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)

2020 Interim Results Announcement

Financial highlights

RMB' Million (unless otherwise specified)	**Six months ended 30 June 2020**	Six months ended 30 June 2019	% Change
	(Unaudited)	(Unaudited)	
Total Cement and Clinker Sales Volume (million tons)	**8.39**	8.61	(2.6%)
Cement Sales Volume (million tons)	**8.24**	8.45	(2.5%)
Aggregates Sales Volume (million tons)	**1.35**	1.10	22.7%
Commercial Concrete sales volume (million cubic meters)	**0.59**	0.33	78.8%
Revenue	**3,008.7**	3,310.6	(9.1%)
Gross Profit	**1,047.6**	1,130.9	(7.4%)
EBITDA(1)	**1,360.4**	1,397.0	(2.6%)
Profit Attributable to Owners of the Company	**752.3**	793.5	(5.3%)
Basic Earnings Per Share	**13.8 cents**	14.6 cents	(5.2%)
Interim Dividend	**NA**	3.6 cents	NA
Gross Profit Margin	**34.8%**	34.2%	0.6 p.pt
EBITDA Margin	**45.2%**	42.2%	3.0 p.pt

	30 June 2020	31 December 2019	% Change
	(Unaudited)	(Audited)	
Total Assets	**16,385.2**	14,579.8	12.4%
Net Debt[(2)]	**1,943.5**	1,613.0	20.5%
Net Gearing[(3)]	**20.1%**	17.5%	2.6 p.pt
Net Assets Per Share	**178 cents**	170 cents	4.7%

Notes:

(1) EBITDA equal to profit before tax plus finance costs, depreciation and amortisation, share-based payments, impairment loss under expected credit loss model, net of reversal and net foreign exchange losses less interest income.

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

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

The board of directors (the "Board") of West China Cement Limited (the "Company" together with its subsidiaries, the "Group") is pleased to announce the Group's interim results for the six months ended 30 June 2020 together with the comparative figures for the corresponding period of 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*2*	**3,008,741**	3,310,583
Cost of sales		**(1,961,117)**	(2,179,714)
Gross profit		**1,047,624**	1,130,869
Other income		**123,256**	150,321
Selling and marketing expenses		**(26,229)**	(28,678)
Administrative expenses		**(184,194)**	(184,580)
Other expenses		**(43,284)**	(8,048)
Other gains and losses, net		**(7,350)**	(52,449)
Impairment loss under expected credit loss model, net of reversal		**(60,661)**	(19,393)
Share of profit of an associate		**8,091**	9,594
Interest income		**102,091**	100,076
Finance costs		**(73,697)**	(115,254)
Profit before tax		**885,647**	982,458
Income tax expense	*3*	**(108,755)**	(176,136)
Profit and total comprehensive income for the period	*4*	**776,892**	806,322
Attributable to:			
— Owners of the Company		**752,251**	793,464
— Non-controlling interests		**24,641**	12,858
		776,892	806,322
Earnings per share			
— Basic (RMB)	*5*	**0.138**	0.146
— Diluted (RMB)	*5*	**0.138**	0.146

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**8,584,658**	7,793,345
Right-of-use assets		**461,773**	469,021
Mining rights		**534,806**	542,352
Other intangible assets		**198,857**	199,235
Investment in an associate		**81,106**	80,269
Loan receivables	*6*	**499,696**	724,182
Deferred tax assets		**30,937**	36,557
Prepayments for right-of-use assets		**100,278**	100,278
Deposit paid for acquisition of property, plant and equipment		**575,654**	518,276
Other deposits	*7*	**35,695**	31,241
Investment in entrusted product		**181,855**	181,855
		11,285,315	10,676,611
Current assets			
Inventories		**708,559**	665,526
Trade and other receivables and prepayments	*7*	**1,299,665**	958,525
Loan receivables	*6*	**1,176,131**	1,055,444
Structured deposits		**90,000**	90,000
Restricted/pledged bank deposits		**669,878**	354,148
Bank balances and cash		**1,155,634**	779,559
		5,099,867	3,903,202
Current liabilities			
Bank borrowings	*8*	**1,990,794**	1,126,000
Trade and other payables	*9*	**1,714,007**	1,735,544
Dividend payable		**342,622**	–
Contract liabilities		**273,096**	226,589
Income tax payable		**71,064**	121,005
		4,391,583	3,209,138
Net current assets		**708,284**	694,064
Total assets less current liabilities		**11,993,599**	11,370,675

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Bank borrowings	*8*	**1,364,997**	1,189,589
Medium-term notes	*10*	**503,185**	521,098
Asset retirement obligation		**355,908**	336,398
Deferred tax liabilities		**83,046**	63,721
Deferred income		**32,409**	34,205
		2,339,545	2,145,011
Net assets		**9,654,054**	9,225,664
Capital and reserves			
Share capital		**141,808**	141,771
Share premium and reserves		**9,322,880**	8,911,168
Equity attributable to owners of the Company		**9,464,688**	9,052,939
Non-controlling interests		**189,366**	172,725
Total equity		**9,654,054**	9,225,664

NOTES:

1. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	*Definition of Material*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 9 and IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

1.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

1.2 Impacts and accounting policies on application of Amendments to IFRS 3 "Definition of a Business"

1.2.1 Accounting policies

Business combinations or asset acquisitions

Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

1.2.2 Transition and summary of effects

The Group has elected not to apply the optional concentration test on the acquisition of the subsidiary and concluded that such acquisition does not constitute a business under the Amendment to IFRS 3 "Definition of a business".

