At 31 December 2016

|  | NOTES | 2016<br>RMB'000   | 2015<br>RMB'000 |
|--|-------|-------------------|-----------------|
| <b>LIABILITIES</b>                           |       |                   |                 |
| <b>Non-current liabilities</b>               |       |                   |                 |
| Borrowings                                   | 28    | 2,000             | 3,000           |
| Senior notes                                 | 29    | 2,747,221         | 2,563,482       |
| Asset retirement obligation                  | 32    | 22,066            | 20,961          |
| Deferred tax liabilities                     | 22    | 39,078            | 54,731          |
| Deferred income                              | 33    | 58,136            | 66,389          |
|  |       | <b>2,868,501</b>  | 2,708,563       |
| <b>Current liabilities</b>                   |       |                   |                 |
| Borrowings                                   | 28    | 464,600           | 538,400         |
| Medium-term notes                            | 30    | –                 | 799,060         |
| Short-term notes                             | 31    | 799,214           | –               |
| Trade and other payables                     | 34    | 1,076,940         | 1,410,505       |
| Income tax payable                           |       | 58,965            | 22,067          |
|  |       | <b>2,399,719</b>  | 2,770,032       |
| Total liabilities                            |       | <b>5,268,220</b>  | 5,478,595       |
| Total equity and liabilities                 |       | <b>11,181,577</b> | 11,382,495      |
| <b>Net current assets (liabilities)</b>      |       | <b>115,365</b>    | (727,535)       |
| <b>Total assets less current liabilities</b> |       | <b>8,781,858</b>  | 8,612,463       |



## Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

|  | Attributable to owners of the Company |               |                      |                      |                      |                   |           | Non-controlling interests | Total equity |
|--|---------------------------------------|---------------|----------------------|----------------------|----------------------|-------------------|-----------|---------------------------|--------------|
|  | Share capital                         | Share premium | Equity reserve       | Share option reserve | Statutory reserve    | Retained earnings | Total     |                           |              |
|  | RMB'000                               | RMB'000       | RMB'000<br>(Note 27) | RMB'000              | RMB'000<br>(Note 27) | RMB'000           | RMB'000   |                           |              |
| At 1 January 2015  | 124,098                               | 2,114,868     | (305,868)            | 17,577               | 470,681              | 2,549,511         | 4,970,867 | 45,632                    | 5,016,499    |
| (Loss) profit and total comprehensive (expense) income for the year            | -                                     | -             | -                    | -                    | -                    | (309,205)         | (309,205) | 1,848                     | (307,357)    |
| Transfer to statutory reserve  | -                                     | -             | -                    | -                    | 20,637               | (20,637)          | -         | -                         | -            |
| Recognition of equity-settled share-based payments (Note 38)                   | -                                     | -             | -                    | 12,265               | -                    | -                 | 12,265    | -                         | 12,265       |
| Issue of new shares (Note 26)  | 17,421                                | 1,186,692     | -                    | -                    | -                    | -                 | 1,204,113 | -                         | 1,204,113    |
| Transaction costs attributable to issue of new ordinary shares (Note 26)       | -                                     | (12,585)      | -                    | -                    | -                    | -                 | (12,585)  | -                         | (12,585)     |
| Dividend recognised as distribution (Note 12)                                  | -                                     | -             | -                    | -                    | -                    | (9,035)           | (9,035)   | -                         | (9,035)      |
| At 31 December 2015  | 141,519                               | 3,288,975     | (305,868)            | 29,842               | 491,318              | 2,210,634         | 5,856,420 | 47,480                    | 5,903,900    |
| Profit and total comprehensive income for the year                             | -                                     | -             | -                    | -                    | -                    | 10,319            | 10,319    | 4,619                     | 14,938       |
| Transfer to statutory reserve  | -                                     | -             | -                    | -                    | 29,623               | (29,623)          | -         | -                         | -            |
| Recognition and reversal of equity-settled share-based payments, net (Note 38) | -                                     | -             | -                    | (4,109)              | -                    | -                 | (4,109)   | -                         | (4,109)      |
| Dividend paid to non-controlling shareholders                                  | -                                     | -             | -                    | -                    | -                    | -                 | -         | (1,372)                   | (1,372)      |
| At 31 December 2016  | 141,519                               | 3,288,975     | (305,868)            | 25,733               | 520,941              | 2,191,330         | 5,862,630 | 50,727                    | 5,913,357    |

## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

|  | NOTES | 2016<br>RMB'000  | 2015<br>RMB'000 |
|--|-------|------------------|-----------------|
| <b>OPERATING ACTIVITIES</b>  |       |                  |                 |
| Profit (loss) before tax   |       | <b>119,398</b>   | (256,537)       |
| Adjustments for:   |       |                  |                 |
| Finance costs  |       | <b>265,467</b>   | 236,508         |
| Interest income  |       | <b>(16,664)</b>  | (18,277)        |
| Unrealised exchange losses   |       | <b>172,180</b>   | 145,149         |
| Depreciation of property, plant and equipment                      |       | <b>746,582</b>   | 673,041         |
| Impairment loss on property, plant and equipment                   |       | <b>–</b>         | 7,481           |
| (Gain) loss on disposal of property, plant and equipment           |       | <b>(738)</b>     | 126,261         |
| Gain on disposal of mining right                                   |       | <b>–</b>         | (2,524)         |
| Loss on deemed disposal of a subsidiary                            |       | <b>5,702</b>     | –               |
| Share of profit of an associate                                    |       | <b>(9,532)</b>   | –               |
| Amortisation of prepaid lease payments                             |       | <b>14,068</b>    | 13,623          |
| Amortisation of mining rights                                      |       | <b>9,243</b>     | 13,783          |
| Amortisation of other intangible assets                            |       | <b>2,342</b>     | 2,400           |
| Allowance and reversal for doubtful debts, net                     |       | <b>683</b>       | 1,456           |
| Government grants released to profit or loss                       |       | <b>(9,453)</b>   | (8,164)         |
| (Reversal) recognition of share option expenses, net               |       | <b>(4,109)</b>   | 12,265          |
| Operating cash flows before movements in working capital           |       | <b>1,295,169</b> | 946,465         |
| Decrease (increase) in inventories                                 |       | <b>66,762</b>    | (2,435)         |
| Decrease (increase) in trade and other receivables and prepayments |       | <b>15,302</b>    | (11,006)        |
| Decrease in trade and other payables                               |       | <b>10,950</b>    | (377,503)       |
| Cash generated from operations                                     |       | <b>1,388,183</b> | 555,521         |
| Income tax paid  |       | <b>(74,741)</b>  | (81,451)        |
| Net cash from operating activities                                 |       | <b>1,313,442</b> | 474,070         |

## Consolidated Statement of Cash Flows

For the year ended 31 December 2016

|  | NOTES | 2016<br>RMB'000  | 2015<br>RMB'000  |
|--|-------|------------------|------------------|
| <b>INVESTING ACTIVITIES</b>  |       |                  |                  |
| Interest received  |       | 19,792           | 15,149           |
| Disposal proceeds (purchase) of short-term investments                                 |       | 250,000          | (250,000)        |
| Purchase of property, plant and equipment  |       | (379,475)        | (350,135)        |
| Addition of prepaid lease payments   |       | –                | (604)            |
| Acquisition of mining rights   |       | (115)            | (1,807)          |
| Advance to non-controlling shareholder of a subsidiary                                 |       | (9,965)          | (13,803)         |
| Proceeds from disposal of mining right   |       | –                | 3,308            |
| Proceeds from disposal of property, plant and equipment                                |       | 2,484            | 13,753           |
| Government grants received for acquisition of property, plant and equipment            |       | 1,200            | 7,920            |
| Repayment from previous shareholder of a subsidiary                                    |       | –                | 15,063           |
| Payment for acquisition of subsidiaries in prior period                                |       | –                | (5,000)          |
| Deposit received   |       | –                | 45,000           |
| Acquisition of a subsidiary, net of cash acquired                                      | 36    | –                | (389,302)        |
| Net cash outflow on deemed disposal of a subsidiary                                    | 35    | (40,097)         | –                |
| Withdrawal of restricted bank deposits   |       | 240,819          | 300,397          |
| Placement of restricted bank deposits  |       | (254,400)        | (161,675)        |
| <b>Net cash used in investing activities</b>   |       | <b>(169,757)</b> | <b>(771,736)</b> |
| <b>FINANCING ACTIVITIES</b>  |       |                  |                  |
| New borrowings raised  |       | 514,600          | 484,600          |
| Repayment of borrowings  |       | (589,400)        | (771,373)        |
| Proceeds from issuance of short-term notes   | 31    | 800,000          | –                |
| Expenses on issuance of short-term notes   | 31    | (3,200)          | –                |
| Repayment of medium-term notes   | 30    | (800,000)        | –                |
| Repayments to previous shareholder of a subsidiary                                     |       | –                | (378,159)        |
| Dividends paid   |       | –                | (9,035)          |
| Dividends paid to non-controlling shareholders of a subsidiary                         |       | (1,372)          | –                |
| Proceeds from issue of shares  |       | –                | 1,204,113        |
| Expenses on issue of shares  |       | –                | (12,585)         |
| Interest paid  |       | (262,670)        | (262,676)        |
| <b>Net cash (used in) from financing activities</b>                                    |       | <b>(342,042)</b> | <b>254,885</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>                            |       | <b>801,643</b>   | <b>(42,781)</b>  |
| Cash and cash equivalents at 1 January   |       | 454,823          | 495,605          |
| Effect of foreign exchange rate changes  |       | 2,202            | 1,999            |
| <b>Cash and cash equivalents at 31 December, represented by bank balances and cash</b> |       | <b>1,258,668</b> | <b>454,823</b>   |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 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 No. 336 4th Shenzhou Road, Aerospace Industrial Base, Chang’an District, 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 (the “HKSE”).

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

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

### 2.1 Amendments to standards that are mandatory effective for the current year

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

|   |   |
|---|---|
| Amendments to IFRS 11                     | <i>Accounting for Acquisitions of Interests in Joint Operations</i>         |
| Amendments to IAS 1                       | <i>Disclosure Initiative</i>  |
| Amendments to IAS 16 and IAS 38           | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| Amendments to IFRSs                       | <i>Annual Improvements to IFRSs 2012–2014 Cycle</i>                         |
| Amendments to IAS 16 and IAS 41           | <i>Agriculture: Bearer Plants</i>   |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | <i>Investment Entities: Applying the Consolidation Exception</i>            |

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

#### **Amendments to IAS 1 Disclosure Initiative**

The Group has applied the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity’s financial position and financial performance.

