西部水泥

WEST CHINA CEMENT LIMITED
中國西部水泥有限公司

(Incorporated in Jersey with limited liability, with registered number 94796)

(Stock Code: 2233)

2016 ANNUAL RESULTS ANNOUNCEMENT

Financial highlights:

RMB' Million (unless otherwise specified)	**Year ended 31 December 2016**	Year ended 31 December 2015	% Change
Total Cement and Clinker Sales Volume (million tons)	**17.8**	17.1	4.1%
Cement Sales Volume (million tons)	**17.6**	16.8	4.8%
Revenue	**3,719.3**	3,500.9	6.2%
Gross Profit	**676.7**	463.5	46.0%
EBITDA	**1,311.7**	965.8	35.8%
Profit/(Loss) Attributable to Owners of the Company	**10.3**	(309.2)	133.3%
Basic Earnings/(Loss) Per Share[(1)]	**0.2 cents**	(6.2 cents)	103.2%
Interim Dividend	**Nil**	Nil	Nil
Proposed Final Dividend	**Nil**	Nil	Nil
Gross Profit Margin	**18.2%**	13.2%	5.0 ppt
EBITDA Margin	**35.3%**	27.6%	7.7 ppt

	31 December 2016	31 December 2015	
Total Assets	**11,181.6**	11,382.5	(1.8%)
Net Debt[2]	**2,667.4**	3,375.7	(21.0%)
Net Gearing[3]	**45.1%**	57.2%	(12.1 ppt)
Net Assets Per Share	**109 cents**	109 cents	(0.0%)

Notes:

(1) The improvement in basic earnings per share were largely due to the improved average selling prices ("ASPs") and there is no such write-off of construction in progress during 2016 as compared to that of RMB124.4 million in 2015.

(2) Net debt equal to total borrowings, medium-term notes and senior notes less bank balances and cash and restricted bank deposits.

(3) Net gearing is measured as net debt to equity.

The board ("Board") of directors ("Directors") of West China Cement Limited (the "Company") is pleased to announce its annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 together with the comparative figures for the corresponding year of 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2016

	NOTES	**2016** **RMB'000**	2015 *RMB'000*
Revenue	*2*	**3,719,280**	3,500,931
Cost of sales		**(3,042,628)**	(3,037,447)
Gross profit		**676,652**	463,484
Other income	*3*	**151,076**	109,352
Selling and marketing expenses		**(42,454)**	(42,953)
Administrative expenses		**(242,249)**	(270,629)
Other gains and losses, net	*4*	**(184,356)**	(297,560)
Share of profit of associates		**9,532**	–
Interest income	*5*	**16,664**	18,277
Finance costs	*6*	**(265,467)**	(236,508)
Profit/(Loss) before tax	*7*	**119,398**	(256,537)
Income tax expense	*8*	**(104,460)**	(50,820)
Profit/(Loss) and total comprehensive income (expense) for the year		**14,938**	(307,357)
Attributable to:			
— Owners of the Company		**10,319**	(309,205)
— Non-controlling interests		**4,619**	1,848
		14,938	(307,357)
Earnings/(Loss) per share			
— Basic (RMB)	*9*	**0.002**	(0.062)
— Diluted (RMB)	*9*	**0.002**	(0.062)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	NOTES	**2016** **RMB'000**	2015 RMB'000
ASSETS			
Non-current assets			
Investment in an associate		**40,957**	–
Property, plant and equipment		**7,564,018**	8,256,747
Prepaid lease payments		**486,675**	498,429
Mining rights		**272,714**	281,842
Other intangible assets		**192,973**	195,315
Deferred tax assets		**45,931**	54,405
Amount due from non-controlling shareholder of a subsidiary	*10*	**63,225**	53,260
		8,666,493	9,339,998
Current assets			
Inventories		**508,893**	575,656
Trade and other receivables and prepayments	*10*	**660,545**	685,493
Short-term investments		**–**	253,128
Restricted bank deposits		**86,978**	73,397
Bank balance and cash		**1,258,668**	454,823
		2,515,084	2,042,497
Total assets		**11,181,577**	11,382,495
EQUITY			
Share capital		**141,519**	141,519
Share premium and reserves		**5,721,111**	5,714,901
Equity attributable to owners of the Company		**5,862,630**	5,856,420
Non-controlling interests		**50,727**	47,480
Total equity		**5,913,357**	5,903,900