1.3 Accounting policies newly applied by the Group

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognise the individual identifiable assets and liabilities assumed by allocating the purchase price to financial assets/financial at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their respective fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

2. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement. The Group's chief executive officer, being the chief operating decision maker (the "CODM"), reviews the sales volume and average selling prices of its cement products by four areas, namely central 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.

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Geographical markets		
Central Shaanxi	**1,424,993**	1,418,180
Southern Shaanxi	**1,054,531**	1,388,066
Xinjiang	**379,326**	355,369
Guizhou	**149,891**	148,968
	3,008,741	3,310,583

All of the Group's revenue for the six months ended 30 June 2020 and 2019 are derived from the sale of cement products to customers in the western part of the PRC as disclosed above.

Revenue is recognised at a point in time when control of the goods has been transferred to customers, being at the point the goods are delivered to customers. The normal credit term is 90 to 180 days upon delivery. No further disaggregation of revenue is presented.

No single customer contributed 10% or more to the Group's revenue for both periods. The proportion of the Group's non-current assets located in the PRC by locations of assets is 97.31% as at 30 June 2020 (31 December 2019: 100% located in the PRC).

3. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
— PRC enterprise income tax ("EIT")	**138,294**	192,567
— Withholding tax	**26,836**	44,000
	165,130	236,567
Over provision in prior years		
— PRC EIT	**(81,320)**	(16,091)
Deferred tax		
Current period	**29,086**	(45,366)
Attributable to change in tax rate	**(4,141)**	1,026
	24,945	(44,340)
Income tax expense	**108,755**	176,136

Certain of the Group's subsidiaries provided for PRC EIT using 25% tax rate in 2019. However, these subsidiaries are entitled to enjoy concession rate of 15% in western region upon their 2019 final settlement and payment of PRC EIT with relevant tax authorities and thus resulted in the over provision of PRC EIT during the current interim period.

4. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Depreciation and amortisation:		
Depreciation of property, plant and equipment	**404,102**	359,461
Depreciation of right-of-use assets	**7,248**	6,720
Amortisation of mining rights	**10,707**	8,651
Amortisation of other intangible assets	**1,741**	1,056
Total depreciation and amortisation	**423,798**	375,888
Recognised in cost of sale	**(44,562)**	(33,981)
Capitalised in inventories	**(339,906)**	(311,374)
	39,330	30,533
Staff costs (including directors' emoluments)		
Wages and salaries	**302,864**	281,298
Recognition of share option expenses, net	**–**	264
Defined contribution retirement plan expenses *(Note a)*	**4,754**	24,627
Total staff costs	**307,618**	306,189
Recognised in cost of sale	**(12,050)**	(17,117)
Capitalised in inventories	**(180,406)**	(170,675)
	115,162	118,397
Net allowance for (reversal of) credit losses recognised in respect of:		
Loan receivables	**55,394**	(1,017)
Trade receivables	**5,328**	(1,522)
Other receivables	**(61)**	(38)
Amounts due from non-controlling interests of a subsidiary *(Note b)*	**–**	21,970
Donations (included in the other expenses)	**23,396**	1,430
Legal and professional fee (included in the other expenses)	**19,888**	6,618

Notes:

(a) During the outbreak of COVID-19 in the current interim period, the Group received support from the PRC government and the payment of social welfare pension amounting to approximately RMB23,109,000 was waived by the PRC government (six months ended 30 June 2019: Nil).

(b) In 2011, the Group entered into a shareholder agreement with an independent third party who became the then non-controlling interest of the subsidiary ("YSZ"), to set up a subsidiary to acquire and operate mining rights in Shaanxi. As of 31 December 2016, the Group had prepaid total of approximately RMB63,225,000 to YSZ, for coordination works in respect of the mining rights. Subsequent to 2016, due to the change of local governmental policy, the acquisition was cancelled and the Group agreed with YSZ to recover the amount already paid. As of 31 December 2018, a total amount of approximately RMB41,255,000 was recovered. The Group made allowance for credit losses for the remaining balance during the six months 30 June 2019 after YSZ had failed to adhere to its repayment schedule signed in 2017. The amount was written off in the current interim period.

5. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**752,251**	793,464

	Six months ended 30 June	
	2020	2019
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,435,638**	5,435,133
Effect of dilutive potential ordinary shares from share options issued by the Company	**8,841**	4,224
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,444,479**	5,439,357
Basic earnings per share	**RMB0.138**	RMB0.146
Diluted earnings per share	**RMB0.138**	RMB0.146

The computation of diluted earnings per share for the six months ended 30 June 2020 and 2019 does not assume the exercise of certain share options because the adjusted exercise price of those options was higher than the average market price for shares for both periods.