In addition, the amendments clarify that an entity’s share of the other comprehensive income of associates accounted for using the equity methods should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Cont’d)

#### 2.1 Amendments to standards that are mandatory effective for the current year (Cont’d)

##### Amendments to IAS 1 Disclosure Initiative (Cont’d)

The Group has applied these amendments retrospectively. To give prominence to the areas of the Group’s activities that management considers to be most relevant to an understanding of the Group’s financial performance and financial position, the ordering of certain notes have been revised, specifically, information relating to financial instruments was reordered to Note 42. Other than the above presentation and disclosure changes, the application of the amendments to IAS 1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

#### 2.2 New and amendments to IFRSs and interpretation in issue but not yet effective

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

|                                  |   |
|----------------------------------|---|
| IFRS 9                           | <i>Financial Instruments</i> <sup>1</sup>   |
| IFRS 15                          | <i>Revenue from Contracts with Customers and the related Amendments</i> <sup>1</sup>                      |
| IFRS 16                          | <i>Leases</i> <sup>2</sup>  |
| IFRIC 22                         | <i>Foreign Currency Transactions and Advance Consideration</i> <sup>1</sup>                               |
| Amendments to IFRS 2             | <i>Classification and Measurement of Share-based Payment Transactions</i> <sup>1</sup>                    |
| Amendments to IFRS 4             | <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> <sup>1</sup>                 |
| Amendments to IFRS 10 and IAS 28 | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup> |
| Amendments to IAS 7              | <i>Disclosure Initiative</i> <sup>4</sup>   |
| Amendments to IAS 12             | <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> <sup>4</sup>                              |
| Amendments to IAS 40             | <i>Transfers of Investment Property</i> <sup>1</sup>  |
| Amendments to IFRSs              | <i>Annual Improvements to IFRS Standards 2014–2016 Cycle</i> <sup>5</sup>                                 |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as disclosed below, the directors of the Company anticipate that the application of these new and revised IFRSs will have no material impact on amounts reported in the Group’s consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Cont’d)

#### 2.2 New and amendments to IFRSs and interpretation in issue but not yet effective (Cont’d)

##### **IFRS 9 Financial Instruments**

IFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

One of the key requirements of IFRS 9 that are applicable to the Group is the impairment of financial assets, of which IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company are of the view that the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs. However, it is not practicable to provide a reasonable estimate of the effect from using an expected credit loss model in respect of its financial assets until a detailed review has been completed.

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

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

In 2016, the IASB issued Clarification to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosure, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognized in the respective reporting periods.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Cont’d)

#### 2.2 New and amendments to IFRSs and interpretation in issue but not yet effective (Cont’d)

##### **IFRS 16 Leases**

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinction of operating and finance leases are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows by the Group.

Furthermore, extensive disclosures are required by IFRS 16.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. Other than prepaid lease payments for leasehold lands, the Group did not have other material operating lease. The directors of the Company do not anticipate that the application of IFRS 16 will have a material impact on the Group’s consolidated financial statements.

##### **Amendments to IAS 7 Disclosure Initiative**

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The directors of the Company anticipate that the application of these amendments will result in more disclosures on the Group’s consolidated financial statements in relation to changes in liabilities arising from financing activities.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised in Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Basis of consolidation (Cont'd)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

#### 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 *Income Taxes*.

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 amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

#### 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 Group's cash-generating units that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

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. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis 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.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over the policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment in an associate (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and 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.

Service income is recognised when services are provided.

Interest income from 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.

#### 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### 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.

#### 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.

#### 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 on 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### 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 profit or loss and other 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 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, 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 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.

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 are recognised in profit or loss, except when they relate 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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### 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.

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.

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.

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 include primarily the following:

#### (a) Stripping costs

Stripping costs incurred during the production phase which provide improved access to ore is capitalised into property, plant and equipment as "mining assets" (before production begins) 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 mining assets of which it forms part. Capitalised 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 recognises 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 recognised 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 depreciated 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. The adjusted cost of the asset is depreciated prospectively over the economic life of the assets to which they relate. The unwinding of the discount is shown as a finance cost in profit or loss.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Mining rights

The cost of acquiring rights for the Group to extract a mine over a certain period is capitalised 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.

#### 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.

##### **Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are recognised separately from goodwill and 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 with finite useful lives are measured at costs less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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.

#### Impairment 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 with finite useful lives 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 of disposal 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

#### Impairment on tangible and intangible assets (excluding goodwill) *(Cont'd)*

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 in profit or loss immediately.

#### 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

#### Financial instruments *(Cont'd)*

##### Financial assets *(Cont'd)*

##### **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.

##### **Impairment of loans and receivables**

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables 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 loans and receivables, 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;
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of loans and receivables, such as trade 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 to 90 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For loans and receivables carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables, where the carrying amount 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.

For loans and receivables measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### **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 Company are recognised at the proceeds received, net of direct issue costs.

##### **Financial liabilities**

Financial liabilities including borrowings, trade and other payables, senior notes and short-term 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, 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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### 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 at the grant date 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 option 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 option reserve.

When share options are exercised, the amount previously recognised in share option 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 option reserve will be transferred to retained earnings.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, 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.

#### Impairments

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 of disposal and its value in use. The recoverable amount has been determined on the basis of their value in use. 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 approved by the management 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 relevant cash generating unit ("CGU") being tested. The value in use calculation requires the Group to estimate the future cash flows expected to come from the assets or CGUs and a suitable discount rate in order to calculate the present value.

#### Impairment of goodwill

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 carrying amounts of goodwill is as disclosed in Note 21.

#### Impairment of non-financial assets

Non-current assets, other than goodwill, of a wholly-owned subsidiary of the Company, YaoWangShan Cement Co., Ltd. ("Yaowangshan"), amounting to RMB793,281,000 were included in the property, plant and equipment at 31 December 2016. In addition, goodwill of RMB29,613,000 is attributable to Yaowangshan as set out in Note 21. The net loss reported by Yaowangshan in 2016, primarily due to the relatively slower growth in local demand that the actual cement sales volume falls below the designed production capacity of Yaowangshan since its acquisition by the Group in 2015, represented an indication that the carrying value of the goodwill and other non-current assets of this CGU, being Yaowangshan, may be impaired. Accordingly, management carried out an impairment assessment which requires a determination of the recoverable amount of this CGU with goodwill by considering various factors, including the existing market demand for and selling prices of cement products in the area Yaowangshan is operating. Based on the result of the impairment assessment, management is of the view that there is no impairment on the relevant assets of Yaowangshan.

The key assumptions used to determine the recoverable amount are disclosed and further explained in Note 17. The recoverable amount is sensitive to the discount rate and growth rate used for extrapolation purposes. Where the actual cash flows are significantly less than expected, or changes in circumstances which result in downward revision of recoverable amount of the CGU, impairment loss may arise.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 5. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement products. The Group's Chief Executive Officer, the chief operating decision maker (the "CODM") reviews the sales volume and average selling prices of its cement products by four areas, namely eastern and southern Shaanxi, Xinjiang and Guizhou. However, no further operating results by these areas are being provided, but the CODM reviews the consolidated results of the Group as a whole. Accordingly, no further segment information of operating segment has been disclosed in the consolidated financial statements for both years.

All of the Group's revenue for the years ended 31 December 2016 and 2015 are derived from the sale of cements products to customers in the western part of PRC. No single customer contributed 10% or more to the Group's revenue for both 2016 and 2015. All of the Group's non-current assets are located in the PRC by locations of assets.

### 6. OTHER INCOME

|                            | 2016<br>RMB'000 | 2015<br>RMB'000 |
|----------------------------|-----------------|-----------------|
| Tax refund ( <i>note</i> ) | 136,274         | 93,494          |
| Government grant — others  | 14,141          | 13,119          |
| Others                     | 661             | 2,739           |
|                            | <b>151,076</b>  | 109,352         |

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

### 7. OTHER GAINS AND LOSSES, NET

|  | 2016<br>RMB'000  | 2015<br>RMB'000 |
|--|------------------|-----------------|
| Net foreign exchange losses ( <i>note</i> )                | <b>(175,358)</b> | (157,089)       |
| Gain (loss) on disposal of property, plant and equipment   | 738              | (126,261)       |
| Gain on disposal of mining right                           | –                | 2,524           |
| Allowance for doubtful debts                               | <b>(3,418)</b>   | (2,405)         |
| Reversal of allowance for doubtful debts upon recoveries   | 2,735            | 949             |
| Impairment loss on property, plant and equipment           | –                | (7,481)         |
| Loss on deemed disposal of a subsidiary ( <i>Note 35</i> ) | <b>(5,702)</b>   | –               |
| Others   | <b>(3,351)</b>   | (7,797)         |
|  | <b>(184,356)</b> | (297,560)       |

*Note:* The amounts mainly relate to the translation of the senior notes and bank borrowings from US\$ to RMB for each of the years ended 31 December 2016 and 2015.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 8. INTEREST INCOME

Interest income represents interest received and receivable from bank deposits and short-term investments.

### 9. FINANCE COSTS

|                                 | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---------------------------------|-----------------|-----------------|
| Interest on bank loans          | 30,540          | 41,089          |
| Interest on senior notes        | 183,538         | 173,125         |
| Interest on medium-term notes   | 13,140          | 51,312          |
| Interest on short-term notes    | 37,144          | –               |
| Total borrowing costs           | 264,362         | 265,526         |
| Less: amount capitalised        | –               | (30,052)        |
|                                 | 264,362         | 235,474         |
| Unwinding of discount (Note 32) | 1,105           | 1,034           |
|                                 | 265,467         | 236,508         |

During the year ended 31 December 2016, no significant finance cost was capitalised. The weighted average capitalisation rate on funds borrowed for the year ended 31 December 2015 was 6.55% per annum.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 10. PROFIT (LOSS) BEFORE TAX

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

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Depreciation and amortisation:                       |                 |                 |
| Depreciation of property, plant and equipment        | 746,582         | 673,041         |
| Amortisation of prepaid lease payments               | 14,068          | 13,623          |
| Amortisation of mining rights                        | 9,243           | 13,783          |
| Amortisation of other intangible assets              | 2,342           | 2,400           |
| Total depreciation and amortisation                  | 772,235         | 702,847         |
| Capitalised in inventories                           | (706,189)       | (622,753)       |
|  | 66,046          | 80,094          |
| Auditors' remuneration                               | 2,725           | 2,490           |
| Staff costs (including directors' emoluments):       |                 |                 |
| Wages and salaries                                   | 274,833         | 261,959         |
| (Reversal) recognition of share option expenses, net | (4,109)         | 12,265          |
| Defined contribution retirement plan expenses        | 27,425          | 25,320          |
| Total staff cost                                     | 298,149         | 299,544         |
| Capitalised in inventories                           | (182,822)       | (188,384)       |
|  | 115,327         | 111,160         |
| Cost of inventories recognised as expenses           | 2,956,211       | 2,961,007       |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 11. INCOME TAX EXPENSE

|                                    | <b>2016</b>    | 2015     |
|------------------------------------|----------------|----------|
|                                    | <b>RMB'000</b> | RMB'000  |
| Current tax expenses               |                |          |
| Current period                     | <b>111,639</b> | 77,514   |
| Under provision in prior years     | -              | 6,975    |
|                                    | <b>111,639</b> | 84,489   |
| Deferred tax income (Note 22)      |                |          |
| Current year                       | <b>(5,211)</b> | (28,671) |
| Attributable to change in tax rate | <b>(1,968)</b> | (4,998)  |
|                                    | <b>(7,179)</b> | (33,669) |
| Income tax expense                 | <b>104,460</b> | 50,820   |

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 the PRC has been calculated at the applicable tax rate on the estimated assessable profits for each of the year ended 31 December 2016 and 2015 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) below.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 11. INCOME TAX EXPENSE (Cont'd)

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

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Profit (loss) before tax   | 119,398         | (256,537)       |
| Tax at domestic income tax rate of 25% (2015: 25%)   | 29,849          | (64,134)        |
| Tax effects of:  |                 |                 |
| Expenses not deductible for tax purpose  | 85,512          | 93,081          |
| Tax exemption and reduced tax rate (note (a))  | (7,987)         | (19,732)        |
| Tax effect of income not taxable for tax purpose   | (2,383)         | –               |
| Change in tax rate for deferred tax assets recognised  | (1,968)         | (4,998)         |
| Tax effect on interest income on intra-group loans (note (b))                                  | 7,019           | 5,007           |
| Tax effect on tax losses/deductible temporary difference not recognised as deferred tax assets | 3,422           | 38,501          |
| Utilisation of tax losses previously not recognised as deferred tax assets                     | (2,503)         | (3,880)         |
| Recognition of deferred tax assets on tax losses generated in previous years                   | (6,501)         | –               |
| Under provision in prior year  | –               | 6,975           |
| Tax expense for the year   | 104,460         | 50,820          |

Notes:

- (a) The Group's subsidiary, Hetian Yaobai Cement Co., Ltd. ("Hetian Yaobai") was established in Xinjiang Uygur Autonomous Region ("Xinjiang"). Pursuant to the relevant laws and regulations of Xinjiang and PRC enterprise income tax law, Hetian Yaobai is entitled to a two-year tax holiday from its first profit-making year, that is 2013 and a further three-year 50% tax reduction. The applicable tax rate for the year ended 31 December 2016 and 2015 is 12.5%.

