



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

2017

INTERIM REPORT



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CORPORATE INFORMATION

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Yaobai R&D Training Center
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Aerospace Industrial Base
Chang'an District
Xi'an, Shaanxi Province, PRC

REGISTERED OFFICE

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St Helier
Jersey JE1 0BD
Channel Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Harbour City, 7 Canton Road
Tsim Sha Tsui
Hong Kong

COMPANY WEBSITE

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
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JERSEY PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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(Channel Islands) Limited
Ordinance House
31 Pier Road
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Jersey JE4 8PW

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

FINANCIAL HIGHLIGHTS

<i>RMB' Million (unless otherwise specified)</i>	Six months ended 30 June 2017 (Unaudited)	Six months ended 30 June 2016 (Unaudited)	% Change
Total Cement and Clinker Sales Volume (million tons)	8.76	8.39	4.4%
Cement Sales Volume (million tons)	8.54	8.32	2.6%
Revenue	2,111.9	1,629.0	29.6%
Gross Profit	466.9	152.9	205.4%
EBITDA	761.6	449.6	69.4%
Profit/(Loss) Attributable to Owners of the Company	218.1	(113.5)	292.2%
Basic Earnings/(Loss) Per Share	4.0 cents	(2.1 cents)	290.5%
Interim Dividend	Nil	Nil	Nil
Gross Profit Margin	22.1%	9.4%	12.7 ppt
EBITDA Margin	36.1%	27.6%	8.5 ppt
	30 June 2017 (Unaudited)	31 December 2016 (Audited)	% Change
Total Assets	11,144.3	11,181.6	(0.3%)
Net Debt ⁽¹⁾	2,265.1	2,667.4	(15.1%)
Net Gearing ⁽²⁾	36.9%	45.1%	(8.2 ppt)
Net Assets Per Share	113 Cents	109 Cents	3.7%

Notes:

- (1) Net debt equal to total borrowings, short-term notes and senior notes less bank balances and cash and restricted bank deposits
- (2) Net gearing is measured as net debt to equity

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

West China Cement Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) has faced an improving operating environment in the first half of 2017. Sales volumes in Shaanxi Province have remained stable. Sales volumes in Xinjiang and Guizhou Provinces have recorded slight increases. The Group’s sales volumes of cement and clinker for the six months ended 30 June 2017 were 8.76 million tons, representing a slight increase from the 8.39 million tons recorded in the first half of 2016.

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 prices (“ASPs”) premiums and more stable margins. ASPs in Central Shaanxi have significantly improved even under the continuing low demand scenario through the continuation of occasional voluntary production halts during low season periods and improved market discipline with lower supply among all producers since the fourth quarter of 2016. Moreover, the Group has continued to implement efficiency gains and cost-cutting measures and has been able to maintain a stable cost in the first half of 2017 despite the trend of falling costs since 2015. Taken together, these have significantly improved the Group’s margins in the first half of 2017.

The Group has maintained healthy and improving cash flows, with EBITDA of RMB761.6 million for the first half of 2017, which is significantly higher than the RMB449.6 million recorded in the first half of 2016. Moreover, the Group’s interim results at the net profit level have been significantly affected by the appreciation of RMB against USD in the first half of 2017. The Group has recorded a foreign exchange gain of RMB60.6 million mainly arising from the foreign exchange translation from USD to RMB of the 2019 Senior Notes issued by the Company in September 2014 (the “Senior Notes”), as compare to the significant foreign exchange loss of RMB55.7 million in the first half of 2016.

The Group’s capacity as at 30 June 2017 has reached 29.2 million tons of cement. The Group has no other plants under construction.

Operating Environment

A key feature of the Group’s operational performance in 2017 has been the significant narrowing of the differentiation between the Group’s cement ASPs in Southern Shaanxi (where the Group’s cement capacity amounts to 9.7 million tons) which have remained reasonable and strong, as compared with those in Central Shaanxi (where the Group’s cement capacity amounts to 13.6 million tons) which have been significantly improved to a similar price level. Such significant improvement in ASPs in Central Shaanxi even under the continuing low demand scenario was through the continuation of occasional voluntary production halts during low season periods and improved market discipline with lower supply among all producers.

Shaanxi Province as a whole has seen an increasing Fixed Asset Investment (“FAI”) growth rates in the first half of 2017. FAI growth rate in the first half of 2017 was approximately 14%, as compared with the 9% recorded in the full year of 2016. The improved FAI growth rate has led to a stable growth in demand for cement products from all producers in the Shaanxi Province. Accordingly, intense competition from the supply side is still a strong factor affecting the ASPs in Central Shaanxi. Southern Shaanxi has continued to enjoy higher infrastructure-led construction growth. FAI growth rates in Southern Shaanxi have been above the provincial average and have supported a more stable cement market with continued ASPs premiums as compared to Central Shaanxi.

Another important factor contributing to the improvement of the Group’s margins was the maintenance of a stable cost in the first half of 2017. This resulted from the Group’s implementation of efficiency gains and cost-cutting measures since 2015. However, the rise in coal prices in the first half of 2017 have partially offset the efficiency gains in the use of inputs, which resulted in the rise in the Cost of Goods Sold (“COGS”).

MANAGEMENT DISCUSSION AND ANALYSIS

Southern Shaanxi

The Group's operations and markets in Southern Shaanxi have remained stable and strong during the first half of 2017. The supply side has 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 has remained reasonable during the first half of 2017, 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, the Shanyang to Zhashui Expressway, the Pingli to Zhenping Expressway and the Ankang to Langao Expressway and the Xixiang to Zhenba Expressway have also contributed to support the demand. Rural and urban developments in Southern Shaanxi have continued to be supported by the Hanjiang to Weihe River Water Transport Project and the Southern Shaanxi Resettlement Project which have 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 3.9% to approximately 3.71 million tons in the first half of 2017 (2016: 3.57 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 high infrastructure project demand and insulation from outside competition have supported pricing in Ankang District in particular. During the first half of 2017, the Group has recorded cement ASP in Southern Shaanxi of approximately RMB242 per ton (2016: RMB215 per ton) (excluding VAT), which is slightly higher than the Group's overall ASP of RMB240 per ton (2016: RMB193 per ton), with capacity utilization rate at approximately 79% (2016: 74%).