6. LOAN RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Loans collateralised by property, plant and equipment *(Note a)*	**1,100,722**	1,157,376
Entrusted loan *(Note b)*	**200,000**	200,000
Loans collateralised by receivables *(Note b)*	**391,800**	383,800
Small loans *(Note c)*	**64,095**	63,846
	1,756,617	1,805,022
Less: allowance for credit losses	**(80,790)**	(25,396)
	1,675,827	1,779,626
Analysed as:		
Current	**1,176,131**	1,055,444
Non-current	**499,696**	724,182
	1,675,827	1,779,626

Notes:

(a) As at 30 June 2020 and 31 December 2019, the Group has entered into certain arrangements (the "Arrangements") with third parties for periods ranging from 1 to 4 years under which:

(i) The third parties transferred the ownership titles of its certain assets to the Group and leased back those assets;

(ii) The third parties pledged those assets to the Group;

(iii) The shareholders of the third parties provided guarantees for the due performance of the obligations of the third parties under the Arrangements; and

(iv) Upon discharging all the obligations by the third parties under the Arrangements, the Group will return the ownership title of the assets to the lessees automatically.

Despite the Arrangements involving a legal form of a lease, the Group accounted for the Arrangements as collateralised loans in accordance with the financial arrangement under IFRS 9 prior to 1 January 2019. Upon application of IFRS 16, the Group continues to recognise loan receivables within the scope of IFRS 9 as the transfer does not satisfy the requirement of IFRS 15 as a sale. All interest rates inherent in the Arrangements are fixed at the contract dates over the contract terms.

(b) The entrusted loan and loans collateralised by receivables the Group entered with third parties are with fixed interest rates at the contract dates over the contract terms. The interests are receivable periodically based on the contractual terms. All principal are receivable upon maturity dates.

(c) Balance represents the small loans provided to small and medium sized enterprises or individuals. The interests are receivable periodically according to the contractual terms with fixed interest rate with principal to be collected on maturity dates or by instalments.

The contractual maturity dates of the Group's fixed-rate loan receivables are as follows:

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**1,169,430**	1,055,444
In more than one year but not more than two years	**506,397**	724,182
	1,675,827	1,779,626

The range of effective rates on the Group's loan receivables was 10% to 15% per annum as at 30 June 2020 (31 December 2019: 10% to 24% per annum).

All of the Group's loan receivables are denominated in RMB.

7. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**649,439**	461,254
Trade receivables backed by bills	**183,508**	189,676
	832,947	650,930
Less: allowance for credit losses	**(26,434)**	(21,106)
	806,513	629,824
Other receivables	**164,035**	172,131
Less: allowance for credit losses	**(3,034)**	(3,095)
	161,001	169,036
VAT recoverables	**129,939**	101,680
VAT refund receivables	**54,713**	26,119
Amounts due from non-controlling shareholder of subsidiaries	**37,233**	6,000
Prepayments	**145,961**	57,107
	1,335,360	989,766
Less: Non-current portion of deposits (included in "other receivables" above)	**(35,695)**	(31,241)
	(1,299,665)	958,525

All bills received by the Group are due within 1 year from the issuance date of the bills.

The following is an aged analysis of trade receivables, excluding bills held by the Group, presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
0 to 90 days	**268,911**	196,954
91 to 180 days	**187,896**	75,155
181 to 360 days	**170,746**	164,779
361 to 720 days	**5,007**	15,931
Over 720 days	**16,879**	8,435
	649,439	461,254

As at 30 June 2020, total bills received amounting to RMB20,956,000 (31 December 2019: RMB31,191,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred substantially all the risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables and the corresponding trade payables.

8. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB1,467,148,000 (six months ended 30 June 2019: RMB459,000,000) and made repayments amounting to RMB499,000,000 (six months ended 30 June 2019: RMB402,571,000). The borrowings carry annual interest rates ranging from 0.70% to 8% per annum as at 30 June 2020 (31 December 2019: 2.90% to 6.12% per annum) and repayable between 2020 and 2028.

9. TRADE AND OTHER PAYABLES

As at 30 June 2020, included in trade payables are bills amounting to RMB61,100,000 (31 December 2019: RMB256,218,000) which are issued by the Group to settle trade payables.

The following is an aged analysis of trade payables (excluding those bills transferred by the Group for settlement which are due within six months to one year based on the issuance date) presented based on the date of delivering of goods at the end of the reporting period.

	30 June 2020 *RMB'000* **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
0 to 90 days	**757,300**	697,675
91 to 180 days	**180,725**	150,404
181 to 360 days	**110,913**	120,106
361 to 720 days	**39,996**	14,908
Over 720 days	**15,899**	9,069
	1,104,833	992,162

10. MEDIUM-TERM NOTES

On 30 April 2019, 堯柏特種水泥集團有限公司 (Shanxi Yaobai Special Cement Co., Ltd*) ("Yaobai Special Cement"), a subsidiary of the Group, registered with National Association of Financial Market Institutional Investors of the PRC to issue medium-term notes with an aggregate amount of RMB1,500,000,000. On 5 May 2019, the first tranche of the medium-term note with principal amount of RMB500,000,000 ("First Tranche of the Medium-term Note") was issued at an interest rate of 7.50% per annum. First Tranche of the Medium-term Note is unsecured with maturity of three years and carries an effective interest rate of approximately 7.58% per annum after adjustment for transaction costs of RMB4,500,000.