The Group's subsidiary, Luxin Building Materials Co., Ltd. ("Luxin") was established in Xinjiang. Pursuant to the relevant laws and regulations of Xinjiang announced to Luxin in late 2016, Luxin is entitled to a three-year tax reduction pursuant to PRC enterprise income tax law from 2016 to 2018. The applicable tax rate for the year ended 31 December 2016 is 15%.

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 12. DIVIDEND

|   | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|-----------------|-----------------|
| Dividends recognised as distribution during the year:                         |                 |                 |
| RMB Nil for 2015 final (2015: 2014 final dividend of RMB0.20 cents) per share | -               | 9,035           |

Subsequent to the end of the reporting period, no dividend has been proposed in respect of the year ended 31 December 2016 and 2015.

No interim dividend has been proposed in 2016 and 2015.

### 13. EARNINGS (LOSS) PER SHARE

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

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Earnings (loss)</b>   |                 |                 |
| Earnings (loss) for the purposes of basic and diluted earnings (loss) per share                            | 10,319          | (309,205)       |
| <b>Number of shares</b>  | 2016<br>'000    | 2015<br>'000    |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share | 5,420,808       | 4,982,688       |
| Effect of dilutive potential ordinary shares from share option issued by the Company                       | 6,101           | -               |

The calculation of diluted loss per share for the year ended 31 December 2015 did not take into account the share options of the Company as it would result in a decrease in loss per share. The computation of diluted earnings per share in 2016 does not assume the exercise of the certain share options because the adjusted exercise price of those options was higher than the average market price for shares for 2016.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

| 2016                                       | Fees<br>RMB'000 | Basic salaries<br>and allowances<br>RMB'000 | Retirement<br>benefit scheme<br>contributions<br>RMB'000 | Share options<br>scheme accrued<br>RMB'000 | Total<br>RMB'000 |
|--|-----------------|---|--|--|------------------|
| <b>Executive directors</b>                 |                 |   |  |  |                  |
| Zhang Jimin                                | -               | 1,073                                       | -  | 175  | 1,248            |
| Ma Weiping                                 | -               | 1,415                                       | 34   | 1,300                                      | 2,749            |
| <b>Non-executive directors</b>             |                 |   |  |  |                  |
| Ma Zhaoyang                                | 358             | -   | -  | (37)                                       | 321              |
| Liu Yan                                    | 358             | -   | -  | -  | 358              |
| Qin Hongji                                 | 358             | -   | -  | -  | 358              |
| <b>Independent non-executive directors</b> |                 |   |  |  |                  |
| Lee Kong Wai Conway                        | 358             | -   | -  | (37)                                       | 321              |
| Wong Kun Kau                               | 358             | -   | -  | (37)                                       | 321              |
| Tam King Ching Kenny                       | 358             | -   | -  | (37)                                       | 321              |
|  | <b>2,148</b>    | <b>2,488</b>                                | <b>34</b>  | <b>1,327</b>                               | <b>5,997</b>     |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Cont'd)

| 2015                                       | Fees<br>RMB'000 | Basic salaries<br>and allowances<br>RMB'000 | Retirement<br>benefit scheme<br>contributions<br>RMB'000 | Share options<br>scheme accrued<br>RMB'000<br>(Note) | Total<br>RMB'000 |
|--|-----------------|---|--|--|------------------|
| <b>Executive directors</b>                 |                 |   |  |  |                  |
| Zhang Jimin                                | –               | 1,200                                       | –  | 1,284  | 2,484            |
| Ma Weiping (note c)                        | –               | 1,415                                       | 31   | 1,396  | 2,842            |
| Wang Jianli (note e)                       | –               | 815   | 31   | 775  | 1,621            |
| Tian Zhenjun (note a)                      | –               | 42  | –  | 58   | 100              |
| Low Po Ling (note b)                       | –               | –   | –  | –  | –                |
| <b>Non-executive directors</b>             |                 |   |  |  |                  |
| Ma Weiping (note c)                        | 100             | –   | –  | –  | 100              |
| Ma Zhaoyang                                | 323             | –   | –  | 281  | 604              |
| Frank Wu (note d)                          | 162             | –   | –  | –  | 162              |
| Liu Yan (note f)                           | 162             | –   | –  | –  | 162              |
| Qin Hongji (note f)                        | 162             | –   | –  | –  | 162              |
| <b>Independent non-executive directors</b> |                 |   |  |  |                  |
| Lee Kong Wai Conway                        | 323             | –   | –  | 281  | 604              |
| Wong Kun Kau                               | 323             | –   | –  | 281  | 604              |
| Tam King Ching Kenny                       | 323             | –   | –  | 281  | 604              |
|  | 1,878           | 3,472                                       | 62   | 4,637  | 10,049           |

Note:

- (a) Mr. Tian Zhenjun resigned as Chief Executive and executive director of the Company with effect from 2 February 2015.
- (b) Ms. Low Po Ling resigned as executive director on 2 February 2015 and waived her emoluments from 1 January 2015 to the date of resignation.
- (c) Dr. Ma Weiping was redesignated as Chief Executive and executive director of the Company from 5 February 2015. His emoluments disclosed above include those for services rendered by him as the Chief Executive.
- (d) Mr. Frank Wu was appointed as non-executive director of the Company with effect from 15 April 2015 and resigned as a non-executive director with effect from 22 September 2015. His emoluments above represents those paid for his services up to the date of resignation.
- (e) Mr. Wang Jianli resigned as executive director of the Company with effect from 1 July 2015. His emoluments above represents those paid for his services up to the date of resignation.
- (f) Ms. Liu Yan and Mr. Qin Hongji were appointed as non-executive director of the Company with effect from 1 July 2015.

During the year ended 31 December 2016, as the result of the non-fulfilment of performance condition attached to the share option scheme (Note 38), the share-based payment expenses of RMB2,000,000 (2015:Nil) charged to profit or loss in the prior periods was reversed against profit or loss in the current year.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Cont'd)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

Except for Ms. Low Po Ling as described above, neither the chief executive nor any of the directors waived any emoluments in both periods.

### 15. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in Note 14 above. The emoluments of the remaining three (2015: three) individuals were as follows:

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Basic salaries and allowances              | 2,599           | 2,747           |
| Pension costs — defined contribution plans | 64              | 52              |
| Share-based payment (Note)                 | 423             | 2,294           |
|  | <b>3,086</b>    | 5,093           |

Note:

During the year ended 31 December 2016, as the result of the non-fulfilment of performance condition attached to the share option scheme (Note 38), the share-based payment expenses of RMB1,177,000 (2015:Nil) charged to profit or loss in the prior periods was reversed against profit or loss in the current year.

The above employees' emoluments were within the following bands:

|                                | Number of employees |      |
|--------------------------------|---------------------|------|
|                                | 2016                | 2015 |
| Nil to HK\$1,000,000           | 2                   | —    |
| HK\$1,000,001 to HK\$1,500,000 | 1                   | —    |
| HK\$1,500,001 to HK\$2,000,000 | —                   | 2    |
| HK\$2,000,001 to HK\$2,500,000 | —                   | 1    |

### 16. INVESTMENT IN AN ASSOCIATE

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Cost of investment in an associate (Note 35)                     | 31,425          | —               |
| Share of post-acquisition profits and other comprehensive income | 9,532           | —               |
|  | <b>40,957</b>   | —               |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 16. INVESTMENT IN AN ASSOCIATE (Cont'd)

Details of the Group's associate at the end of reporting period are as follow:

| Name of Entity | Country of incorporation/ registration | Principal place of business | Proportion of ownership interest held by the Group                             |       | Proportion of voting right held by the Group |      | Principal activity |
|----------------|--|-----------------------------|--|-------|--|------|--------------------|
|                |  |                             | 2016   | 2015  | 2016   | 2015 |                    |
|                |  |                             | Yaobai Environmental Technology Engineering Co., Ltd. ("Yaobai Environmental") | China | Shaanxi                                      | 20%  |                    |

#### Summarised financial information of the associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

#### Yaobai Environmental

|                         | 2016<br>RMB'000 |
|-------------------------|-----------------|
| Current assets          | 154,420         |
| Non-current assets      | 69,141          |
| Current liabilities     | 18,777          |
| Non-current liabilities | -               |

|                     | 2016<br>RMB'000 |
|---------------------|-----------------|
| Revenue             | 61,975          |
| Profit for the year | 47,657          |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

|  | 2016<br>RMB'000 |
|--|-----------------|
| Net assets of Yaobai Environmental                                   | 204,784         |
| Proportion of the Group's ownership interest in Yaobai Environmental | 20%             |
| Carrying amount of the Group's interest in Yaobai Environmental      | 40,957          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 17. PROPERTY, PLANT AND EQUIPMENT