Central Shaanxi

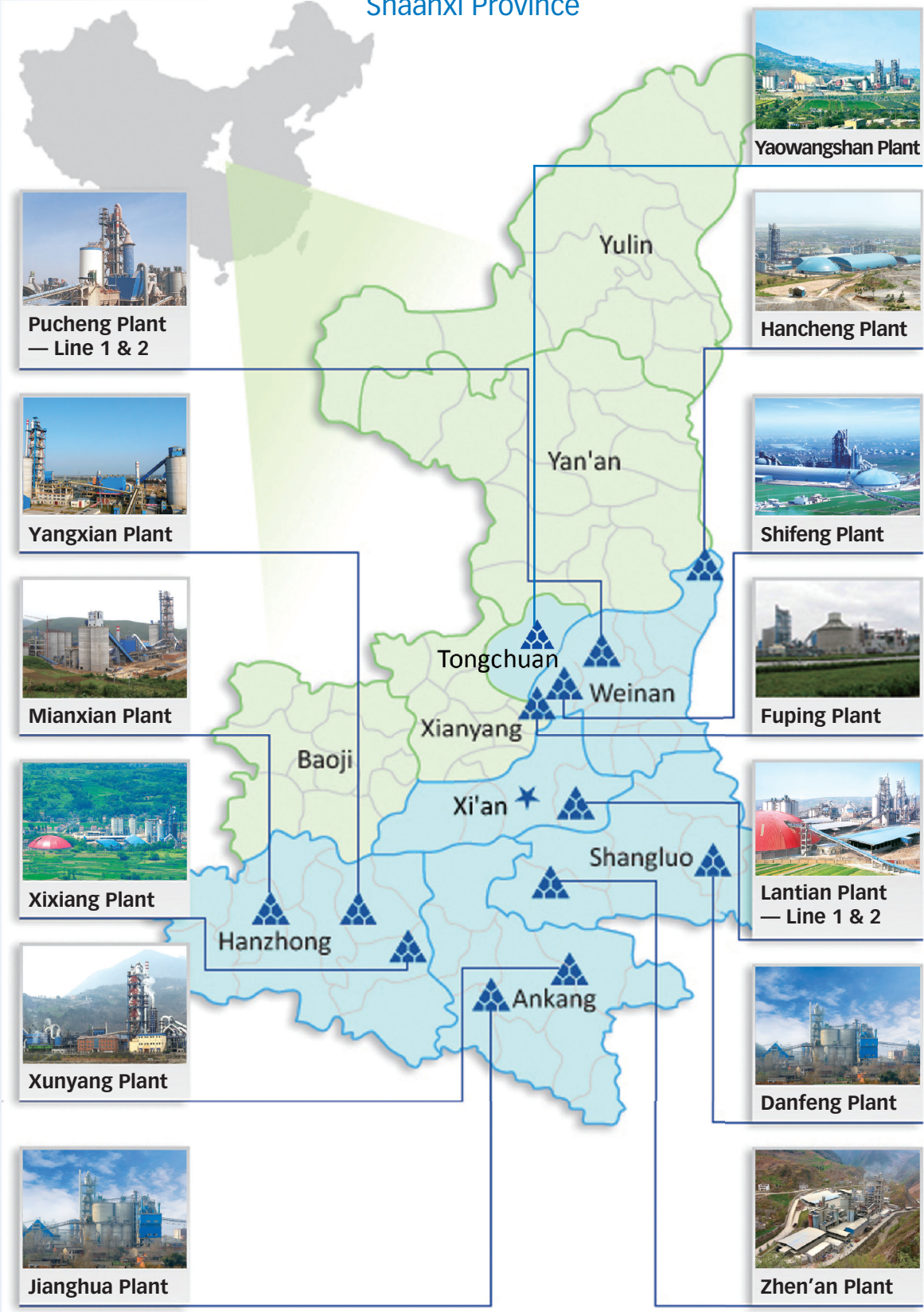
The demand in Central Shaanxi market has remained low, especially in the Xi'an Metropolitan market. This low demand scenario has been exacerbated by the imbalance between supply and demand already existing in the area. Central Shaanxi is an area with a significant build-out of new capacity since 2010 and, although all new capacity has been completed since early 2014 with no further additions planned for the foreseeable future, the effect of such new capacity is still being reflected through intense competition. Fortunately, through the continuation of occasional voluntary production halts during low season periods and improved market discipline with lower supply among all producers since the fourth quarter of 2016, ASPs in Central Shaanxi have significantly improved even under the abovementioned continuing low demand scenario in the first half of 2017.

During the first half of 2017, the Group has continued to maintain its market share in Eastern Xi'an, Yaowangshan, Fuping County and the rest of Weinan District where urbanisation remains a key demand driver. The Group has also supplied cement to a number of infrastructure projects, including the constructions of Line 5 and Line 6 of the Xi'an Metro, the Yinchuan to Xi'an High Speed Railway, the Nangoumen Reservoir and the expansion of Xi'an Train Station. The largest of these, the Inner Mongolia to Jiangxi Coal Transportation Railway (Shaanxi Section) has commenced construction in March 2016 and will consume over 800,000 tons of cement in 2017.

Sales volumes in Central Shaanxi have increased by approximately 13.2% to approximately 3.44 million tons in the first half of 2017 (2016: 3.04 million tons) and have been accompanied by improved ASPs. Over the period as a whole, the Group has recorded cement ASP in Central Shaanxi of RMB232 per ton (2016: RMB163 per ton) (excluding VAT), which is slightly lower than the Group's overall ASP of RMB240 per ton (2016: RMB193 per ton), with capacity utilization rate at approximately 52% (2016: 52%).

MANAGEMENT DISCUSSION AND ANALYSIS

Shaanxi Province



MANAGEMENT DISCUSSION AND ANALYSIS

Xinjiang Province



Guizhou Province



MANAGEMENT DISCUSSION AND ANALYSIS

Xinjiang & Guizhou Provinces

Operations at the Group's plants in Xinjiang Province remained slow in the first half of 2017. Sales volume in Xinjiang have increased by close to 2.5% to approximately 0.82 million tons (2016: 0.80 million tons). During the first half of 2017, ASPs in Xinjiang have improved through the voluntary production halts by all producers during the low season periods and the improved market discipline as well as the elimination of the use of low grade (32.5) cement since May 2017, the Group has recorded cement ASP at approximately RMB287 per ton (excluding VAT) (2016: RMB256 per ton), with capacity utilization rate at approximately 40% (2016: 39%).

In Guizhou Province, the Group's plant contributed approximately 0.57 million tons of cement as compared to the sales volume of 0.47 million tons in the first half of 2016. Whilst production volumes at the Huaxi Plant have been good, due to its location being in close proximity to Guiyang City and the Guiyang — Anshun ("Gui-An") New Area, ASPs have also improved after entering market with improving market discipline since 2016. During the first half of 2017, the Group has recorded cement ASP in Guizhou of approximately RMB212 per ton (2016: RMB163 per ton) (excluding VAT), with capacity utilization rate at approximately 65% (2016: 53%).

Energy Conservation, Emissions & Environmental Protection Solutions

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 is also the first cement producer in Shaanxi Province to use desulfurized gypsum and construction waste as raw material inputs into some of its cement products, and regularly recycle 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 30 June 2017, these systems are operated at 13 out of 20 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce carbon dioxide ("CO2") emissions by approximately 20,000 tons per million tons of cement production.