* *The English name is for identification purpose*

11. DIVIDENDS

During the six months ended 30 June 2020, a final dividend of RMB6.3 cents per share in respect of the year ended 31 December 2019 (six months ended 30 June 2019: RMB1.4 cents per share in respect of the year ended 31 December 2018) in total of approximately RMB342,622,000 (six months ended 30 June 2019: RMB76,090,000) was declared and approved by the shareholders in the annual general meeting.

No dividend were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period (six months ended 30 June 2019: RMB3.6 cents per share).

12. PLEDGE OF ASSETS

At the end of each, certain reporting period, 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 2020	31 December 2019
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**2,918,188**	2,734,801
Trade receivables	**188,957**	212,744
Right-of-use assets	**152,137**	140,813
Pledged bank deposits	**525,325**	113,924
Structured deposits	**90,000**	90,000
	3,937,607	3,292,282

The Group pledged its equity interests in three subsidiaries, 漢中勉縣堯柏水泥有限公司 (Hanzhong Mianxian Yaobai Cement Co., Ltd*), 商洛堯柏秀山水泥有限公司 (Shangluo Yaobai Xiushan Cement Co., Ltd*) and 貴州麟山水泥有限責任公司 (Guizhou Linshan Cement Co., Ltd*), to a bank to secure a banking facility totaling RMB400,000,000 for a period of one year of which borrowings of RMB330,000,000 has been drawn down as at 30 June 2020. The pledge will be released upon the repayment of the borrowing to the bank.

* *The English name is for identification purpose*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

West China Cement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") faced a stable operating environment in the first half of 2020. Sales volumes in Shaanxi Province have remained stable with a slight decrease of 6.2%. Sales volumes in Xinjiang and Guizhou Provinces have recorded a 23.4% increase and a 9.1% increase, respectively. The Group's sales volumes of cement and clinker for the six months ended 30 June 2020 were 8.39 million tons, representing a slight decrease from the 8.61 million tons recorded in the first half of 2019.

Due to the impact of the coronavirus disease 2019 ("COVID-19") outbreak, average selling prices ("ASPs") in Southern Shaanxi, Central Shaanxi, Guizhou and Xinjiang decreased. However, the Group has continued to implement efficiency enhancements and cost-cutting measures and has been able to maintain a decreasing cost in the first half of 2020. Overall, the Group's margins remained stable in the first half of 2020. The Group has maintained healthy and stable cash flows, with EBITDA of RMB1,360.4 million for the first half of 2020, which is similar to the RMB1,397.0 million recorded in the first half of 2019.

As at 30 June 2020, the Group had a total production capacity of 29.2 million tons, comprised of 20 NSP cement production lines, with 23.3 million tons in Shaanxi Province, 4.1 million tons in Xinjiang Province and 1.8 million tons in Guizhou Province. Moreover, the Group had total production capacities of 15.1 million tons of aggregates and 8.0 million cubic meters of commercial concrete.

Operating Environment

In the first quarter of 2020, due to the impact of the COVID-19 outbreak and the respective traffic restrictions, some staff and customers could not report to work on time after Chinese New Year holidays and caused temporary disturbance to the Group's operations for a short period of time as well as certain impact on the periodic market demand. Such impact has ceased to exist since early March 2020 as all staff and customers reported to work subsequently. Meanwhile, infrastructure construction played a greater role in counter-cyclical growth stabilization. Greater efforts were made to commence construction of new investment projects, while progress of construction of projects under construction was expedited; the increase in the issuance of local governments' special purpose bonds, coupled with accelerating issuance of urban investment bonds promoted the continuous recovery of infrastructure investment growth in the second quarter of 2020.

Due to the impact of the COVID-19 outbreak, a key feature of the Group's operational performance in the first half of 2020 has been the reversal 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 historically has stronger ASPs premiums, as compared with those in Central Shaanxi (where the Group's cement capacity amounts to 13.6 million tons) which have been improved to a level even higher than the ASPs in Southern Shaanxi. Such improvement in ASPs in Central Shaanxi even under the continuing low demand scenario was contributed by the continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy and the continuous recovery and expedited infrastructure construction demand as a result of the government policy to stimulate the economy in response to the impact of the COVID-19 outbreak.