|  | Buildings<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Electronic<br>and other<br>equipment<br>RMB'000 | Machinery<br>RMB'000 | Mining<br>assets<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000  |
|--|----------------------|------------------------------|---|----------------------|-----------------------------|--|-------------------|
| <b>COST</b>  |                      |                              |   |                      |                             |  |                   |
| At 1 January 2015                                  | 3,423,589            | 48,154                       | 257,778   | 4,546,649            | 822,896                     | 1,362,287                              | 10,461,353        |
| Additions  | 7,857                | 5,145                        | 1,264   | 62,659               | 30,960                      | 161,776                                | 269,661           |
| Transfers  | 576,564              | –                            | 21,345  | 644,034              | –                           | (1,332,915)                            | (90,972)          |
| Acquisition of a subsidiary (Note 36)              | 118,185              | 68                           | 3,187   | 615,402              | 53,250                      | 37,015                                 | 827,107           |
| Disposals  | (1,236)              | (16,588)                     | (1,041)   | (15,794)             | (846)                       | (124,406)                              | (159,911)         |
| At 31 December 2015                                | 4,124,959            | 36,779                       | 282,533   | 5,852,950            | 906,260                     | 103,757                                | 11,307,238        |
| Additions  | 22,001               | 3,942                        | 6,187   | 9,281                | 17,534                      | 36,564                                 | 95,509            |
| Arising from disposal of<br>subsidiaries (Note 35) | (2,381)              | (3,216)                      | (41)  | (4,768)              | –                           | (30,236)                               | (40,642)          |
| Transfers  | 5,216                | 48                           | 250   | 2,772                | 5,379                       | (13,665)                               | –                 |
| Disposals  | (484)                | (2,690)                      | (572)   | (487)                | –                           | –                                      | (4,233)           |
| At 31 December 2016                                | <b>4,149,311</b>     | <b>34,863</b>                | <b>288,357</b>                                  | <b>5,859,748</b>     | <b>929,173</b>              | <b>96,420</b>                          | <b>11,357,872</b> |
| <b>ACCUMULATED DEPRECIATION<br/>AND IMPAIRMENT</b> |                      |                              |   |                      |                             |  |                   |
| At 1 January 2015                                  | 638,708              | 18,830                       | 119,297   | 1,431,749            | 181,282                     | –                                      | 2,389,866         |
| Depreciation charge                                | 170,103              | 5,003                        | 57,054  | 393,720              | 47,161                      | –                                      | 673,041           |
| Disposals  | (349)                | (7,630)                      | (966)   | (10,952)             | –                           | –                                      | (19,897)          |
| Impairment   | 4,094                | –                            | –   | 3,387                | –                           | –                                      | 7,481             |
| At 31 December 2015                                | 812,556              | 16,203                       | 175,385   | 1,817,904            | 228,443                     | –                                      | 3,050,491         |
| Depreciation charge                                | 207,358              | 4,379                        | 43,712  | 448,485              | 42,648                      | –                                      | 746,582           |
| Arising from disposal of<br>subsidiaries (Note 35) | (105)                | (263)                        | (1)   | (363)                | –                           | –                                      | (732)             |
| Disposals  | (235)                | (1,850)                      | (161)   | (241)                | –                           | –                                      | (2,487)           |
| At 31 December 2016                                | <b>1,019,574</b>     | <b>18,469</b>                | <b>218,935</b>                                  | <b>2,265,785</b>     | <b>271,091</b>              | <b>–</b>                               | <b>3,793,854</b>  |
| <b>CARRYING VALUES</b>                             |                      |                              |   |                      |                             |  |                   |
| At 31 December 2016                                | <b>3,129,737</b>     | <b>16,394</b>                | <b>69,422</b>                                   | <b>3,593,963</b>     | <b>658,082</b>              | <b>96,420</b>                          | <b>7,564,018</b>  |
| At 31 December 2015                                | 3,312,403            | 20,576                       | 107,148   | 4,035,046            | 677,817                     | 103,757                                | 8,256,747         |

Details of property, plant and equipment pledged are set out in Note 41.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 17. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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 |
|---|------|
| Buildings                                 | 5%   |
| Motor vehicles                            | 12%  |
| Electronic and other equipment            | 19%  |
| Machinery                                 | 8%   |

Following the relatively poor performance of Yaowangshan due to the reasons disclosed in Note 4, which is considered as an impairment indicator, the directors of the Company performed impairment assessment on Yaowangshan as a CGU, which is engaged in the production and sale of cement products in Central Shaanxi. The directors of the Company consider no impairment indication for other CGU.

The recoverable amount is determined using value in use calculation. The value in use calculation uses discounted cash flow model based on financial budgets approved by the management covering a five-year period. The compound annual growth rate ("CAGR") of the sales volume is 8% (2015: 6%) and the pre-tax discount rate applied to cash flow projection is 11% (2015: 11%). Cash flows beyond the five-year approved management's financial budgets are prepared based on zero growth rate.

As the result of the impairment assessment, the directors of the Company concluded that there is no impairment in respect of the CGU with goodwill to which the non-current assets of Yaowangshan belongs, including property, plant and equipment, prepaid lease payments and mining rights, in current year.

The recoverable amount is sensitive to the discount rate used for the discounted cash flow model as well as the expected cash-inflows and growth rate used for extrapolation purposes.

Discount rates represent the current market assessment of the risks specific to the industry, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The Group takes into account its weighted average cost of capital ("WACC") as a starting point in estimating the discount rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. The beta factors used are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax cash flows in order to reflect a pre-tax discount rate. A rise in pre-tax discount rate would result in an impairment.

Growth rate estimates for Yaowangshan are based on management's best estimate of local industry demand for the first five years and followed by the long-term average growth rate, with the expectation that the Group's local market share to be stable over the forecast period. Management recognises that the timing and volume of such local industry demand can have a significant impact on growth rate assumptions and any adverse changes would result in an impairment.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 18. PREPAID LEASE PAYMENTS

|                                  | <b>2016</b>    | 2015    |
|----------------------------------|----------------|---------|
|                                  | <b>RMB'000</b> | RMB'000 |
| Current asset ( <i>Note 24</i> ) | <b>14,068</b>  | 13,982  |
| Non-current asset                | <b>486,675</b> | 498,429 |
|                                  | <b>500,743</b> | 512,411 |

The Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB36,849,000 (2015: RMB41,984,000) at 31 December 2016. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights. Details of prepaid lease payments pledged are set out in Note 41.

### 19. MINING RIGHTS

|  | RMB'000 |
|--|---------|
| COST   |         |
| Balance at 1 January 2015                      | 203,334 |
| Addition                                       | 72,631  |
| Acquisition of a subsidiary ( <i>Note 36</i> ) | 60,822  |
| Disposal                                       | (1,045) |
| Balance at 31 December 2015                    | 335,742 |
| Addition                                       | 115     |
| Balance at 31 December 2016                    | 335,857 |
| AMORTISATION                                   |         |
| Balance at 1 January 2015                      | 40,378  |
| Charge for the year                            | 13,783  |
| Disposal                                       | (261)   |
| Balance at 31 December 2015                    | 53,900  |
| Charge for the year                            | 9,243   |
| Balance at 31 December 2016                    | 63,143  |
| CARRYING AMOUNT                                |         |
| As at 31 December 2016                         | 272,714 |
| As at 31 December 2015                         | 281,842 |

Mining rights are granted from the respective local Land and Resource Bureaus.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 20. OTHER INTANGIBLE ASSETS

|                                       | Goodwill<br>RMB'000 | Customer<br>relationships<br>RMB'000 | Computer<br>software<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------|---------------------|--------------------------------------|---------------------------------|------------------|
| Cost                                  |                     |                                      |                                 |                  |
| At 1 January 2015                     | 157,537             | 20,610                               | 1,740                           | 179,887          |
| Acquisition of a subsidiary (Note 36) | 29,613              | –                                    | –                               | 29,613           |
| At 31 December 2015 and 2016          | 187,150             | 20,610                               | 1,740                           | 209,500          |
| Accumulated amortisation              |                     |                                      |                                 |                  |
| At 1 January 2015                     | –                   | 10,934                               | 851                             | 11,785           |
| Charge for the year                   | –                   | 2,016                                | 384                             | 2,400            |
| At 31 December 2015                   | –                   | 12,950                               | 1,235                           | 14,185           |
| Charge for the year                   | –                   | 1,999                                | 343                             | 2,342            |
| At 31 December 2016                   | –                   | 14,949                               | 1,578                           | 16,527           |
| Carrying amount                       |                     |                                      |                                 |                  |
| At 31 December 2016                   | 187,150             | 5,661                                | 162                             | 192,973          |
| At 31 December 2015                   | 187,150             | 7,660                                | 505                             | 195,315          |

The following useful lives are used in the calculation of amortisation:

|                        |          |
|------------------------|----------|
| Customer relationships | 10 years |
| Computer software      | 5 years  |

The customer relationships amounting to RMB20,610,000 arose from the acquisition of a subsidiary, Shangluo Yaobai Xiushan Cement Co., Ltd. ("Xiushan Yaobai") in December 2009. They are amortised over a period of 10 years.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 21. IMPAIRMENT TESTING ON GOODWILL

Goodwill is tested for impairment annually and when circumstances indicate the carrying value may be impaired. Each of the goodwill balances can be attributed specifically to the five individual CGUs, respectively. The carrying amounts of goodwill are as follows:

|                               | 2016<br>RMB'000 | 2015<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Cement plant — Xiushan Yaobai | 45,274          | 45,274          |
| Cement plant — Luxin          | 49,133          | 49,133          |
| Cement plant — Shifeng        | 55,872          | 55,872          |
| Cement plant — Fuping         | 7,258           | 7,258           |
| Cement plant — Yaowangshan    | 29,613          | 29,613          |
|                               | <b>187,150</b>  | 187,150         |

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

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. The calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period. The estimated growth rate for subsidiaries in different provinces ranges from 2% to 8% (2015: 3% to 6%), and discount rate of 11% (2015: 11%) were applied. 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. Other 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. As the result of the analysis, management did not identify an impairment for the above CGUs to which the goodwill are allocated.

### 22. DEFERRED 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:

|                          | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--------------------------|-----------------|-----------------|
| Deferred tax assets      | 45,931          | 54,405          |
| Deferred tax liabilities | (39,078)        | (54,731)        |
|                          | <b>6,853</b>    | (326)           |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 22. DEFERRED TAX (Cont'd)

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

|                                       | Allowance for<br>doubtful debts<br>and accruals<br>RMB'000 | Deferred<br>income<br>RMB'000 | Tax<br>losses<br>RMB'000 | Assets booked<br>at fair value<br>on acquisition<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------|--|-------------------------------|--------------------------|---|------------------|
| At 1 January 2015                     | 8,505  | 9,926                         | 8,110                    | (30,923)  | (4,382)          |
| Credited (charged) to profit or loss  | 1,404  | (506)                         | 24,937                   | 2,836   | 28,671           |
| Acquisition of a subsidiary (Note 36) | –  | –                             | 9,731                    | (39,344)  | (29,613)         |
| Effect of change in tax rate          | 3,899  | 5,128                         | 5,406                    | (9,435)   | 4,998            |
| At 31 December 2015                   | 13,808   | 14,548                        | 48,184                   | (76,866)  | (326)            |
| Credited (charged) to profit or loss  | (183)  | (1,876)                       | 1,800                    | 5,470   | 5,211            |
| Effect of change in tax rate          | (146)  | –                             | –                        | 2,114   | 1,968            |
| At 31 December 2016                   | <b>13,479</b>  | <b>12,672</b>                 | <b>49,984</b>            | <b>(69,282)</b>   | <b>6,853</b>     |

At the end of the reporting period, the Group has unused tax losses of RMB218,360,000 (2015: RMB249,384,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB199,936,000 (2015: RMB192,736,000) of such losses.