The Group has already completed the installation of de-nitration ("De-NOx") equipment at all of the Group's plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrous oxide ("NOx") emissions by approximately 60% per ton of clinker produced, so that NOx emissions at the Group's plants comply with the 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, resulting in all of the Group's plants having been upgraded to meet new PM emission standards as well. Dust collection equipment have also been upgraded at the Group's plants in Shaanxi Province during the period, further increasing the efficiency of the dust emissions control of the plants.

MANAGEMENT DISCUSSION AND ANALYSIS

Yaobai Environmental — Waste Treatment

In November 2015, the Company announced that its wholly-owned subsidiary, Yaobai Special Cement Group Co., Ltd. (“Yaobai Special Cement”), entered into an investment agreement (“Investment Agreement”) with 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 Xi’an Yaobai Environmental Technology Engineering Co., Ltd. (“Yaobai Environmental”), the Group’s waste treatment subsidiary at the relevant time.

Yaobai Environmental is now owned as to 60% by Wuhu Conch, 20% by 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. 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.

Yaobai Environmental’s operations currently include: Phase I & Phase II of the Waste Sludge Treatment Facility at the Group’s Lantian Plant (“Lantian Waste Sludge Treatment Facility”), which have been in full operations since 2015; the Municipal Waste Treatment Facility at the Group’s Fuping Plant (“Fuping Waste Treatment Facility”), which has been operating since March 2016; and the Solid Waste Treatment Facility at the Group’s Mianxian Plant (“Mianxian Waste Treatment Facility”), which is under construction and due to be completed within 2017. Moreover, Yaobai Environmental has also acquired Xianyang Conch Environmental Engineering Limited (“Xianyang Conch”) during the period. Xianyang Conch has set up a solid waste treatment facilities on the back of the cement and clinker production lines under Qianxian Conch Cement Company Limited, with processing capacity of 63,600 tons of solid waste per annum. For 2017, Yaobai Environmental will continue to actively look for new opportunities in setting up cement kilns co-processing solid waste disposal projects in response to the development need of China’s recycling economy and relevant specific policies for the industry, as well as taking into account specific conditions in the solid waste market of Shaanxi.

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 2017, the Group has 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 continue to implement a “Sustainable Safety Development Project”, which involved continuous training for both management and on-site employees, on-site inspections and audits, stringent safety reports and on-going suggestions for safety improvements at all of the Group’s plants.

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: CO₂ & climate protection, responsible use of fuels and raw materials, employee health & safety, emission reduction, local environmental impact, water and reporting practices.

During the period, charitable donations made by the Group amounted to RMB0.6 million, including donations made in sponsoring deprived students for college education, and supporting education, sports and cultural events.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Acquisitions and Disposal

The Group had no significant material acquisitions or disposals during the six months ended 30 June 2017.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by 29.6% from RMB1,629.0 million for the first half of 2016 to RMB2,111.9 million for the first half of 2017. Cement sales volume increased by 2.6%, from approximately 8.32 million tons to approximately 8.54 million tons during the period. Including clinker sales, total sales volume for the first half of 2017 amounted to approximately 8.76 million tons, compared to the 8.39 million tons sold in the first half of 2016. The Group has maintained a stable sales volume during the period.

Overall cement prices in the first half of 2017 were higher than those in the first half of 2016, and this has resulted in higher revenues. Cement ASP for the first half of 2017 was RMB240 per ton as compared with RMB193 per ton in the first half of 2016. The reasons for these fluctuations in ASPs are discussed in the "Operating Environment" section above.

Cost of Sales

Cost of sales increased by 11.4% from RMB1,476.1 million for the first half of 2016 to RMB1,645.0 million for the first half of 2017.

Coal costs were increased as a result of the general rise in coal prices in the PRC over the previous 12 months. The average cost per ton of coal increased by approximately 79.2% to approximately RMB482 per ton from approximately RMB269 per ton in the first half of 2016. This has resulted in a cost increase of approximately RMB21.8 per ton of total cement and clinker produced, with total coal costs increasing by approximately 85.5% as compared with that of the first half of 2016.

There were savings in material costs of 9.5% during the period mainly as a result of the fall in the limestone price as compared with that of the first half of 2016. The average cost per ton of limestone decreased by approximately 12.7% to RMB14.5 per ton from RMB16.6 per ton in the first half of 2016.

There have been no significant changes in the costs of electricity, depreciation and staff during the period.

The cost savings from decreased material prices have been fully offset by the increased coal costs, which resulted in the increased cost of sales during the period.

Gross Profit and Gross Profit Margin

Gross profit increased by RMB314.0 million, or 205.4%, from RMB152.9 million for the first half of 2016 to RMB466.9 million for the first half of 2017. The rise in gross profit was mainly due to the increase in ASPs described above. Gross profit margins therefore increased from 9.4% for the first half of 2016 to 22.1% for the first half of 2017.

Administrative and Selling & Marketing Expenses

Administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization.

These expenses increased by 10.4% from RMB114.9 million for the first half of 2016 to RMB126.9 million for the first half of 2017. The increase in the administration expenses is mainly due to the increase in the recognition of share option expenses during the period. Selling & Marketing expenses increased by 0.9% from RMB23.4 million to RMB23.6 million as compared with the first half of 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Expenses

The amount was a payment of RMB34.1 million to the PRC tax authority on behalf of a former shareholder (“Former Shareholder”) of YaoWangShan Cement Co., Ltd. (“Yaowangshan”), who is an independent third party to the Group, in relation to the Former Shareholder’s individual income tax accrued from his disposal of 100% equity interest in Yaowangshan to the immediate previous shareholder of Yaowangshan, before the 100% equity interest of Yaowangshan was disposed by the immediate previous shareholder to the Group in 2015 (the first half of 2016: Nil). The Board has resolved to take legal action to claim the Former Shareholder for the said amount paid to the PRC tax authority.

Other Income

Other income comprises VAT refunds, which is a form of government incentive for the recycling of industrial waste as production input, and other government subsidies. Other income increased by approximately 95.2% from RMB49.6 million for the first half of 2016 to RMB96.8 million for the first half of 2017. The ratio of VAT rebates over revenue was 4.2% for the first half of 2017 (the first half of 2016: 2.6%). The increase in the VAT rebates was mainly due to the increases in ASPs, with higher ASPs resulting in higher output VAT which in turn resulted in higher net VAT and rebates, as well as the increase in the ratio of cement produced by using recycled industrial waste. VAT rebates increased by approximately 109.1% as compared with that of the first half of 2016.

Other Gains and Losses, net

Other gains increased by RMB98.8 million from losses of RMB59.7 million for the first half of 2016 to gains of RMB39.1 million for the first half of 2017. The increase was mainly due to the net effect of the increase of an unrealized foreign exchange gain of RMB60.6 million relating to the Group’s Senior Notes, as a result of the appreciation of the RMB against the USD in the first half of 2017, as compared with a loss of RMB55.7 million for the first half of 2016, and the increase in the loss on disposal of property, plant and equipment (“PPE”) of RMB14.1 million (the first half of 2016: Gain of RMB0.8 million) as more PPE became obsolete and were disposed under the technology improvement of PPE to meet the environmental policy requirement of the PRC government during the period.