Shaanxi Province as a whole has seen a stable Fixed Asset Investment ("FAI") and Real Estate Development Investment ("RDI") growth rates in the first half of 2020. During the first half of 2020, the FAI and the RDI increased by 0.1% and 7.6% as compared with the corresponding period of 2019 and the FAI and the RDI in the second quarter of 2020 rebounded by 16.6% and 7.6% from the first quarter of 2020, respectively. The growth rates of both FAI and RDI have continued to pick up since the first quarter of 2020 as a result of the government's economic stimulating policies in response to the impact of the COVID-19 outbreak. The stable FAI and RDI growth rates have led to a stable 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 Shaanxi Province, which continued to be balanced through the occasional peak-shifting production halts during low season periods under the stringent environmental policy.

Another important factor contributing to the Group's stable margins was the maintenance of a decreasing cost in the first half of 2020. This resulted from the Group's implementation of efficiency enhancements and cost-cutting measures.

Southern Shaanxi

The Group's operations and markets in Southern Shaanxi have remained reasonable and stable, taking into account the impact of the COVID-19 outbreak, during the first half of 2020. The supply side has remained rational and stable, as a result of little new capacity and effective closure of obsolete and small-scale clinker kiln and cement grinding capacity over past 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.

During the first half of 2020, demand in this region has remained reasonable, supported by continued growth in railway and road infrastructure project construction, but to a certain extent offset by the impact of the COVID-19 outbreak. During the same period, the Lushi to Luanchuan Expressway and the Ankang to Langao (Shanyujie) Expressway, have been, amongst others, particularly important demand drivers; and the construction of the Pingli to Zhenping Expressway, the Xixiang to Zhenba Expressway, the Xixia to Xichuan Expressway, the Zhengzhou to Xixia Expressway, the Yaoshan to Luanchuan Expressway, the Lushi Ecological Corridor, the Ningshan to Shiquan Expressway, the Ankang Airport, the Yuehe Hydropower Station and the Xunyang Hydropower Station have also supported the demand. Rural and urban development in Southern Shaanxi have continued to be supported by the Hanjiang to Weihe River Water Transport 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 decreased by approximately 18.9% to approximately 3.21 million tons in the first half of 2020 (2019: 3.96 million tons), there have also been a decrease in ASPs mainly due to the impact of the COVID-19 outbreak. During the first half of 2020, the Group has recorded cement ASPs in Southern Shaanxi of approximately RMB302 per ton (2019: RMB341 per ton) (excluding VAT), which is slightly lower than the Group's overall ASPs of RMB315 per ton (2019: RMB342 per ton) (excluding VAT), with capacity utilization rate at approximately 66% (2019: 82%).

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 peak-shifting production halts during low season periods under the stringent environmental policy and the continuous recovery and expedited infrastructure construction demand as a result of the government's economic stimulating policies in response to the impact of the COVID-19 outbreak. Sales volume in Central Shaanxi still moderately improved even under the abovementioned continuing low demand scenario in the first half of 2020.

During the first half of 2020, 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 the Xi'an to Yan'an High-Speed Railway, the Xi'an Metro Projects, the Dongzhuang Reservoir, the Expansion of Xi'an Train Station, the Yanchang to Huanglong Expressway, the Pucheng to Huanglong Expressway, the Hancheng to Huanglong Expressway, the Chengcheng to Weizhuang Expressway and the Xixian Expressway-Southern Section. The largest project, the Heyang to Tongchuan Expressway consumed over 0.14 million tons of cement in the first half of 2020.

Sales volumes in Central Shaanxi have moderately increased by approximately 8.9% to approximately 3.48 million tons in the first half of 2020 (2019: 3.17 million tons) but have been accompanied by decreased ASPs. Over the period as a whole, the Group has recorded cement ASPs in Central Shaanxi of RMB316 per ton (2019: RMB329 per ton) (excluding VAT), which is similar to the Group's overall ASP of RMB315 per ton (2019: RMB342 per ton) (excluding VAT), with capacity utilization rate at approximately 51% (2019: 47%).

Xinjiang & Guizhou Provinces

Operation at the Group's plant in Xinjiang Province is stable in the first half of 2020. Sales volume in Xinjiang have increased by close to 23.4% to approximately 0.95 million tons (2019: 0.77 million tons). During the first half of 2020, ASPs in Xinjiang have decreased due to the impact of the COVID-19 outbreak, the Group has recorded cement ASPs at approximately RMB395 per ton (2019: RMB453 per ton) (excluding VAT), with capacity utilization rate at approximately 46% (2019: 37%).

In Guizhou Province, the Group's plant contributed approximately 0.60 million tons of cement as compared to the sales volume of 0.55 million tons in the first half of 2019, which represented an increase of approximately 9.1%. During the first half of 2020, the Group has recorded cement ASPs in Guizhou of approximately RMB249 per ton (2019: RMB271 per ton) (excluding VAT), with capacity utilization rate at approximately 67% (2019: 61%). The decreases in ASPs were mainly due to the imbalance between demand and supply as a result of the continuation of decreasing demand scenario, which was even worse under the impact of the COVID-19 outbreak. The sales volumes at the Huaxi Plant have already been better than other locations in Guizhou due to its location being in close proximity to Guiyang City and the Guiyang — Anshun ("Gui-An") New Area.