No deferred tax have been recognised in respect of the tax losses of RMB18,424,000 (31 December 2015: RMB56,648,000) due to unpredictability of future profit streams. The unused tax losses not recognised will be expired in the following year ending 31 December:

|      | 2016<br>RMB'000 | 2015<br>RMB'000 |
|------|-----------------|-----------------|
| 2019 | <b>2,206</b>    | 34,531          |
| 2020 | <b>2,530</b>    | 22,117          |
| 2021 | <b>13,688</b>   | –               |
|      | <b>18,424</b>   | 56,648          |

Deferred taxation was not provided for in the consolidated financial statements of the Group for the year ended 31 December 2016 and 2015 in respect of the undistributed profits of relevant PRC subsidiaries, as the directors of the Company confirmed that the balance of retained earnings as at 31 December 2016 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 RMB2,948,007,000 (2015: RMB2,611,465,000).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 23. INVENTORIES

|                               | 2016<br>RMB'000 | 2015<br>RMB'000 |
|-------------------------------|-----------------|-----------------|
| Raw materials and consumables | 300,211         | 308,765         |
| Work in progress              | 113,203         | 169,044         |
| Finished goods                | 95,479          | 97,847          |
|                               | <b>508,893</b>  | 575,656         |

### 24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

|   | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|-----------------|-----------------|
| Trade receivables   | 214,592         | 346,022         |
| Less: Allowance for doubtful debts  | (9,090)         | (6,675)         |
|   | <b>205,502</b>  | 339,347         |
| Other receivables   | 32,314          | 31,268          |
| Less: Allowance for doubtful debts  | (797)           | (2,529)         |
|   | <b>31,517</b>   | 28,739          |
| Bills receivable  | 251,254         | 109,456         |
| Interest receivable   | 1,919           | –               |
| VAT recoverable   | 75,621          | 118,865         |
| VAT refund receivable   | 22,478          | 10,926          |
| Amount due from non-controlling shareholder of a subsidiary ( <i>note</i> ) | 63,225          | 53,260          |
| Prepayments to suppliers  | 58,186          | 64,178          |
| Prepaid lease payments ( <i>Note 18</i> )                                   | 14,068          | 13,982          |
|   | <b>723,770</b>  | 738,753         |
| Less: Non-current portion ( <i>note</i> )                                   | (63,225)        | (53,260)        |
|   | <b>660,545</b>  | 685,493         |

Details of trade receivables pledged are set out in Note 41.

*Note:* The amount due from non-controlling shareholder of a subsidiary represents advances for procuring the acquisition of various mining rights which are being arranged through the non-controlling shareholder according to the arrangement procedures of the local authority. As the balance is related to the acquisition of mining rights, it is classified as non-current as at the end of the reporting period.

## Notes to the Consolidated Financial Statements

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### 24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Cont'd)

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.

|                 | <b>2016</b>    | 2015    |
|-----------------|----------------|---------|
|                 | <b>RMB'000</b> | RMB'000 |
| 0 to 90 days    | <b>93,914</b>  | 190,117 |
| 91 to 180 days  | <b>25,512</b>  | 86,628  |
| 181 to 360 days | <b>29,004</b>  | 35,631  |
| 361 to 720 days | <b>48,962</b>  | 24,691  |
| Over 720 days   | <b>8,110</b>   | 2,280   |
|                 | <b>205,502</b> | 339,347 |

Bills receivable are mainly expiring within six months.

Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year.

RMB40,925,000 (2015: RMB153,670,000) of the trade receivables that are neither past due nor impaired have high credit ranking attributable under the credit scoring system used by the Group. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB164,577,000 (2015: RMB185,677,000) which are past due as at the end of the reporting period 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.

Aging of trade receivables which are past due but not impaired:

|                 | <b>2016</b>    | 2015    |
|-----------------|----------------|---------|
|                 | <b>RMB'000</b> | RMB'000 |
| 0 to 90 days    | <b>52,989</b>  | 36,447  |
| 91 to 180 days  | <b>25,512</b>  | 86,628  |
| 181 to 360 days | <b>29,004</b>  | 35,631  |
| 361 to 720 days | <b>48,962</b>  | 24,691  |
| Over 720 days   | <b>8,110</b>   | 2,280   |
|                 | <b>164,577</b> | 185,677 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 24. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (Cont'd)

Allowance for doubtful debts has been made for estimated irrecoverable amounts of trade and other receivables. The movement in the allowance for doubtful debts is as follows:

|                                  | <b>2016</b>    | 2015    |
|----------------------------------|----------------|---------|
|                                  | <b>RMB'000</b> | RMB'000 |
| At 1 January                     | <b>9,204</b>   | 7,748   |
| Recognised in profit or loss     | <b>3,418</b>   | 2,405   |
| Amount recovered during the year | <b>(2,735)</b> | (949)   |
| At 31 December                   | <b>9,887</b>   | 9,204   |

The allowance for doubtful debts represent individually impaired trade receivables with an aggregate balance of approximately RMB9,887,000 (2015: RMB9,204,000) relating to customers which have financial difficulties.

### 25. BANK BALANCE AND CASH/RESTRICTED BANK DEPOSITS

|                                 | <b>2016</b>      | 2015    |
|---------------------------------|------------------|---------|
|                                 | <b>RMB'000</b>   | RMB'000 |
| Restricted bank deposits        |                  |         |
| — denominated in RMB            | <b>86,978</b>    | 73,397  |
| Bank balances and cash          |                  |         |
| — denominated in RMB            | <b>1,248,549</b> | 446,045 |
| — denominated in US\$           | <b>7,443</b>     | 4,408   |
| — denominated in other currency | <b>2,676</b>     | 4,370   |
|                                 | <b>1,258,668</b> | 454,823 |

Bank balances and restricted bank deposits carry interest at market rates of 0.30% to 2.10% (2015: 0.25% to 2.75%) per annum.

Restricted bank deposits represent bank deposits of RMB56,975,000 and RMB 30,003,000 (2015: RMB47,897,000 and RMB25,500,000) set aside as securities deposits for projects bidding and bills payable, respectively (Note 41). The Group used the trade facilities in projects bidding process which were required by contractors.

## Notes to the Consolidated Financial Statements

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### 26. SHARE CAPITAL

|   | Number<br>of shares | Share capital   |         |
|---|---------------------|---|---------|
|   |                     | Shown in the<br>consolidated<br>financial<br>statements |         |
|   | '000                | GBP'000   | RMB'000 |
| <i>Ordinary shares of GBP0.002 each</i>                 |                     |   |         |
| <b>Authorised:</b>                                      |                     |   |         |
| Balance as at 1 January 2015, 31 December 2015 and 2016 | 10,000,000          | 20,000  |         |
| <b>Issued and fully paid:</b>                           |                     |   |         |
| Balance as at 1 January 2016 and 31 December 2016       | 5,420,808           | 10,840  | 141,519 |
| Balance as at 1 January 2015                            | 4,517,340           | 9,034   | 124,098 |
| Issue of shares ( <i>note</i> )                         | 903,468             | 1,806   | 17,421  |
| Balance as at 31 December 2015                          | 5,420,808           | 10,840  | 141,519 |

*Note:*

On 26 June 2015, the Company issued 903,467,970 ordinary shares with a nominal value of GBP0.002 each at the issue price of HK\$1.69 per share to Conch International Holding (HK) Limited. The newly issued shares represented 16.67% of the total issued share capital of the Company immediately after such issue. The net proceeds after deducting all the relevant costs and expenses was HK\$1,511,181,000 (equivalent to approximately RMB1,191,528,000). The Company intends to use the net proceeds for general working capital and for future potential acquisitions and/or investment opportunities.

## Notes to the Consolidated Financial Statements

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### 27. RESERVES

#### Equity reserve

Equity reserve comprise of:

- (a) 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.
- (b) On 10 January 2011, the Group signed an agreement with the non-controlling shareholder of Longqiao Yaobai Cement Co., Ltd. ("Longqiao Yaobai") to acquire the remaining 20% equity interests in Longqiao Yaobai 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.
- (c) On 19 March 2012, the Group signed an agreement with the non-controlling shareholder of Ankang Yaobai Jianghua Cement Co., Ltd ("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.
- (d) On 14 November 2013, the Group signed an agreement with the non-controlling shareholder of Guizhou Linshan Cement Co., Ltd. ("Guizhou Linshan") to acquire the remaining 20% equity interests in Guizhou Linshan from the non-controlling shareholder. The difference amounted to RMB3,604,000 between the consideration paid of RMB58,680,000 and the non-controlling interest decreased of RMB55,076,000 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 tax 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 28. BORROWINGS

|  | <b>2016</b>    | 2015    |
|--|----------------|---------|
|  | <b>RMB'000</b> | RMB'000 |
| Secured bank loans   | <b>463,600</b> | 538,400 |
| Unsecured other loans  | <b>3,000</b>   | 3,000   |
|  | <b>466,600</b> | 541,400 |
| Carrying amount repayable as follows:  |                |         |
| Within one year  | <b>464,600</b> | 538,400 |
| More than one year but not more than two years   | <b>2,000</b>   | 1,000   |
| More than two years but not more than five years                                       | <b>-</b>       | 2,000   |
|  | <b>466,600</b> | 541,400 |
| Less: Amount due for settlement within one year<br>and shown under current liabilities | <b>464,600</b> | 538,400 |
| Amount due after one year  | <b>2,000</b>   | 3,000   |

#### Bank loans:

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

|   | <b>2016</b>    | 2015    |
|---|----------------|---------|
|   | <b>RMB'000</b> | RMB'000 |
| Fixed rate borrowings, within one year    | <b>463,600</b> | 458,400 |
| Variable rate borrowings, within one year | <b>-</b>       | 80,000  |
|   | <b>463,600</b> | 538,400 |

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

|                                    | <b>2016</b>           | 2015           |
|------------------------------------|-----------------------|----------------|
| Effective interest rate per annum: |                       |                |
| Fixed rate borrowings              | <b>4.35% to 6.24%</b> | 4.85% to 6.24% |
| Variable rate borrowings           | <b>-</b>              | 7.38%          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 28. BORROWINGS (Cont'd)

#### Other loans:

Other loans were obtained from independent third parties, unsecured, interest free and denominated in RMB. An analysis of the terms of other loans is as follows:

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Within one year                                  | 1,000           | –               |
| More than one year but not more than two years   | 2,000           | 1,000           |
| More than two years but not more than five years | –               | 2,000           |
|  | <b>3,000</b>    | 3,000           |

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 41.

### 29. SENIOR NOTES

#### 6.50% Senior Notes Due 2019

On 4 September 2014, the Company issued 6.5%, five-year senior notes with an aggregated principal amount of US\$400,000,000 due in 2019 (the "2019 Senior Notes") at 100% of the face value. The 2019 Senior Notes are listed on the HKSE and guaranteed by certain subsidiaries of the Company and secured by pledges of the shares of these subsidiaries.