Interest Income

Interest income decreased by RMB1.4 million from RMB8.5 million for the first half of 2016 to RMB7.1 million for the first half of 2017. The decrease is mainly due to the lack of the interest income from the short-term investments which matured in 2016.

Finance Costs

Finance costs decreased by RMB3.9 million, or 3.0%, from RMB130.8 million for the first half 2016 to RMB126.9 million for the first half of 2017. There is no interest capitalized as part of the costs of assets for the first half of 2017 as there was no construction of any new plants.

Income Tax Expense

Income tax expenses increased by RMB78.6 million, from RMB2.1 million for the first half of 2016 to RMB80.7 million for the first half of 2017. Current income tax expense increased by RMB44.9 million to RMB79.8 million, whereas deferred tax income decreased by RMB33.6 million to expense of RMB0.8 million for the first half of 2017.

The increase in the current income tax is primarily due to the significant increase in the Group’s profit margins as a result of the increase in ASPs during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in deferred tax income was mainly due to the decrease in the recognition of tax losses as deferred tax assets. During the period under review, no deferred tax assets relating to tax losses were recognized and credited to the profit and loss (the first half of 2016: RMB29.7 million).

The detailed income tax expenses for the Group are outlined in note 10 to the condensed consolidated financial statements below.

Profit/(loss) Attributable to the Owners of the Company

Profit attributable to the owners of the Company increased from a loss of RMB113.5 million for the first half of 2016 to a profit of RMB218.1 million for the first half of 2017. This increase is primarily due to the unrealized foreign exchange gain of RMB60.6 million relating to the Group's Senior Notes and the increase in gross profit due to the increase in ASPs as mentioned above.

Basic earnings per share increased from a loss per share of RMB2.1 cents for the first half of 2016 to earnings per share of RMB4.0 cents for the first half of 2017.

FINANCIAL AND LIQUIDITY POSITION

As at 30 June 2017, the Group's total assets decreased by 0.3% to RMB11,144.3 million (31 December 2016: RMB11,181.6 million) while total equity increased by 3.9% to RMB6,142.2 million (31 December 2016: RMB5,913.4 million).

As at 30 June 2017, the Group had cash and cash equivalents, as well as restricted bank deposits, amounting to RMB1,597.9 million (31 December 2016: RMB1,345.6 million). After deducting total borrowings, Senior Notes and short-term notes ("STN") of RMB3,863.0 million (31 December 2016: RMB4,013.0 million), the Group had net debt of RMB2,265.1 million (31 December 2016: RMB2,667.4 million). 100% (31 December 2016: 100%) of borrowings are at a fixed interest rate.

Please refer to notes 18, 19 and 24 to the condensed consolidated financial statements below for the details of the borrowings, STN and the respective pledge of assets.

As at 30 June 2017, the Group's net gearing ratio, measured as net debt to equity, was 36.9% (31 December 2016: 45.1%).

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 30 June 2017, the Group had net current assets of RMB849.0 million (31 December 2016: RMB115.4 million), which is a considerable improvement of RMB733.6 million in the Group's liquidity position.

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

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure, measured as the additions of property, plant and equipment, prepaid lease payments and mining rights, for the first half of 2017 amounted to RMB46.0 million (the first half of 2016: RMB82.4 million). Capital commitments as at 30 June 2017 amounted to RMB35.6 million (31 December 2016: RMB2.6 million). Both capital expenditure and capital commitments were mainly related to the 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 30 June 2017, the Group employed a total of 4,354 (30 June 2016: 4,534) full time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2017, employees benefit expenses were RMB170.6 million (six months ended 30 June 2016: RMB156.5 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.

FOREIGN EXCHANGE RISK MANAGEMENT

During the six months ended 30 June 2017, the Group's sales and purchases were all denominated in Renminbi. However, 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 Renminbi. The appreciation or depreciation of Renminbi against foreign currencies may have an impact on the operating results of the Group. The Group currently does not maintain a foreign currency hedging policy. However, the management team of the Company will continue to monitor foreign exchange exposure and will consider hedging its foreign currency exposure should the need arise.

PROSPECTS

The improving operating environment in the first half of 2017 reflected that improved market discipline with lower supply among all producers is the solution to the problem of lacklustre demand in Shaanxi Province and in the PRC as a whole. However, the resolution of the fragmented nature of the supply side is still of primary importance in promoting a more stable market and improvement to production capacity for the region, which in turn will benefit the Group.

Whilst demand in Shaanxi Province remained low in the first half of 2017, with only a stable cement sales volume as compared with that of the first half of 2016, the Company is cautiously optimistic about the outlook of the demand from the infrastructure construction and urbanization for the region into the second half of 2017 and beyond.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 2017. 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 into 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 the second half of 2017. Infrastructure demand is expected to grow reasonably and there are a number of major new projects that have commenced or will commence in 2017, but significant growth is not expected. Both urban property demand and rural demand is expected to remain stable with continued urbanization trends supporting rural growth rates.

In regards to the supply side, the Group expects an increasing discipline amongst producers with stable prices in the second half of 2017, both as a result of the low pricing environment in the past periods and in light of the business collaboration between the Group and Conch Cement, which is expected to improve sales coordination across the province and stronger bargaining power on selling prices.

In Central Shaanxi, voluntary production halts by all producers with improved market discipline 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 construction in 2017, including the constructions of the Xi’an to Yan’an High Speed Railway, several Central Shaanxi Intercity Railways, the Xi’an Xianyang International Airport (Phase 3) and the Yan’an airport, which will consume up to 2.9 million tons of cement. In addition, the constructions of Line 9 of Xi’an Metro, the Heyang to Tongchuan Expressway and the Xi’an to Xianyang South Ring Expressway and the reconstruction and extension of Pucheng-Laoyukou Expressway of the Beijing-Kunming line as well as the other urban regeneration projects are expected to boost demand in this area.

MANAGEMENT DISCUSSION AND ANALYSIS

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 of the large railway and road projects in Southern Shaanxi are expected to proceed in accordance with the respective plans in 2017. The Ankang to Yangpingguan Double Track Railway, the Shanyang to Zhashui Expressway, the Pingli to Zhenping Expressway and the Ankang to Langao Expressway have commenced construction and are expected to generate increasing demand in 2017. In addition, the Group expects to see substantial demand from a number of new railways, expressways and airport projects in 2017 and 2018, including the constructions of High Speed Railways from Xi'an to Wuhan, from Xi'an to Chongqing, the Ankang Airport and the Shiquan to Ningshan Expressway as well as 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. However, with the elimination of the use of low grade (32.5) cement since May 2017 in Xinjiang, which led to the closure of inefficient facilities with small production capacity, the Group expects to see a more stable market of the cement industry with better market discipline and increased ASP in 2017 and beyond. 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 support the 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 1.5 million-ton Yili Plant commenced full operations in 2015 with production volumes remained low but improved pricing in the first half of 2017. The Group expects to see higher volume sold from the Yili Plant and an improvement in pricing after entering market with better market discipline in 2017 and beyond. In Guizhou, the 1.8 million-ton Huaxi Plant, which is located close to Guiyang City Centre, also commenced operations in 2015. The Group expects this plant to benefit from its location advantage in 2017, with a continuation of strong volumes coupled with ASPs improvements after entering market with better market discipline in 2017 and beyond.