Energy Conservation, Emissions & Environmental Protection Solutions

The Group continues to work towards the highest industry standards with 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 to some of its cement products, and regularly recycle fly ash from power plants as well as slag from iron & steel plants as inputs to some of its cement products.

The Group has residual heat recovery systems installed at most of its production facilities. As at 30 June 2020, 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 Cement Industrial Air Pollution Emissions Standards. 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. Moreover, the Group has effectively reduced the emission of dust through the technical renovation of the kiln-head and kiln-end dust collectors and also further reduced the emission of nitrogen oxide and the consumption of ammonia water through the implementation of de-nitration spray guns and automated technological innovation in five plants. During the period, all plants were already re-greened as garden like plants in the preliminary stage and the Group will further maintain and develop the garden like plants to meet the environmental policy requirements. Moreover, green limestone mines projects, including soil reclamation and mine re-greening, already commenced construction to comply with the environmental policy. The Group will continue to implement the green mine projects to reduce the pollution to the soil and mines during mining in order to comply with the government policy of "managing while mining" in the future.

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.

The Group's plants that are cooperating with Yaobai Environmental's operations currently including: 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 has been in full operations since October 2017. In 2020, 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 2020, the Group has focused its EHS (Environmental, Health & Safety) efforts on revising and improving the safety emergency response plan by employing independent safety experts to strengthen the handling capacity of all employees in emergency accidents. Moreover, several handbooks and guidelines were revised significantly to improve the work safety measures as well as numerous of safety related training courses were initiated to strengthen the staff's safety awareness. 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.

During the period, charitable donations made by the Group amounted to RMB23.4 million, including donations made in sponsoring deprived students for college education, and supporting education, sports and cultural events.

Material Acquisitions and Disposal

On 3 January 2020, the Company entered into a sale and purchase agreement to acquire 69.83% equity interest of Ohorongo Cement (Pty) Limited for a consideration of approximately US$104.4 million for a cement production line in Namibia. For further details in relation to the above acquisition, please also refer to the announcements of the Company dated 3 January 2020 and 9 January 2020.

Save as disclosed above, the Group had no other significant material acquisitions or disposals during the six months ended 30 June 2020.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by 9.1% from RMB3,310.6 million for the first half of 2019 to RMB3,008.7 million for the first half of 2020. Cement sales volume decreased slightly by 2.5%, from approximately 8.45 million tons to approximately 8.24 million tons during the period. Including clinker sales, total sales volume for the first half of 2020 amounted to approximately 8.39 million tons, compared to the 8.61 million tons sold in the first half of 2019. The Group has maintained a stable sales volume during the period.

Overall cement prices in the first half of 2020 were lower than those in the first half of 2019, and this has resulted in lower revenue. Cement ASP for the first half of 2020 was RMB315 per ton as compared with RMB342 per ton in the first half of 2019. The reasons for these fluctuations in ASPs are discussed in the "Operating Environment" section above.

Cost of Sales

Cost of sales decreased by 10.0% from RMB2,179.7 million for the first half of 2019 to RMB1,961.1 million for the first half of 2020.

Coal costs were decreasing in the PRC over the first half 2020 as a result of the impact of the COVID-19 outbreak. The average cost per ton of coal decreased by approximately 15.1% to approximately RMB462 per ton from approximately RMB544 per ton in the first half of 2019. In addition to the increase in efficiency gains, these have resulted in a cost decrease of approximately RMB12.4 per ton of total cement produced, with total coal costs decreased by approximately 21.8% as compared with that of the first half of 2019.

Raw materials costs were increasing as a result of the increase in transportation costs and supplier prices under the more stringent environmental policy implemented and the increase in the number of such policies. The average cost per ton of limestone increased by approximately 14.7% to approximately RMB17.9 per ton from approximately RMB15.6 per ton in the first half of 2019. As a result of the above and net with the effect of the increase in efficiency gains, the cost increased only by approximately RMB5.0 per ton of total cement produced, with total raw materials costs increased by approximately 6.1% as compared with that of the first half of 2019.

There is no material fluctuation in the average cost of electricity. Benefiting from the increase in efficiency gains, the electricity costs decreased by approximately RMB3.0 per ton of total cement produced, with total electricity costs decreased by approximately 11.3% as compared with that of the first half of 2019.

The government promulgated policies on social insurance relief in response to the impact of the COVID-19 outbreak, which resulted in staff costs decreased by approximately RMB2.2 per ton of total cement produced, with total staff costs decreased by approximately 15.8% as compared with that of the first half of 2019.

As to other items in the costs balance, there were certain environmental related expenses, i.e. sewage fee, environmental protection fee, charged by the government, and safety fee as well as overhaul expense. This balance decreased as the overhaul time decreased under the impact of the COVID-19 outbreak and the overprovision of safety fee in prior year was utilized during the period. This has mainly resulted in a cost decrease of approximately RMB3.2 per ton of total cement produced, with other costs in total decreased by approximately 18.8% as compared with that of the first half of 2019.

There have been no significant changes in the cost of depreciation during the period.