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

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

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

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



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 29. SENIOR NOTES (Cont'd)

#### 6.50% Senior Notes Due 2019 (Cont'd)

The effective interest rate is approximately 6.80% per annum after adjusted for transaction costs.

|                                | <b>2016</b>      | 2015      |
|--------------------------------|------------------|-----------|
|                                | <b>RMB'000</b>   | RMB'000   |
| Carrying amount at 1 January   | <b>2,563,482</b> | 2,408,288 |
| Interest expenses              | <b>183,538</b>   | 173,125   |
| Interest paid/payable          | <b>(171,979)</b> | (163,080) |
| Exchange losses                | <b>172,180</b>   | 145,149   |
| Carrying amount at 31 December | <b>2,747,221</b> | 2,563,482 |

### 30. MEDIUM-TERM NOTES

On 28 March 2016, Yaobai Special Cement Group Co., Ltd. ("Shaanxi Yaobai") repaid the entire outstanding medium-term notes due in 2016, equal to 100% of the principal amount outstanding of RMB800 million, plus accrued and unpaid interest of RMB48,800,000.

The medium-term notes recognised in the consolidated statement of financial position were calculated as follows:

|                                | <b>2016</b>      | 2015     |
|--------------------------------|------------------|----------|
|                                | <b>RMB'000</b>   | RMB'000  |
| Carrying amount at 1 January   | <b>799,060</b>   | 796,548  |
| Interest expenses              | <b>13,140</b>    | 51,312   |
| Interest paid/payable          | <b>(12,200)</b>  | (48,800) |
| Repayment                      | <b>(800,000)</b> | -        |
| Carrying amount at 31 December | <b>-</b>         | 799,060  |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 31. SHORT-TERM NOTES

On 15 March 2016, Shaanxi Yaobai issued 5.5% per annum, unsecured one-year short-term notes with a principal amount of RMB800,000,000 (the "First Tranche of the Short-term Notes") at 100% of the face value. The First Tranche of the Short-term Notes was issued to investors in the national inter-bank market in the PRC. The short-term notes have been registered with the National Association of Financial Market Institutional Investors of the PRC with an aggregate approved facility of RMB1,200,000,000 granted to Shaanxi Yaobai. The short-term notes, including the first tranche, were used for the repayment of part of the bank loans and to supplement general working capital of the Group.

Subsequent to the issuance of the First Tranche of the Short-term Notes, Shaanxi Yaobai may at any point in time within two years effective period until March 2018, being the validity period for the registration of the short-term notes, determine whether or not to issue further notes.

The effective interest rate of the First Tranche of the Short-term Notes is approximately 5.77% per annum after adjusted for transaction costs of RMB3,200,000.

### 32. ASSET RETIREMENT OBLIGATION

|                                   | 2016<br>RMB'000 | 2015<br>RMB'000 |
|-----------------------------------|-----------------|-----------------|
| 1 January                         | 20,961          | 14,761          |
| Additional provision for new mine | -               | 5,166           |
| Unwinding of discount             | 1,105           | 1,034           |
| 31 December                       | 22,066          | 20,961          |

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. These amounts will be settled when environmental restoration is undertaken, generally at the end of a mining life. 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.

### 33. DEFERRED INCOME

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Deferred income for acquisition of property, plant and equipment ( <i>Note</i> ) | 58,136          | 66,389          |

*Note:* Deferred income represents government grants to the Group's subsidiaries for acquisition of property, plant and equipment. The balance will be amortised based on the useful life of the property, plant and equipment of 5-12 years.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 34. TRADE AND OTHER PAYABLES

|   | <b>2016</b>      | 2015      |
|---|------------------|-----------|
|   | <b>RMB'000</b>   | RMB'000   |
| Trade payables  | <b>544,456</b>   | 588,877   |
| Bill payables   | <b>100,000</b>   | 75,200    |
|   | <b>644,456</b>   | 664,077   |
| Amount due to non-controlling shareholder of a subsidiary | <b>1,691</b>     | 5,365     |
| Payables for constructions and equipment purchase         | <b>40,735</b>    | 328,701   |
| Advance from customers                                    | <b>108,536</b>   | 121,290   |
| Other tax liabilities                                     | <b>68,677</b>    | 39,254    |
| Payroll and welfare payable                               | <b>24,705</b>    | 26,285    |
| Deposit received  | –                | 45,000    |
| Interest payable  | <b>88,870</b>    | 87,178    |
| Other payables  | <b>99,270</b>    | 93,355    |
|   | <b>1,076,940</b> | 1,410,505 |

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

|                 | <b>2016</b>    | 2015    |
|-----------------|----------------|---------|
|                 | <b>RMB'000</b> | RMB'000 |
| 0 to 90 days    | <b>517,340</b> | 447,674 |
| 91 to 180 days  | <b>52,385</b>  | 139,881 |
| 181 to 360 days | <b>31,347</b>  | 47,413  |
| 361 to 720 days | <b>32,003</b>  | 24,550  |
| Over 720 days   | <b>11,381</b>  | 4,559   |
|                 | <b>644,456</b> | 664,077 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 35. DEEMED DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2016, Wuhu Conch Investment Ltd. and Red Day Limited, two related parties, made capital injections of RMB90 million and RMB30 million respectively to Yaobai Environmental. Wuhu Conch Investment Ltd. is a wholly-owned subsidiary of China Conch Venture Holdings Ltd., a shareholder of the Company, and Red Day Limited is a company wholly-owned by Mr Ma zhaoyang, a non-executive director of the Company. The Group's equity interest in Yaobai Environmental was then diluted from 100% to 20%. The Group loses control of Yaobai Environmental but still has significant influence over this entity. The Group accounted for the remaining 20% equity interest in Yaobai Environmental as an associate using the equity method in the consolidated financial statements. The net assets of Yaobai Environmental at the date of deemed disposal were as follows:

#### Analysis of assets and liabilities as of the date when control was lost

|                               | RMB'000 |
|-------------------------------|---------|
| <i>Assets</i>                 |         |
| Other receivables             | 4,849   |
| Inventories                   | 1       |
| Cash and cash equivalents     | 115,097 |
| Property, plant and equipment | 39,910  |
| <i>Liabilities</i>            |         |
| Other payables                | (2,730) |
|                               | 157,127 |

#### Loss on deemed disposal of a subsidiary

|  | RMB'000 |
|--|---------|
| Fair value of investment retained                          | 31,425  |
| Capital injection for 80% interest in Yaobai Environmental | 120,000 |
| Less: net assets disposed of                               | 157,127 |
|  | (5,702) |

#### Net cash outflow on deemed disposal of a subsidiary

|   | RMB'000  |
|---|----------|
| Capital injection received in cash and cash equivalents | 75,000   |
| Less: cash and cash equivalents disposed of             | 115,097  |
|   | (40,097) |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 36. BUSINESS COMBINATION

On 25 November 2015, the Group acquired 100% equity interest in Yaowangshan from independent third parties for a cash consideration of RMB391,654,000. Yaowangshan is principally engaged in the production and sale of cement products in Shaanxi Province, China and was acquired with the primary objective of promoting the continuing consolidation of the cement industry in Shaanxi Province.

Acquisition-related costs are immaterial and are recognised as administrative expenses when they are incurred.

#### Assets and liabilities recognised at the date of acquisition

|  | RMB'000   |
|--|-----------|
| <i>Assets</i>                                      |           |
| Trade and other receivables                        | 96,573    |
| Inventories  | 24,903    |
| Bank balances and cash                             | 2,352     |
| Property, plant and equipment                      | 827,107   |
| Mining rights                                      | 60,822    |
| Prepaid lease payment                              | 39,804    |
| Deferred tax assets                                | 9,731     |
| <i>Liabilities</i>                                 |           |
| Trade and other payables                           | (281,748) |
| Amount due to previous shareholder ( <i>Note</i> ) | (378,159) |
| Deferred tax liabilities                           | (39,344)  |
|  | 362,041   |

The trade and other receivables acquired with gross contractual amount of RMB96,573,000 represents its fair value, of which in the opinion of the directors of the Company is expected to be fully recoverable within one year.

The fair value of the acquired property, plant and equipment, mining rights and prepaid lease payment of RMB827,107,000, RMB60,822,000 and RMB39,804,000, respectively, has been determined based on the valuation report issued by an independent professional valuer and the management reasonable estimation in investment evaluation due diligence.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 36. BUSINESS COMBINATION (Cont'd)

#### Goodwill arising on acquisition

|   | RMB'000       |
|---|---------------|
| Consideration transferred                                   | 391,654       |
| Less: Recognised amount of net identifiable assets acquired | 362,041       |
| <b>Goodwill arising on acquisition</b>                      | <b>29,613</b> |

The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Yaowangshan. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

#### Net cash outflow arising on acquisition

|  | RMB'000        |
|--|----------------|
| Consideration paid in cash                       | 391,654        |
| Less: cash and cash equivalent balances acquired | 2,352          |
| <b>Net cash outflow arising on acquisition</b>   | <b>389,302</b> |

Had the acquisition been completed on 1 January 2015, the revenue of the Group for the year ended 31 December 2015 would have been RMB3,672,514,000, and the loss for the year would have been RMB351,883,000. The pro forma 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 2015, nor is intended to be a projection of future results.

In determining the 'pro-forma' revenue and loss of the Group had Yaowangshan been acquired on 1 January 2015, the directors have calculated depreciation and amortisation of property, plant and equipment, mining rights and prepaid lease payment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

*Note:* The amount due to previous shareholder amounting to RMB378,159,000 was fully settled before 31 December 2015.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 37. CAPITAL COMMITMENTS

|   | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|-----------------|-----------------|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | 2,589           | 14,329          |

### 38. SHARE-BASED PAYMENTS

The Company's current share option scheme was adopted pursuant to a resolution of board of directors passed on 31 March 2010 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 ("Post-IPO Share Option Scheme").

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 share 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.

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.

On 23 March 2011, 22 March 2013, 24 March 2014 and 13 April 2015, the Company granted a total of 18,400,000 ("First Issuance"), 34,000,000 ("Second Issuance"), 52,100,000 ("Third Issuance") and 29,100,000 options ("Forth Issuance"), respectively, to directors, senior management and staff, and the fair value of the four option issuances using the Black-Scholes option pricing model was approximately HK\$19,069,000, HK\$19,553,000, HK\$21,103,000 and HK\$16,205,000 at the respective grant date.

The share options granted are exercisable within a period of 10 years after the corresponding vesting periods (from 1 to 6 years) succeeding the date of grant, subject to the fulfilment of certain non-market performance condition, for example, the share options would vest if the growth in profit after tax of the Group during the year ending on the vesting date (Year 1) equal or exceed 15% as compared to the previous financial year (Year 0). In the event when the growth is less than 15%, the share options will not be immediately forfeited and the vesting will delay until the compound growth in profit after tax of the Group in the following financial year (Year 2) equal or exceed 15% as compared to that of Year 0. Where profit after tax of the Group does not meet the growth requirements in both circumstances above, the share options will not vest.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 38. SHARE-BASED PAYMENTS (Cont'd)

|                                    | Date of grant | Exercise period                | Exercise price | Number of options ('000) |                         |                           |                                  | Outstanding at 31.12.2015 |
|------------------------------------|---------------|--------------------------------|----------------|--------------------------|-------------------------|---------------------------|----------------------------------|---------------------------|
|                                    |               |                                |                | Outstanding at 1.1.2015  | Granted during the year | Exercised during the year | Forfeited/lapsed during the year |                           |
| First Issuance                     | 23 March 2011 | 23 March 2012 to 22 March 2021 | HK\$3.41       | 5,350                    | -                       | -                         | -                                | 5,350                     |
| Second Issuance                    | 22 March 2013 | 22 March 2014 to 21 March 2023 | HK\$1.25       | 23,250                   | -                       | -                         | -                                | 23,250                    |
| Third Issuance                     | 24 March 2014 | 24 March 2015 to 23 March 2024 | HK\$0.91       | 46,400                   | -                       | -                         | -                                | 46,400                    |
| Forth Issuance                     | 13 April 2015 | 13 April 2016 to 12 April 2025 | HK\$1.45       | -                        | 29,100                  | -                         | -                                | 29,100                    |
|                                    |               |                                |                | 75,000                   | 29,100                  | -                         | -                                | 104,100                   |
| Exercisable at the end of the year |               |                                |                |                          |                         |                           |                                  | -                         |
| Weighted average exercise price    |               |                                |                |                          |                         |                           |                                  | HK\$1.27                  |

The Group reversed net expenses of RMB4,109,000 (2015: recognised total expenses of RMB12,265,000) for the year ended 31 December 2016 in relation to share options granted by the Company. Included in the amount of share-based payments expenses reversed for the year ended 31 December 2016 was a reversal of expenses against profit or loss due to non-fulfilment of performance conditions and employee resignation amounting to RMB12,287,000 (2015: Nil).