Costs

The Group will continue to implement a number of cost-cutting measures, which are expected to benefit cost of sales and selling, general and administrative expenses in 2017. These measures include administrative and head office cost cuts, headcount reductions and staff incentives to promote efficient use of raw materials and resources. The Group has already seen a positive effect from these cost-cutting measures since 2015 and expects to see increased 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 to further implement measures to strengthen environmental management and monitoring during the second half of 2017 and will continue to implement the "Sustainable Safety Development Project". 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 and safety.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is looking forward to continuing its work in the building 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 in full operation since 2015 while Fuping Waste Treatment Facility commenced full operation since March 2016. Moreover, Mianxian Waste Treatment Facility is under construction and due to be completed in 2017.

Capital Expenditure

Other than the capital expenditure spend for the maintenance and upgrading of existing production facilities, the Group has no particular plans for capacity expansion in 2017.

DISCLOSURE OF INTEREST

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

As at 30 June 2017, 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 Securities and Futures Ordinance (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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:

(1) Interests in shares of the Company

As at 30 June 2017:

Name of Director	Capacity	Number of ordinary shares held as at 30 June 2017 Total <i>(Note 1)</i>	Approximate % of issued share capital of the Company as at 30 June 2017
Zhang Jimin	Interest in a controlled corporation	1,756,469,900 (L) <i>(Note 2)</i>	32.40%
Ma Zhaoyang	Interest in a controlled corporation	221,587,950 (L) <i>(Note 3)</i>	4.09%
Wong Kun Kau	Beneficial owner	500,000 (L)	0.01%

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

DISCLOSURE OF INTEREST

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

As at 30 June 2017:

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 30 June 2017
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	1,275,000	0.024%
Wong Kun Kau	Beneficial owner	1,275,000	0.024%
Tam King Ching, Kenny	Beneficial owner	1,775,000	0.033%

Save as disclosed above, as at 30 June 2017, 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 of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange 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 Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2017, 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 the SFO were as follows:

Name of shareholder	Capacity	Number of ordinary shares of £0.002 each held as at 30 June 2017 <i>(Note 1)</i>	Approximate % of issued share capital of the Company as at 30 June 2017
Asia Gain <i>(Note 2)</i>	Beneficial owner	1,756,469,900 (L)	32.40%
Conch International Holdings (HK) Limited ("Conch") <i>(Note 3)</i>	Beneficial owner	1,147,565,970 (L)	21.16%
Anhui Conch Cement Co., Ltd. ("Anhui Conch") <i>(Note 3)</i>	Interest in a controlled corporation	1,147,565,970 (L)	21.16%
安徽海螺集團有限責任公司 <i>(Note 3)</i>	Interest in a controlled corporation	1,147,565,970 (L)	21.16%
China Conch Venture Holdings Limited ("China Conch") <i>(Note 3)</i>	Interest in a controlled corporation	1,147,565,970 (L)	21.16%
AllianceBernstein L.P.	Beneficial owner	271,782,000 (L)	5.01%

DISCLOSURE OF INTEREST

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 Anhui Conch, 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 30 June 2017 which were required to be notified to the Company pursuant to Part XV of the SFO or which are recorded in the register required to be kept by the Company under the section 336 of the SFO.

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 of Directors of the Company (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.

DISCLOSURE OF INTEREST

3. Total number of shares available for issue under the Post-IPO Share Option Scheme and percentage of issued share capital it represents as at the date of the Company's 2016 annual report and as at the date of this interim report:

The maximum number of shares which may be 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 411,533,185 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 353,353,185 as at the date of this interim report, representing approximately 6.52% of the Company's issued share capital as at the date of this interim report, respectively.

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 HK\$1 per grant.

8. The basis of determining the exercise price:

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

9. The remaining life of the Post-IPO Share Option scheme:

It will remain in force for a period of 10 years from the date of its adoption, being 31 March 2010.

DISCLOSURE OF INTEREST

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

During the six months ended 30 June 2017:

Category and name of participant	Date of grant of share options (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 2017	Granted during the period ended 30 June 2017	Exercised during the period ended 30 June 2017	Lapsed during the period ended 30 June 2017	Outstanding as at 30 June 2017
Directors								
Zhang Jimin	22 March 2013	1.25	22 March 2014 to 21 March 2023	2,000,000	-	-	-	2,000,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	2,775,000	-	-	-	2,775,000
	13 April 2015	1.45	13 April 2016 to 12 April 2025	3,400,000	-	-	-	3,400,000
Ma Zhaoyang	22 March 2013	1.25	22 March 2014 to 21 March 2023	325,000	-	-	-	325,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	750,000	-	-	-	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	325,000	-	-	-	325,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	750,000	-	-	-	750,000
	13 April 2015	1.45	13 April 2016 to 12 April 2025	8,000,000	-	-	-	8,000,000
Lee Kong Wai, Conway	22 March 2013	1.25	22 March 2014 to 21 March 2023	325,000	-	-	-	325,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	750,000	-	500,000	-	250,000
	13 April 2015	1.45	13 April 2016 to 12 April 2025	700,000	-	-	-	700,000
Wong Kun Kau	22 March 2013	1.25	22 March 2014 to 21 March 2023	325,000	-	-	-	325,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	750,000	-	500,000	-	250,000
	13 April 2015	1.45	13 April 2016 to 12 April 2025	700,000	-	-	-	700,000

DISCLOSURE OF INTEREST

Category and name of participant	Date of grant of share options (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 2017	Granted during the period ended 30 June 2017	Exercised during the period ended 30 June 2017	Lapsed during the period ended 30 June 2017	Outstanding as at 30 June 2017
Tam King Ching, Kenny	22 March 2013	1.25	22 March 2014 to 21 March 2023	325,000	-	-	-	325,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	750,000	-	-	-	750,000
	13 April 2015	1.45	13 April 2016 to 12 April 2025	700,000	-	-	-	700,000
Other employees (Group A)	22 March 2013	1.25	22 March 2014 to 21 March 2023	11,875,000	-	-	-	11,875,000
	24 March 2014	0.91	24 March 2015 to 23 March 2024	28,275,000	-	400,000	-	27,875,000
	13 April 2015	1.45	13 April 2016 to 12 April 2025	11,200,000	-	-	-	11,200,000
Other employees (Group B)	23 March 2011	3.41	23 March 2012 to 22 March 2021	1,100,000	-	-	-	1,100,000
				76,800,000	-	1,400,000	-	75,400,000

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (2016: Nil).