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — *Continued*
At 31 December 2016

	NOTES	**2016** *RMB'000*	2015 *RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings	*11*	**2,000**	3,000
Senior notes	*12*	**2,747,221**	2,563,482
Asset retirement obligation		**22,066**	20,961
Deferred tax liabilities		**39,078**	54,731
Deferred income		**58,136**	66,389
		2,868,501	2,708,563
Current liabilities			
Borrowings	*11*	**464,600**	538,400
Medium-term notes	*13*	**–**	799,060
Short-term notes	*14*	**799,214**	–
Trade and other payables	*15*	**1,076,940**	1,410,505
Income tax payable		**58,965**	22,067
		2,399,719	2,770,032
Total liabilities		**5,268,220**	5,478,595
Total equity and liabilities		**11,181,577**	11,382,495
Net current assets/(liabilities)		**115,365**	(727,535)
Total assets less current liabilities		**8,781,858**	8,612,463

NOTES:

(All amounts in RMB thousands unless otherwise stated)

1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

1.1 Amendments to standards that are mandatory effective for the current year

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

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

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

1. **APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued***

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

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

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

IFRS 9 Financial Instruments

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

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

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

1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

1.2 New and amendments to IFRSs and interpretation in issue but not yet effective — *Continued*

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

1. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

1.2 New and amendments to IFRSs and interpretation in issue but not yet effective — *Continued*

IFRS 16 Leases

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

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

Amendments to IAS 7 Disclosure Initiative

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

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

2. REVENUE AND SEGMENT INFORMATION

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

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

3. OTHER INCOME

	2016	2015
	RMB'000	*RMB'000*
Tax refund *(note)*	**136,274**	93,494
Government grant — others	**14,141**	13,119
Others	**661**	2,739
	151,076	109,352

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

4. OTHER GAINS AND LOSSES, NET

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

Note:

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

5. INTEREST INCOME

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

6. FINANCE COSTS

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

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

7. PROFIT (LOSS) BEFORE TAX

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

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

8. INCOME TAX EXPENSE

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

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

The income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for each of the year ended 31 December 2016 and 2015 based on existing legislations, interpretations and practices.

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

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

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

8. INCOME TAX EXPENSE — *Continued*

Notes:

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

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

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

9. EARNINGS (LOSS) PER SHARE

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

	2016	2015
	RMB'000	*RMB'000*
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	**10,319**	(309,205)

Number of shares	**2016**	2015
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	**5,420,808**	4,982,688
Effect of dilutive potential ordinary shares from share option issued by the Company	**6,101**	–

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

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

Details of trade receivables pledged are set out in Note 16.

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.

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.

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

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

Bills receivable are mainly expiring within six months.

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

RMB40,925,000 (2015: RMB153,670,000) of the trade receivables that are neither past due nor impaired have high credit ranking attributable under the credit scoring system used by the Group. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB164,577,000 (2015: RMB185,677,000) which are past due as at the end of the reporting period for which the Group has not provided for impairment loss because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

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

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

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

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

11. BORROWINGS

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

Bank loans:

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

	2016	2015
	RMB'000	*RMB'000*
Fixed rate borrowings, within one year	**463,600**	458,400
Variable rate borrowings, within one year	**–**	80,000
	463,600	538,400

11. BORROWINGS — *Continued*

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

	2016	2015
Effective interest rate per annum:		
Fixed rate borrowings	**4.35% to 6.24%**	4.85% to 6.24%
Variable rate borrowings	**–**	7.38%

Other loans:

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

	2016	2015
	RMB'000	*RMB'000*
Within one year	**1,000**	–
More than one year but not more than two years	**2,000**	1,000
More than two years but not more than five years	**–**	2,000
	3,000	3,000

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 16.