Gross Profit and Gross Profit Margin

Gross profit decreased by RMB83.3 million, or 7.4%, from RMB1,130.9 million for the first half of 2019 to RMB1,047.6 million for the first half of 2020. The decrease in gross profit was mainly due to the decrease in ASPs and sales volume as described above. Gross profit margin increased slightly from 34.2% for the first half of 2019 to 34.8% for the first half of 2020.

Other Income

Other income mainly 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 decreased by approximately 18.0% from RMB150.3 million for the first half of 2019 to RMB123.3 million for the first half of 2020. The ratio of VAT rebates over revenue was 3.6% for the first half of 2020 (2019: 4.3%). The decrease in the VAT rebates was mainly due to the decreases in ASPs, with lower ASPs resulting in lower output VAT which in turn resulted in lower net VAT and rebates, as well as the decrease in the ratio of cement produced by using recycled industrial waste.

Other Gains and Losses, net

Other losses decreased by RMB45.1 million from RMB52.4 million for the first half of 2019 to RMB7.3 million for the first half of 2020. The decrease was mainly due to the net effect of the following factors. Firstly, the unrealized foreign exchange loss relating to the Group's syndicated loan as a result of the depreciation of the RMB against the USD increased to RMB18.7 million for the first half of 2020 (2019: RMB3.9 million which was related to the Group's Senior Notes). Secondly, the loss on disposal of property, plant and equipment ("PPE") decreased to RMB2.1 million for the first half of 2020 (2019: RMB35.3 million) as most obsolete PPE were disposed under the technology improvement of PPE to meet the tightened stringent environmental policy requirement in the first half of 2019. Thirdly, the investment income arising from the investment in entrusted product purchased in May 2019 of RMB13.5 million was recorded for the first half of 2020 (2019: Nil). Finally, the loss on partial redemption of Senior Notes of RMB13.4 million was recorded as the Group early redeemed part of the then outstanding Senior Notes of US$120 million in June 2019 while there was no such loss for the first half of 2020.

Impairment Loss Under Expected Credit Loss Model, Net of Reversal

The balance increased by RMB41.3 million from RMB19.4 million for the first half of 2019 to RMB60.7 million for the first half of 2020. The increase was mainly due to the net effect of the following factors. Firstly, the loss on impairment of amounts due from non-controlling interests of a subsidiary of RMB22.0 million was recorded for the first half of 2019 while there was no such loss for the first half of 2020. Secondly, there was an increase in loss on impairment of loan receivables to RMB55.4 million for the first half of 2020 (2019: reversal of RMB1.0 million) as a result of the downturn of the economy under the impact of the COVID-19 outbreak to certain clients.

Other Expenses

Other expenses primarily included the donations and the legal and professional fee. The amount increased by RMB35.3 million from RMB8.0 million for the first half 2019 to RMB43.3 million for the first half of 2020. The increase was mainly due to the increase in the legal and professional fee arising from the acquisition and expansion activities and the increase in the donations to RMB23.4 million for the first half of 2020 (2019: RMB1.4 million) during the period. Among the donations, RMB20.0 million was a one-off donation regarding the establishment of a school for deprived students during the period.

Interest Income

Interest income increased by RMB2.0 million from RMB100.1 million for the first half of 2019 to RMB102.1 million for the first half of 2020. The increase was mainly due to the increase in the interest income arising from the loan receivables business of RMB97.7 million recorded for the first half of 2020 (2019: RMB91.6 million).

Income Tax Expense

Income tax expenses decreased by RMB67.3 million, from RMB176.1 million for the first half of 2019 to RMB108.8 million for the first half of 2020. Current income tax expense net of over provision decreased by RMB136.6 million to RMB83.8 million, whereas deferred tax expenses increased by RMB69.2 million to RMB24.9 million for the first half of 2020 (2019: deferred tax credit of approximately RMB44.3 million).

As certain subsidiaries were entitled to enjoy a concession income tax rate of 15% instead of 25% in western region upon 2019 final settlement with relevant tax authorities, there was an increase in the utilisation of the overprovision in prior year, which led to the significant decrease in the current income tax expense. The increase in the deferred tax expense is mainly due to the increase in the withholding tax on undistributed profits of PRC subsidiaries and the tax losses during the period.

The detailed income tax expenses for the Group are outlined in note 3 to the condensed consolidated financial statements.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company decreased from RMB793.5 million for the first half of 2019 to RMB752.3 million for the first half of 2020. This decrease is primarily due to net effect of the decrease in gross profit as a result of the decrease in ASPs and sales volume as well as the decrease in income tax expenses as mentioned above.

Basic earnings per share decreased from RMB14.6 cents for the first half of 2019 to RMB13.8 cents for the first half of 2020.

FINANCIAL AND LIQUIDITY POSITION

As at 30 June 2020, the Group's total assets increased by 12.4% to RMB16,385.2 million (31 December 2019: RMB14,579.8 million) while total equity increased by 4.6% to RMB9,654.1 million (31 December 2019: RMB9,225.7 million).