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining high standards of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency of the Company. The Board will continue to review and improve the corporate governance practices from time to time to ensure the Group is led by an effective Board in order to 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, Mr. Ma Zhaoyang and Ms. Liu Yan, non-executive Directors, were unable to attend the Company's annual general meeting held on 12 May 2017 due to other business engagements.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code throughout the six months ended 30 June 2017.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has been established in compliance with Rules 3.21 and Rules 3.22 of the Listing Rules and with written term of reference in compliance with the Code, the primary duties of the Audit Committee are to review and supervise the financial reporting process, internal control and risk management systems of the Group and to provide advice and comments to the Board, overseeing the audit process and performing other duties and responsibilities as may be assigned by the Board from time to time. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Kong Wai Conway, Mr. 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 unaudited consolidated interim results for the six months ended 30 June 2017.

AUDITORS

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the auditors of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") with written terms of reference in compliance with paragraph B1 of the Code. The Remuneration Committee currently consists of three independent non-executive Directors, being Mr. Tam King Ching Kenny, Mr. Lee Kong Wai Conway and Mr. Wong Kun Kau, and one executive Director, being Mr. Zhang Jimin, with Mr. Tam King Ching Kenny serving as the 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") with written terms of reference as recommended under paragraph A.5 of the Code. The Nomination Committee currently consists of two independent non-executive Directors, being Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive Director, being Mr. Zhang Jimin, with Mr. Zhang Jimin serving as the chairman of the Nomination Committee.

The primary functions of the Nomination Committee are to make recommendations to the Board regarding the appointment of members of the Board. The Nomination Committee is responsible for identifying the individuals suitably qualified to become board members and select or make recommendations to the board on the selection of individuals nominated for directorships.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set forth in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in securities of the Company by the Directors. Specific enquiries have been made with all the Directors, all the Directors confirmed and declared that they have complied with the required standards as set out in the Model Code throughout the six months ended 30 June 2017.

On behalf of the Board of Directors

Zhang Jimin

Chairman

14 August 2017

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.

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TO THE BOARD OF DIRECTORS OF WEST CHINA CEMENT LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of West China Cement Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 26 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong

14 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	4	2,111,890	1,628,998
Cost of sales		(1,644,968)	(1,476,075)
Gross profit		466,922	152,923
Other income	5	96,761	49,608
Selling and marketing expenses		(23,594)	(23,397)
Administrative expenses		(126,863)	(114,941)
Other expenses	6	(34,100)	–
Other gains and losses, net	7	39,112	(59,673)
Share of profit of an associate		7,497	5,167
Interest income	8	7,077	8,481
Finance costs	9	(126,862)	(130,750)
Profit (loss) before tax		305,950	(112,582)
Income tax expense	10	(80,651)	(2,144)
Profit (loss) and total comprehensive income (expense) for the period	11	225,299	(114,726)
Attributable to:			
— Owners of the Company		218,058	(113,495)
— Non-controlling interests		7,241	(1,231)
		225,299	(114,726)
Earnings (loss) per share			
— Basic (RMB)	13	0.040	(0.021)
— Diluted (RMB)	13	0.040	(0.021)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
ASSETS			
Non-current assets			
Investment in an associate		48,454	40,957
Property, plant and equipment	14	7,211,887	7,564,018
Prepaid lease payments		478,755	486,675
Mining rights		266,618	272,714
Other intangible assets		191,930	192,973
Deferred tax assets		45,775	45,931
Amount due from non-controlling shareholder of a subsidiary		63,228	63,225
		8,306,647	8,666,493
Current assets			
Inventories		522,475	508,893
Trade and other receivables and prepayments	15	717,337	660,545
Restricted bank deposits		73,036	86,978
Bank balances and cash		1,524,851	1,258,668
		2,837,699	2,515,084
Total assets		11,144,346	11,181,577
EQUITY			
Share capital	16	141,543	141,519
Share premium and reserves		5,942,639	5,721,111
Equity attributable to owners of the Company		6,084,182	5,862,630
Non-controlling interests		57,968	50,727
Total equity		6,142,150	5,913,357

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
LIABILITIES			
Non-current liabilities			
Borrowings	18	202,000	2,000
Senior notes		2,687,295	2,747,221
Asset retirement obligation		21,156	22,066
Deferred tax liabilities		39,724	39,078
Deferred income		63,364	58,136
		3,013,539	2,868,501
Current liabilities			
Borrowings	18	575,000	464,600
Short-term notes	19	398,700	799,214
Trade and other payables	20	928,903	1,076,940
Income tax payable		86,054	58,965
		1,988,657	2,399,719
Total liabilities		5,002,196	5,268,220
Total equity and liabilities		11,144,346	11,181,577
Net current assets		849,042	115,365
Total assets less current liabilities		9,155,689	8,781,858

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (Audited)	141,519	3,288,975	(305,868)	25,733	520,941	2,191,330	5,862,630	50,727	5,913,357
Profit and total comprehensive income for the period	-	-	-	-	-	218,058	218,058	7,241	225,299
Recognition of equity-settled share-based payments (Note 17)	-	-	-	2,365	-	-	2,365	-	2,365
Shares issued for share options exercised (Note 17)	24	1,553	-	(448)	-	-	1,129	-	1,129
At 30 June 2017 (Unaudited)	141,543	3,290,528	(305,868)	27,650	520,941	2,409,388	6,084,182	57,968	6,142,150
At 1 January 2016 (Audited)	141,519	3,288,975	(305,868)	29,842	491,318	2,210,634	5,856,420	47,480	5,903,900
Loss and total comprehensive expense for the period	-	-	-	-	-	(113,495)	(113,495)	(1,231)	(114,726)
Reversal of equity-settled share-based payments (Note 17)	-	-	-	(8,282)	-	-	(8,282)	-	(8,282)
At 30 June 2016 (Unaudited)	141,519	3,288,975	(305,868)	21,560	491,318	2,097,139	5,734,643	46,249	5,780,892

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Net cash from operating activities	538,305	418,932
INVESTING ACTIVITIES		
Interest received	3,452	2,106
Purchase of property, plant and equipment	(62,107)	(117,897)
Addition of prepaid lease payments	–	(201)
Purchase of mining rights	–	(492)
Payment of mining rights renewal fee	(1,918)	–
Payment to non-controlling shareholder of a subsidiary	(3)	(9,960)
Proceeds from disposal of property, plant and equipment	4,392	1,255
Government grants received for acquisition of property, plant and equipment	10,000	–
Net cash outflow on deemed disposal of a subsidiary (Note 22)	–	(40,097)
Withdrawal of restricted bank deposits	93,303	32,703
Placement of restricted bank deposits	(79,361)	(38,914)
Net cash used in investing activities	(32,242)	(171,497)
FINANCING ACTIVITIES		
New borrowings raised	645,000	385,600
Repayment of borrowings	(334,600)	(439,000)
Proceeds from issuance of short-term notes (Note 19)	400,000	800,000
Short-term notes issue costs paid	(1,600)	(3,200)
Repayment of medium-term notes	–	(800,000)
Repayment of short-term notes (Note 19)	(800,000)	–
Proceeds from issue of shares	1,129	–
Interest paid	(149,555)	(139,316)
Net cash used in financing activities	(239,626)	(195,916)
Net increase in cash and cash equivalents	266,437	51,519
Cash and cash equivalents at 1 January	1,258,668	454,823
Effect of foreign exchange rate changes	(254)	681
Cash and cash equivalents at 30 June, represented by bank balances and cash	1,524,851	507,023

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. GENERAL INFORMATION

West China Cement Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the production and sale of cement in the western part of 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 condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company and its principal subsidiaries.

2. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* issued by the International Accounting Standards Board as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12	<i>As part of the Annual Improvements to IFRSs 2014–2016 Cycle</i>

The application of the amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures relating to the reconciliation of liabilities arising from financing activities will be provided in the consolidated financial statements for the year ending 31 December 2017 in accordance with the Amendments to IAS 7.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

4. 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 three areas, namely eastern and southern Shaanxi, Xinjiang and Guizhou. However, no further operating results by these areas are being provided, and the CODM reviews the consolidated results of the Group as a whole. Accordingly, no further segment information has been disclosed in the condensed consolidated financial statements for both periods.

All of the Group's revenue for the six-month periods ended 30 June 2017 and 2016 are derived from the sale of cements products to customers in the western part of the PRC. No single customer contributed 10% or more to the Group's revenue for both periods. All of the Group's non-current assets are located in the PRC by locations of assets.

5. OTHER INCOME

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Tax refund (<i>note</i>)	89,418	42,771
Government grant — others	7,343	6,837
	96,761	49,608

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.

6. OTHER EXPENSES

The amount represents a payment of RMB34,100,000 (six months ended 30 June 2016: Nil) made by the Company to the tax authority settling for a former shareholder ("Former Shareholder") of a wholly owned subsidiary of the Group, YaoWangShan Cement Co., Ltd. ("Yaowangshan"), in relation to the Former Shareholder's individual income tax accrued from his disposal of 100% equity interest in Yaowangshan to the immediate previous shareholder of Yaowangshan, before the 100% equity interest of Yaowangshan was disposed by the immediate previous shareholder to the Group in 2015. Both the Former Shareholder and immediate previous shareholder of Yaowangshan are independent third parties to the Group and the Group has no past obligating events for settling the payment. The directors recorded the payment as other expenses during the current interim period, after due assessment over the recovery of such payment as of the date of this condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Net foreign exchange gains (losses) <i>(note)</i>	60,584	(55,720)
(Loss) gain on disposal of property, plant and equipment	(14,142)	758
Allowance for doubtful debts	(6,360)	(57)
Reversal of allowance for doubtful debts	239	–
Reversal of impairment on payment for property, plant and equipment	–	2,000
Gain arising from derecognition of payables	33	250
Loss on deemed disposal of a subsidiary <i>(Note 22)</i>	–	(5,702)
Others	(1,242)	(1,202)
	39,112	(59,673)

Note: The amounts mainly relate to the translation of senior notes from US\$ to RMB.

8. INTEREST INCOME

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

9. FINANCE COSTS

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Interest on bank and other loans wholly repayable within five years:		
Bank borrowings	14,221	13,664
Senior notes	92,406	89,819
Medium-term notes	–	13,140
Short-term notes	19,559	13,490
	126,186	130,113
Less: amount capitalised	–	–
	126,186	130,113
Unwinding of discount	676	637
	126,862	130,750

During the six months ended 30 June 2017 and 2016, no significant finance cost was capitalised.

10. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Current tax		
Current period	79,849	34,921
Deferred tax		
Current period	(326)	(32,777)
Attributable to change in tax rate	1,128	–
	802	(32,777)
Income tax expense	80,651	2,144

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10. INCOME TAX EXPENSE (Cont'd)

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Profit (loss) before tax	305,950	(112,582)
Tax at domestic income tax rate of 25% (six months ended 30 June 2016: 25%)	76,488	(28,145)
Tax effects of:		
Expenses not deductible for tax purpose	31,439	33,534
Tax exemption and reduced tax rate (<i>note (a)</i>)	(12,338)	(979)
Tax effect of income not taxable for tax purpose	(15,928)	–
Tax effect on share of profit of an associate	(1,874)	(1,292)
Change in tax rate for deferred tax recognised	1,128	–
Tax effect on interest income on intra-group loans (<i>note (b)</i>)	3,510	3,510
Tax losses not recognised as deferred tax assets	889	4,138
Utilisation of tax losses previously not recognised as deferred tax assets	(2,663)	(1,050)
Recognition of deferred tax assets on tax losses generated in previous years	–	(7,572)
Tax expense for the period	80,651	2,144

Notes:

- a. The Group's subsidiary, Hetian Yaobai Cement Co., Ltd. ("Hetian Yaobai") was established in Xinjiang. Pursuant to the relevant laws and regulations of Xinjiang, 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 pursuant to PRC enterprise income tax law. The applicable tax rate for the six months ended 30 June 2017 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 six months ended 30 June 2017 is 15%.

The Group's subsidiaries, Xi'an Lantian Yaobai Cement Co., Ltd ("Lantian") and Fuping Cement Co., Ltd ("Fuping") were established in Shaanxi. Pursuant to the approval of tax bureau received in 2017, Lantian and Fuping are entitled to a tax reduction pursuant to PRC enterprise income tax law from 2017. The applicable tax rate for the six months ended 30 June 2017 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

11. PROFIT (LOSS) FOR THE PERIOD

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Depreciation and amortisation:		
Depreciation of property, plant and equipment	377,722	376,002
Amortisation of prepaid lease payments	7,329	7,064
Amortisation of mining rights	8,014	8,192
Amortisation of other intangible assets	1,043	1,174
Total depreciation and amortisation	394,108	392,432
Capitalised in inventories	(370,022)	(367,669)
	24,086	24,763
Staff costs (including directors' emoluments)		
Wages and salaries	156,650	152,400
Recognition (reversal) of share option expenses, net	2,365	(8,282)
Defined contribution retirement plan expenses	13,987	14,092
Total staff cost	173,002	158,210
Capitalised in inventories	(104,078)	(91,916)
	68,924	66,294

12. DIVIDEND

During the six months ended 30 June 2017 and 2016, no dividend was paid, declared or approved by the shareholders in annual general meeting.

The directors of the Company proposed no dividend in respect of the current interim period (six months ended 30 June 2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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:

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	218,058	(113,495)

	Six months ended 30 June	
	2017 '000	2016 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	5,421,496	5,420,808
Effect of dilutive potential ordinary shares from share options issued by the Company (note)	5,225	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	5,426,721	5,420,808
Basic earnings (loss) per share	0.040	(0.021)
Diluted earnings (loss) per share	0.040	(0.021)

Note:

The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2017 has been adjusted for exercise of share options that took place on 27 March, 29 March and 11 April 2017.