12. SENIOR NOTES

6.50% Senior Notes Due 2019

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

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

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

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

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

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

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

13. MEDIUM-TERM NOTES

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

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

	2016	2015
	RMB'000	*RMB'000*
Carrying amount at 1 January	**799,060**	796,548
Interest expenses	**13,140**	51,312
Interest payable accrual	**(12,200)**	(48,800)
Repayment	**(800,000)**	–
Carrying amount at 31 December	**–**	799,060

14. SHORT-TERM NOTES

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

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

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

15. TRADE AND OTHER PAYABLES

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

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

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

16. ASSETS PLEDGED FOR SECURITY

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

	2016	2015
	RMB'000	*RMB'000*
Restricted bank deposit	**30,003**	25,500
Trade receivables	**–**	10,000
Prepaid lease payments	**152,007**	90,149
Property, plant and equipment	**1,547,879**	2,154,597
	1,729,889	2,280,246

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

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

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

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

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

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

Operating Environment

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

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

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

Southern Shaanxi

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

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

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

Central Shaanxi

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

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

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

Xinjiang & Guizhou Provinces

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

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

Energy Conservation, Emissions & Environmental

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

The Group has residual heat recovery systems installed at most of its production facilities. As at 31 December 2016, these systems are operational at 13 out of 20 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce Carbon dioxide ("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 its Xinjiang Luxin and Xinjiang Yutian Plants, thus completing the installation of this equipment at all of the Group's plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrous oxide ("NOx") emissions by approximately 60% per ton of clinker produced, bringing NOx emissions to within the new standards stipulated by the Cement Industrial Air Pollution Emissions Standards effective from July 2015. Modifications of production lines to meet particulate matter ("PM") emission standards have been completed prior to the current period, resulting in all of the Group's plants having been upgraded to meet new PM emission standards as well. Waste water recycling systems have also been upgraded at the Group's Yaowangshan and Fuping Plants during the year, further increasing the efficiency of waste water recycling.

Yaobai Environmental — Waste Treatment

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

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

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

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

Safety and Social Responsibility

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

In order to further improve its environmental impact and safety procedures, the Group joined the Cement Sustainability Initiative (CSI), a voluntary global organization of 25 major cement producers operating under the World Business Council for Sustainable Development (WBCSD). Each CSI member is required to demonstrate commitments and achievements, including regular audits, to the following broad areas: C02 & Climate Protection, Responsible use of fuels and raw materials, Employee Health & Safety, Emission Reduction, Local Environmental Impact, Water and Reporting Practices.

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

Expansion and Acquisitions

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

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

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

PROSPECTS

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

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

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

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

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

Operations — Shaanxi

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

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

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

In Southern Shaanxi, the Group expects to maintain its relatively strong performance due to reasonable infrastructure construction activity, an already disciplined supply side and the potential for increasingly stable pricing in the surrounding areas of Central Shaanxi and Northern Sichuan. Construction at the large railway, road and water projects in Southern Shaanxi is expected to proceed normally in 2017. The Ankang to Yangpingguan Double Track Railway, Shanyang to Zhashui Expressway, Pingli to Zhenping Expressway and Hanjinag Xunyang Hydropower Station are all continuing with bulk consumption. In addition, the Group expects to see good demand from a number of new construction projects in 2017, including the Ankang to Langao Expressway, Xixiang-Zhenba Expressway, Shiquan-Ningshan Expressway, Xi'an-Wuhan High Speed Railway, Xi'an-Chongqing High Speed Railway, Ankang Airport, Zhen'an Hydropower Station and other projects related to the Hanjiang to Weihe River Water Transfer project.