### 39. RETIREMENT BENEFITS PLANS

The Group participate in the Mandatory Provident Fund Scheme (the "Scheme") for its employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees. The Scheme now requires the Group and its employees in Hong Kong to contribute 5% of the employees' monthly salary to the Scheme subject to a monthly salary cap of HK\$30,000.

The employees of the Group's subsidiaries in the PRC 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 scheme subject to certain cap as governed by the social fund bureau. 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 RMB27,425,000 (2015: RMB25,320,000) represents contributions paid or payable under the retirement benefit scheme.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 40. RELATED PARTY DISCLOSURES

Save as related party transaction disclosed in Note 35, the Group has paid or payable to the key management for employee services. The key management includes directors (executive and non-executive) of the Company and senior management of the Group.

#### Key management compensation

|   | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|-----------------|-----------------|
| Salaries and other short-term employee benefits | 7,726           | 8,829           |
| Post-employment benefits                        | 132             | 162             |
| Share-based payments ( <i>Note</i> )            | 1,469           | 7,342           |
|   | <b>9,327</b>    | 16,333          |

*Note:* During the year ended 31 December 2016, as the result of the non-fulfilment of performance condition attached to the share option scheme (*Note* 38), the share-based payment expenses of RMB3,609,000 (2015: Nil) charged to profit or loss in the prior periods was reversed against profit or loss.

### 41. ASSETS PLEDGED FOR SECURITY

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

|   | 2016<br>RMB'000  | 2015<br>RMB'000 |
|---|------------------|-----------------|
| Restricted bank deposit ( <i>Note</i> 25) | 30,003           | 25,500          |
| Trade receivables                         | –                | 10,000          |
| Prepaid lease payments                    | 152,007          | 90,149          |
| Property, plant and equipment             | 1,547,879        | 2,154,597       |
|   | <b>1,729,889</b> | 2,280,246       |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 42. 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, senior notes and short-term notes as detailed in Notes 28, 29 and 31, offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves as detailed in Notes 26 and 27, 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

|   | <b>2016</b>      | 2015      |
|---|------------------|-----------|
|   | <b>RMB'000</b>   | RMB'000   |
| Financial assets  |                  |           |
| — Loans and receivables (including cash and cash equivalents) | <b>1,835,838</b> | 1,258,890 |
| Financial liabilities   |                  |           |
| — Amortised cost  | <b>4,912,762</b> | 5,108,903 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 42. FINANCIAL INSTRUMENTS (Cont'd)

#### 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, senior notes and short-term 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 risk 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 these 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, denominated in foreign currencies other than the functional currency of RMB. Hence, exposures to exchange rate fluctuations arise.

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                |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 31/12/2016<br>RMB'000 | 31/12/2015<br>RMB'000 | 31/12/2016<br>RMB'000 | 31/12/2015<br>RMB'000 |
| United States Dollar ("US\$")   |                       |                       |                       |                       |
| – Bank balances and cash  | –                     | –                     | 7,443                 | 4,408                 |
| – Senior notes  | 2,801,258             | 2,614,060             | –                     | –                     |
| – Borrowings  | –                     | –                     | –                     | –                     |
| Other foreign currency (including<br>Hong Kong Dollar, Great Britain<br>Pound and Singapore Dollar) |                       |                       |                       |                       |
| – Bank balances and cash  | –                     | –                     | 2,676                 | 4,370                 |

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 5% (2015: 5%) which is also the sensitivity rate used when reporting foreign currency risk internally to key management personnel. For a 5% weakening of RMB against US\$, there will be a decrease in profit for the year of RMB139,692,000 (2015: an increase in loss for the year of RMB130,483,000) and there would be an equal but opposite impact on the profit or loss for the year for a 5% strengthen of RMB against US\$.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 42. FINANCIAL INSTRUMENTS *(Cont'd)*

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

##### **Market risks** *(Cont'd)*

##### **(ii) Interest rate risk**

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate borrowings, senior notes and short-term notes (as detailed in Note 28, Note 29 and Note 31). 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 interest rate risk in relation to variable-rate bank deposits and variable-rate bank borrowing is insignificant, and no sensitivity analysis is presented.

##### **Credit risk**

The Group's credit risk is primarily attributable to its trade and other receivables, bank balances and cash, and 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 counterparties are banks with good reputation.

##### **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.

In order to mitigate the liquidity risk, the management regularly monitors the operating cash flow of the Group to meet its liquidity requirements in short and long term. The management also monitors the utilisation of bank borrowings, senior notes and short-term notes and ensures compliance with relevant agreements covenants.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 42. FINANCIAL INSTRUMENTS (Cont'd)

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

##### Liquidity risk (Cont'd)

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<br>average<br>interest rate<br>% | Less than<br>1 year<br>RMB'000 | 1-2 years<br>RMB'000 | 2-5 years<br>RMB'000 | Total<br>undiscounted<br>cash flow<br>RMB'000 | Carrying<br>amount<br>RMB'000 |
|----------------------------|---|--------------------------------|----------------------|----------------------|---|-------------------------------|
| <b>At 31 December 2016</b> |   |                                |                      |                      |   |                               |
| Trade and other payables   | -   | 810,857                        | -                    | -                    | 810,857                                       | 810,857                       |
| Borrowings                 |   |                                |                      |                      |   |                               |
| — fixed rates              | 4.35                                      | 471,213                        | -                    | -                    | 471,213                                       | 463,600                       |
| — non-interest bearing     | -   | 1,000                          | 2,000                | -                    | 3,000   | 3,000                         |
| Senior notes               | 6.50                                      | 180,362                        | 180,362              | 2,955,162            | 3,315,886                                     | 2,801,258                     |
| Short-term notes           | 5.50                                      | 844,000                        | -                    | -                    | 844,000                                       | 834,047                       |
|                            |   | <b>2,307,432</b>               | <b>182,362</b>       | <b>2,955,162</b>     | <b>5,444,956</b>                              | <b>4,912,762</b>              |
| <b>At 31 December 2015</b> |   |                                |                      |                      |   |                               |
| Trade and other payables   | -   | 1,117,783                      | -                    | -                    | 1,117,783                                     | 1,117,783                     |
| Borrowings                 |   |                                |                      |                      |   |                               |
| — variable rates           | 7.38                                      | 82,766                         | -                    | -                    | 82,766  | 80,000                        |
| — fixed rates              | 5.10                                      | 469,507                        | -                    | -                    | 469,507                                       | 458,400                       |
| — non-interest bearing     | -   | -                              | 1,000                | 2,000                | 3,000   | 3,000                         |
| Senior notes               | 6.50                                      | 168,834                        | 168,834              | 2,935,107            | 3,272,775                                     | 2,614,060                     |
| Medium-term notes          | 6.10                                      | 848,800                        | -                    | -                    | 848,800                                       | 835,660                       |
|                            |   | <b>2,687,690</b>               | <b>169,834</b>       | <b>2,937,107</b>     | <b>5,794,631</b>                              | <b>5,108,903</b>              |

#### 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 42. FINANCIAL INSTRUMENTS (Cont'd)

#### d. Fair values of financial instruments (Cont'd)

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

|   | 31 December 2016           |                       | 31 December 2015           |                       |
|---|----------------------------|-----------------------|----------------------------|-----------------------|
|   | Carrying amount<br>RMB'000 | Fair value<br>RMB'000 | Carrying amount<br>RMB'000 | Fair value<br>RMB'000 |
| Senior Notes (including related interest)         | 2,801,258                  | 2,882,000             | 2,614,060                  | 2,734,000             |
| Medium-term Notes<br>(including related interest) | –                          | –                     | 835,660                    | 829,360               |
| Short-term Notes<br>(including related interest)  | 834,047                    | 834,498               | –                          | –                     |

The fair value of senior notes is included in the Level 1 category, which has been derived from the quoted prices (unadjusted) in active markets, while the fair value of medium-term notes and short-term notes are included in the Level 2 category, which are derived from the observable over-the-counter trading market without any significant adjustments made to the observable data.

### 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

| Name of subsidiary                                   | Class of share held | Place of registration/<br>incorporation<br>and operation | Paid up issued/<br>registered ordinary<br>share capital | Proportion of<br>ownership interest/<br>voting power held<br>by the Company |      | Principal activities             |
|--|---------------------|--|---|---|------|----------------------------------|
|  |                     |  |   | 2016  | 2015 |                                  |
| <b>Directly held</b>                                 |                     |  |   |   |      |                                  |
| West China Cement Co., Ltd.                          | Ordinary            | British Virgin Islands                                   | HK\$7,800   | 100%  | 100% | Investment holding               |
| Faithful Alliance Limited<br>集誠有限公司                  | Ordinary            | Hong Kong  | HK\$100   | 100%  | 100% | Investment holding               |
| Shaanxi Yaobai<br>堯柏特種水泥集團有限公司                       | Ordinary            | Shaanxi, PRC   | RMB1,890,000,000  | 100%  | 100% | Production and sale<br>of cement |
| Xi'an LantianYaobai Cement Co., Ltd.<br>西安藍田堯柏水泥有限公司 | Ordinary            | Shaanxi, PRC   | RMB100,000,000  | 100%  | 100% | Production and sale<br>of cement |
| Ankang Yaobai Cement Co., Ltd.<br>安康堯柏水泥有限公司         | Ordinary            | Shaanxi, PRC   | RMB345,000,000  | 100%  | 100% | Production and sale<br>of cement |
| Hanzhong Yaobai Cement Co., Ltd.<br>漢中堯柏水泥有限公司       | Ordinary            | Shaanxi, PRC   | RMB135,000,000  | 100%  | 100% | Production and sale<br>of cement |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