The calculation of diluted loss per share for the six months ended 30 June 2016 did not take into account the share options of the Company (Note 17) as the assumed exercise would result in a decrease in loss per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

14. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group purchased property, plant and equipment of approximately RMB10,268,000 (six months ended 30 June 2016: RMB48,926,000) from third parties and incurred approximately RMB33,857,000 on the construction of its plants and buildings (six months ended 30 June 2016: RMB32,802,000). During both interim periods, no significant borrowing cost was capitalised as part of the construction in progress (Note 9).

The amounts of construction in progress transferred to other classes of property, plant and equipment during the six months ended 30 June 2017 are RMB8,228,000 (six months ended 30 June 2016: RMB11,822,000).

In addition, during the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB18,534,000 (six months ended 30 June 2016: RMB497,000), resulting in a loss on disposal of RMB14,142,000 (six months ended 30 June 2016: gain on disposal of RMB758,000).

15. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	229,319	214,592
Less: Allowance for doubtful debts	(15,271)	(9,090)
	214,048	205,502
Other receivables	37,873	32,314
Less: Allowance for doubtful debts	(737)	(797)
	37,136	31,517
Bills receivable	263,229	251,254
Interest receivables	5,543	1,919
VAT recoverable	71,010	75,621
VAT refund receivable	45,955	22,478
Amount due from non-controlling shareholder of a subsidiary	63,228	63,225
Prepayments to suppliers	65,757	58,186
Prepaid lease payments	14,659	14,068
	780,565	723,770
Less: Non-current portion (<i>note</i>)	(63,228)	(63,225)
	717,337	660,545

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

15. 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.

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0 to 90 days	133,173	93,914
91 to 180 days	31,197	25,512
181 to 360 days	28,817	29,004
361 to 720 days	19,381	48,962
Over 720 days	1,480	8,110
	214,048	205,502

Bills receivable are mainly due within sixth months based on the invoice date.

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. As at 30 June 2017, RMB70,660,000 (31 December 2016: RMB40,925,000) 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 RMB143,388,000 (31 December 2016: RMB164,577,000) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

16. SHARE CAPITAL

	Number of shares	Share capital	
	'000	GBP'000	RMB'000
		Shown in the condensed consolidated financial statements	
		GBP'000	RMB'000
<i>Ordinary shares of GBP0.002 each</i>			
Authorised:			
Balance as at 1 January 2016, 31 December 2016, and 30 June 2017	10,000,000	20,000	
Issued and fully paid:			
Balance as at 1 January 2016 and 31 December 2016	5,420,808	10,840	141,519
Exercise of share options (<i>Note 17</i>)	1,400	3	24
Balance as at 30 June 2017	5,422,208	10,843	141,543

17. 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").

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 ("Fourth 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 dates.

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.

During the six months ended 30 June 2017, a share-based payment expense of RMB2,365,000 were recognised in relation to share options granted by the Company (six months ended 30 June 2016: a reversal of RMB8,282,000). During the current interim period, 1,400,000 (six months ended 30 June 2016: Nil) share options were exercised at the exercise price of HK\$0.91 per share or approximate RMB0.81 per share (at weighted average exchange rate of HK\$1: RMB0.886), with the weighted average share price of HK\$1.11.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. BORROWINGS

During the current interim period, the Group received the proceeds of approximately RMB645,000,000 (six months ended 30 June 2016: RMB385,600,000) related to its renewed and newly obtained bank loans and made repayments amounting to approximately RMB334,600,000 (six months ended 30 June 2016: RMB439,000,000). The new loans are secured by property, plant and equipment and prepaid lease payment, carry annual interest rates range from 4.35% to 5.5% (six months ended 30 June 2016: 4.35% to 5.88%) and repayable from 2017 to 2018.

19. SHORT-TERM NOTES

On 15 March 2016, Yaobai Special Cement Group Co., Ltd (“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.

On 13 March 2017, Shaanxi Yaobai repaid the entire First Tranche of the Short-term Notes due in 2017, equal to 100% of the principal amount of RMB800 million, plus accrued and unpaid interest of RMB44,000,000.

On 3 March 2017, Shaanxi Yaobai issued 6.98% per annum, unsecured one-year short-term notes of RMB400 million (the “Second Tranche of the Short-term Notes”) at 100% of the face value.

The effective interest rate of the Second Tranche of the Short-term Notes is approximately 7.17% per annum after adjusted for transaction costs.

20. TRADE PAYABLES

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.

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0 to 90 days	404,682	517,340
91 to 180 days	52,493	52,385
181 to 360 days	26,528	31,347
361 to 720 days	15,106	32,003
Over 720 days	6,969	11,381
	505,778	644,456

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

21. CAPITAL COMMITMENTS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	35,606	2,589

22. DEEMED DISPOSAL OF A SUBSIDIARY

During the six month ended 30 June 2016, Wuhu Conch Investment Ltd. and Red Day Limited, two related parties, made capital injections of RMB90 million and RMB30 million respectively to Xi'an Yaobai Environmental Technology Engineering Co., Ltd. ("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 condensed consolidated financial statements. The net assets of Yaobai Environmental at the date of deemed disposal were as follows:

Analysis of assets and liabilities over which 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

22. DEEMED DISPOSAL OF A SUBSIDIARY (Cont'd) 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
Loss on deemed disposal	(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)

23. RELATED PARTY DISCLOSURES

Save as related party transaction disclosed in Note 22, the Group has paid or payable to the key management personnel for employee services. The Key management includes directors (executive and non-executive) of the Company and senior management of the Group.

Key management compensation

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Salaries and other short-term employee benefits	4,741	3,764
Post-employment benefits	106	67
Share-based payments (<i>note</i>)	1,709	3,089
	6,556	6,920

As the result of the non-fulfilment of performance condition attached to the share option scheme (Note 17), the share-based payment expenses charged to profit or loss in the prior periods were reversed against profit or loss during the six months ended 30 June 2016. For the purpose of this presentation, such reversal of RMB3,609,000 (six months ended 30 June 2017: Nil) was not reflected under the total emoluments paid or payable to key management personnel above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

24. PLEDGE OF ASSETS

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Restricted bank deposits	–	30,003
Prepaid lease payments	185,936	152,007
Property, plant and equipment	2,390,630	1,547,879
	2,576,566	1,729,889

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 condensed consolidated financial statements approximate their fair value. The Group has no financial instruments measured at fair value subsequent to initial recognition.

	30 June 2017		31 December 2016	
	Carrying amount RMB'000 (Unaudited)	Fair value RMB'000 (Unaudited)	Carrying amount RMB'000 (Audited)	Fair value RMB'000 (Audited)
Senior notes*	2,740,063	2,795,000	2,801,258	2,882,000
Short-term notes*	408,006	408,366	834,047	834,498

* including interest payable

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 short-term notes is 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.