Operations — Xinjiang & Guizhou

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

Costs

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

Environment, Health & Safety

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

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

FINANCIAL REVIEW

Revenue

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

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

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

Cost of Sales

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

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

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

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

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

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

Gross Profit and Gross Profit Margin

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

Administrative and Selling & Marketing Expenses

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

Other Income

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

Other Gains and Losses, net

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

Interest Income

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

Finance Costs

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

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

Income Tax Expense

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

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

The detailed income tax expenses for the Group are outlined in note 8 to the consolidated financial statements above.

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

Profit attributable to the owners of the Company improved from a loss of RMB309.2 million for the year ended 31 December 2015 to a profit of RMB10.3 million for the year ended 31 December 2016. This significant improvement is primarily due to the increase in gross profit as a result of the improved ASPs and the lack of any written-off of construction in progress in 2016 (2015: RMB124.4 million).

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

FINANCIAL AND LIQUIDITY POSITION

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

As at 31 December 2016, the Group had cash and cash equivalents, as well as restricted bank deposits, amounting to RMB1,345.6 million (2015: RMB528.2 million). After deducting total borrowings, Senior Notes and short term notes ("STN") (2015: medium term notes ("MTN")) of RMB4,013.0 million (2015: RMB3,903.9 million), the Group had net debt of RMB2,667.4 million (31 December 2015: RMB3,757.7 million). 100% (2015: 84.7%) of borrowings are at a fixed interest rate. As at 31 December 2015, the Group also held wealth management products operated by banks of RMB253.1 million at an annual return rate of 5.1% and maturing in September 2016. There is no such investment in 2016 after it was matured. Please refer to notes 11, 12, 13 and 14 of the consolidated financial statements above for the details of the borrowings, Senior Notes, MTN, STN and the respective pledge of assets.

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

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

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

CONTINGENT LIABILITIES

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

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

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

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group employed a total of 4,331 (2015: 4,661) full-time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2016, employees benefit expenses were RMB298.2 million (2015: RMB299.5 million). The remuneration policy of the Group is to provide remuneration packages, in terms of basic salary, short term bonuses and long term rewards such as options, so as to attract and retain top quality staff. The remuneration committee of the Company reviews such packages annually, or when the occasion requires. The executive Directors, who are also employees of the Company, receive compensation in the form of salaries, bonuses and other allowances.

MATERIAL ACQUISITION AND DISPOSALS

In November 2015, the Group entered into an agreement to acquire a 100% equity interest of Yaowangshan Cement for a consideration of approximately RMB391.65 million and the assignment of a shareholders loan in the amount of approximately RMB375.58 million. Yaowangshan Cement is located in the Yaowangshan region of Tongchuan District, Shaanxi Province. The Yaowangshan Cement Plant that it operates is primarily engaged in the production and sale of cement, with an annual capacity of approximately 2.2 million tons of cement and a strong emphasis on environmentally friendly cement production technology.

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

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

DIVIDENDS

No dividend was declared by the Company during the year ended 31 December 2016 (2015:Nil).

ANNUAL GENERAL MEETING

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

CLOSURE OF REGISTER OF MEMBERS

In order to be eligible for attending and voting at the forthcoming annual general meeting of the Company to be held at 12 May 2017 (Friday), all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shop 1712–16, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 9 May 2017 (Tuesday). The register of members of the Company will be closed from 10 May 2017 (Wednesday) to 12 May 2017 (Friday), both days inclusive, during which period no transfer of shares will be registered.

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

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

EVENTS AFTER THE REPORTING DATE

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

AUDIT COMMITTEE

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

SCOPE OF WORKS OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in this preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement is published on the websites of the Company (www.westchinacement.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). An annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and will be made available on the abovementioned websites in due course.

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

Hong Kong, 13 March 2017

As at the date of this announcement, the executive Directors are Mr. Zhang Jimin and Dr. Ma Weiping, the non-executive Directors are Mr. Ma Zhaoyang, Ms. Liu Yan and Mr. Qin Hongji and the independent non-executive Directors are Mr. Lee Kong Wai, Conway, Mr. Wong Kun Kau and Mr. Tam King Ching, Kenny.

* *For identification purposes only*