| Name of subsidiary  | Class of share held | Place of registration/<br>incorporation<br>and operation | Paid up issued/<br>registered ordinary<br>share capital | Proportion of<br>ownership interest/<br>voting power held<br>by the Company |      | Principal activities                 |
|---|---------------------|--|---|---|------|--------------------------------------|
|   |                     |  |   | 2016  | 2015 |                                      |
| Hanzhong Mianxian Yaobai Cement Co. Ltd.<br>漢中勉縣堯柏水泥有限公司                                | Ordinary            | Shaanxi, PRC   | RMB140,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Xi'an Yaobai Material Co., Ltd.<br>西安市堯柏物資有限公司  | Ordinary            | Shaanxi, PRC   | RMB35,000,000   | 100%  | 100% | Purchase and sale<br>of raw material |
| Hanzhong Xixiang Yaobai Cement Co., Ltd.<br>漢中西鄉堯柏水泥有限公司                                | Ordinary            | Shaanxi, PRC   | RMB105,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Shangluo Yaobai Longqiao Cement<br>Co., Ltd. ("Longqiao Yaobai")<br>商洛堯柏龍橋水泥有限公司        | Ordinary            | Shaanxi, PRC   | RMB125,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Xiushan Yaobai Cement Co., Ltd.<br>商洛堯柏秀山水泥有限公司   | Ordinary            | Shaanxi, PRC   | RMB20,000,000   | 100%  | 100% | Production and sale<br>of cement     |
| Ankang Yaobai Jianghua Cement Co., Ltd.<br>安康堯柏江華水泥有限公司                                 | Ordinary            | Shaanxi, PRC   | RMB150,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Hancheng Yaobai Yangshanzhuang Cement<br>Co., Ltd. ("Hancheng Yaobai")<br>韓城堯柏陽山莊水泥有限公司 | Ordinary            | Shaanxi, PRC   | RMB150,000,000  | 80%   | 80%  | Production and sale<br>of cement     |
| Luxin Building Materials Co., Ltd.<br>和田魯新建材有限公司  | Ordinary            | Xinjiang, PRC  | RMB200,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Hetian Yaobai<br>和田堯柏水泥有限公司   | Ordinary            | Xinjiang, PRC  | RMB236,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Shifeng Cement Co., Ltd.<br>實丰水泥有限公司  | Ordinary            | Shaanxi, PRC   | RMB100,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Fuping Cement Co., Ltd. ("Fuping")<br>富平水泥有限公司  | Ordinary            | Shaanxi, PRC   | RMB597,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Guizhou Linshan Cement Co., Ltd.<br>貴州麟山水泥有限公司  | Ordinary            | Guizhou, PRC   | RMB233,381,000  | 100%  | 100% | Production and sale<br>of cement     |
| Yili Yaobai Cement Co., Ltd.<br>伊犁堯柏水泥有限公司  | Ordinary            | Xinjiang, PRC  | RMB100,000,000  | 100%  | 100% | Production and sale<br>of cement     |
| Yaowangshan Cement Co., Ltd.<br>銅川藥王山生態水泥有限公司   | Ordinary            | Shaanxi, PRC   | RMB50,000,000   | 100%  | 100% | Production and sale<br>of cement     |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

- (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 the consolidated financial statements for discussion only.
- (b) Other than Shaanxi Yaobai and Fuping which are wholly-owned foreign enterprises held directly by Faithful Alliance Limited, all other subsidiaries established in the PRC are domestic companies held directly/indirectly by Shaanxi Yaobai.
- (c) None of the subsidiaries had issued any debt securities at the end of the year.

#### Details of non-wholly-owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have non-controlling interests:

| Name of subsidiary  | Place of registration/<br>incorporation<br>and operation | Proportion of ownership interests and voting rights held by non-controlling interests |      | Profit (loss) allocated to non-controlling interests |         | Accumulated non-controlling interests |         |
|---|--|---|------|--|---------|---------------------------------------|---------|
|   |  | 2016  | 2015 | 2016   | 2015    | 2016                                  | 2015    |
|   |  |   |      | RMB'000  | RMB'000 | RMB'000                               | RMB'000 |
| Hancheng Yaobai<br>韓城堯柏陽山莊水泥有限公司                                    | Shaanxi, PRC   | 20%   | 20%  | 3,297  | 802     | 46,078                                | 42,781  |
| Individually immaterial subsidiaries with non-controlling interests |  |   |      |  |         | 4,649                                 | 4,699   |
| Total   |  |   |      |  |         | 50,727                                | 47,480  |

Summarised financial information of Hancheng Yaobai which have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

Details of non-wholly-owned subsidiaries that have material non-controlling interests (Cont'd)

#### Hancheng Yaobai

|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
|--|-----------------|-----------------|
| Current assets                                   | 119,944         | 95,369          |
| Non-current assets                               | 355,965         | 395,149         |
| Current liabilities                              | 244,686         | 275,695         |
| Non-current liabilities                          | 833             | 917             |
| Equity attributable to owners of the Company     | 184,312         | 171,125         |
| Non-controlling interests                        | 46,078          | 42,781          |
|  | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Revenue  | 229,383         | 194,174         |
| Expenses   | 212,900         | 190,162         |
| Profit for the year                              | 16,483          | 4,012           |
| Profit attributable to owners of the Company     | 13,186          | 3,210           |
| Profit attributable to non-controlling interests | 3,297           | 802             |
| Profit for the year                              | 16,483          | 4,012           |
| Net cash inflow from operating activities        | 9,537           | 513             |
| Net cash outflow from investing activities       | (10,174)        | (1,255)         |
| Net cash outflow                                 | (637)           | (742)           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|                                       | 2016<br>RMB'000  | 2015<br>RMB'000 |
|---------------------------------------|------------------|-----------------|
| <b>ASSETS</b>                         |                  |                 |
| Non-current assets                    |                  |                 |
| Unlisted investments in subsidiaries  | 1,700,742        | 1,700,742       |
| Amount due from subsidiaries          | 4,445,704        | 4,396,656       |
|                                       | <b>6,146,446</b> | 6,097,398       |
| Current assets                        |                  |                 |
| Dividend receivable from a subsidiary | 17,000           | 17,000          |
| Cash and cash equivalents             | 12,976           | 105,377         |
|                                       | <b>29,976</b>    | 122,377         |
| Total assets                          | <b>6,176,422</b> | 6,219,775       |
| <b>EQUITY</b>                         |                  |                 |
| Share capital                         | 141,519          | 141,519         |
| Share premium and reserves            | 3,222,766        | 3,453,807       |
| Total equity                          | <b>3,364,285</b> | 3,595,326       |
| <b>LIABILITIES</b>                    |                  |                 |
| Non-current liabilities               |                  |                 |
| Senior notes (Note 29)                | 2,747,221        | 2,563,482       |
|                                       | <b>2,747,221</b> | 2,563,482       |
| Current liabilities                   |                  |                 |
| Other payables                        | 64,916           | 60,967          |
|                                       | <b>64,916</b>    | 60,967          |
| Total liabilities                     | <b>2,812,137</b> | 2,624,449       |
| Total equity and liabilities          | <b>6,176,422</b> | 6,219,775       |
| Net current (liabilities) assets      | <b>(34,940)</b>  | 61,410          |
| Total assets less current liabilities | <b>6,111,506</b> | 6,158,808       |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Cont'd)

#### Movement in reserves

|   | Share<br>premium<br>RMB'000 | Share option<br>reserves<br>RMB'000 | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------------------|-------------------------------------|---------------------------------|------------------|
| At 1 January 2015   | 2,114,868                   | 17,577                              | 371,125                         | 2,503,570        |
| Loss and total comprehensive expense<br>for the year                        | -                           | -                                   | (227,100)                       | (227,100)        |
| Recognition of equity-settled share-based<br>payment (Note 38)              | -                           | 12,265                              | -                               | 12,265           |
| Dividend recognised as distribution (Note 12)                               | -                           | -                                   | (9,035)                         | (9,035)          |
| Issue of new shares (Note 26)   | 1,186,692                   | -                                   | -                               | 1,186,692        |
| Transaction costs attributable to issue of<br>new ordinary shares (Note 26) | (12,585)                    | -                                   | -                               | (12,585)         |
| <b>At 31 December 2015</b>  | <b>3,288,975</b>            | <b>29,842</b>                       | <b>134,990</b>                  | <b>3,453,807</b> |
| Loss and total comprehensive expense<br>for the year                        | -                           | -                                   | (226,932)                       | (226,932)        |
| Reversal of equity-settled share-based<br>payment (Note 38)                 | -                           | (4,109)                             | -                               | (4,109)          |
| <b>At 31 December 2016</b>  | <b>3,288,975</b>            | <b>25,733</b>                       | <b>(91,942)</b>                 | <b>3,222,766</b> |

At 31 December 2016, the aggregate amount of reserves available for distribution to equity holders of the Company under the Company's Articles of Association and Companies (Jersey) Law 1991, as amended, was RMB3,197,033,000 (2015: RMB3,423,965,000).

### 45. EVENTS AFTER THE REPORTING PERIOD

- (a) On 3 March 2017, the Group's wholly-owned subsidiary established in the PRC, Shaanxi Yaobai issued 6.98% unsecured short-term note of RMB400 million at 100% of the face value for the purpose of, among others, repayment of the bank loans and supplement general working capital of the Group.

## Group Financial Summary

### RESULTS

|                            | For the year ended 31 December |                 |                 |                 |                  |
|----------------------------|--------------------------------|-----------------|-----------------|-----------------|------------------|
|                            | 2012<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000  |
| Revenue                    | 3,524,117                      | 4,167,843       | 3,883,385       | 3,500,931       | <b>3,719,280</b> |
| Profit (loss) before tax   | 458,584                        | 475,082         | 135,036         | (256,537)       | <b>119,398</b>   |
| Income tax expense         | (86,058)                       | (92,812)        | (95,546)        | (50,820)        | <b>(104,460)</b> |
| Profit (loss) for the year | 372,526                        | 382,270         | 39,490          | (307,357)       | <b>14,938</b>    |
| Attributable to:           |                                |                 |                 |                 |                  |
| Owners of the Company      | 364,881                        | 378,321         | 35,902          | (309,205)       | <b>10,319</b>    |
| Non-controlling interests  | 7,645                          | 3,949           | 3,588           | 1,848           | <b>4,619</b>     |
|                            | 372,526                        | 382,270         | 39,490          | (307,357)       | <b>14,938</b>    |

### ASSETS AND LIABILITIES

|                           | At 31 December  |                 |                 |                 |                   |
|---------------------------|-----------------|-----------------|-----------------|-----------------|-------------------|
|                           | 2012<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2015<br>RMB'000 | 2016<br>RMB'000   |
| Total assets              | 10,298,888      | 10,664,709      | 10,768,012      | 11,382,495      | <b>11,181,577</b> |
| Total liabilities         | (5,452,086)     | (5,579,451)     | (5,751,513)     | (5,478,595)     | <b>5,268,220</b>  |
|                           | 4,846,802       | 5,085,258       | 5,016,499       | (5,903,900)     | <b>5,913,357</b>  |
| Equity attributable to:   |                 |                 |                 |                 |                   |
| Owners of the Company     | 4,755,931       | 5,044,164       | 4,970,867       | 5,856,420       | <b>5,862,630</b>  |
| Non-controlling interests | 90,871          | 41,094          | 45,632          | 47,480          | <b>50,727</b>     |
|                           | 4,846,802       | 5,085,258       | 5,016,499       | 5,903,900       | <b>5,913,357</b>  |