As at 30 June 2020, the Group had bank balances and cash, restricted/pledged bank deposits as well as structured deposits, amounting to RMB1,915.5 million (31 December 2019: RMB1,223.7 million). After deducting bank borrowings and medium-term notes ("MTN") of RMB3,859.0 million (31 December 2019: RMB2,836.7 million), the Group had net debt of RMB1,943.5 million (31 December 2019: RMB1,613.0 million). 55.6% (31 December 2019: 48.1%) of borrowings are at a fixed interest rate. Moreover, the Group also held loan receivables of RMB1,720.3 million (31 December 2019: RMB1,779.6 million) at fixed interest rates. Please refer to Notes 6, 8, 10 and 12 to the condensed consolidated financial statements above for the details of the loan receivables, bank borrowings, MTN and the respective pledge of assets.

As at 30 June 2020, the Group's net gearing ratio, measured as net debt to equity, was 20.1% (31 December 2019: 17.5%). 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.

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

CONTINGENT LIABILITIES

As at 30 June 2020, the Group had no material contingent liabilities.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENT

Capital expenditure, measured as the additions of property, plant and equipment, right-of-use assets and mining rights, for the first half of 2020 amounted to RMB1,073.8 million (the first half of 2019: RMB700.9 million). Capital commitments as at 30 June 2020 amounted to RMB2,377.6 million (31 December 2019: RMB2,298.1 million). Both capital expenditure and capital commitments were mainly related to the maintenance and upgrading of existing production facilities, the capacity replacement projects as well as the construction of a new production facility in Mozambique. The Group has funded these commitments from operating cash flow and available banking facilities.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020, the Group employed a total of 6,264 (2019: 5,726) full time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the six months ended 30 June 2020, employees benefit expenses were RMB307.6 million (six months ended 30 June 2019: RMB306.2 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 2020, the Group’s sales, purchases, loans receivables and bank borrowings were mainly denominated in Renminbi. However, the proceeds raised through the syndicated loan by the Company in September 2019 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.

CREDIT RISK MANAGEMENT

The Group's credit risk is primarily attributable to its trade receivables and loan receivables. It is the risk of loss arising from a customer's, a lessee's or counterparty's inability to meet its obligations.

The Group has made various efforts to control credit risks. In accordance with the policy of the Group, it will only enter into transactions with recognised and creditworthy customers, lessees and counterparties. In respect of its financial leasing business, it would examine and verify the credit risk of all lessees and counterparties that the Group has financial leasing, factoring and entrusted loan arrangements with. In respect of its main cement business, it would carry out credit assessment before entering into contracts with its customers and build credit records of its customers, in order to mitigate credit risk and reduce the overdue receivables.

In addition, the Group will also carry out regular reviews on the trade receivables and loan receivables balances and will write off bad debts, if any. The maximum exposure to credit risk arising from its financial leasing business equals to the carrying amount of the loan receivables.

PROSPECTS

2020 marks the last year for building a moderately prosperous society in all aspects and implementing the "Thirteenth Five-Year Plan". It is expected that the PRC government will adhere to the main theme of "making steady progress while maintaining stability", and ensure effective epidemic prevention and control and economic and social development, and continue to embrace new development concepts. Continuing to pursue supply-side structural reform as the main task and leverage opening and reform as the prime engine, the government is expected to promote high-quality economic development, resolutely win the three tough battles (i.e. targeted poverty alleviation, pollution control and preventing major risks) and keep employment, the financial sector, foreign trade, foreign and domestic investments, and expectations stable, and minimize the impact of the epidemic, thereby striving to achieve the goals of economic and social development for the year. At the same time, the government will enhance the construction of municipal pipeline networks and urban parking lots, and accelerate the construction of rural roads, water conservation projects, and other infrastructure projects.

In addition, due to the impact of the COVID-19 outbreak, infrastructure construction is expected to play a greater role in counter-cyclical growth stabilization. Greater efforts will be made to commence construction of new investment projects, while progress of construction of projects under construction will be expedited; the expected increase in the issuance of local governments' special purpose bonds, coupled with accelerating issuance of urban investment bonds will promote the continuous recovery of infrastructure investment growth. In respect of the property sector, the government clearly stipulated that property investment would not be used as a mean of stimulating the economy in the short run, and austerity measures will be aimed at maintaining "stability". Property investment growth will remain relatively resilient.

As such, whilst demand in Shaanxi Province remained stable in the first half of 2020, with a slight decrease in cement sales volume as compared with that of the first half of 2019, the Company is cautiously optimistic about the outlook of the demand from the infrastructure construction and urbanisation for the region into the second half of 2020 and beyond.

Meanwhile, the government will continue to deepen the supply-side structural reform. 2020 is the last year of the Three-Year Action Plan Aims for Blue Skies. It is expected that environmental regulation on air pollution will not be relaxed, and local governments will tighten their control measures. In addition, the ongoing impacts from policies such as occasional peak-shifting production halts during low season periods, energy conservation and emission reduction, and mine management will also help balance the supply-demand relationship in the cement industry.

The Group will pay close attention to the macroeconomic situations, continuously monitor the impacts of the COVID-19 outbreak on the Company's production and operation, conduct in-depth study on market supply-demand relationship, adhere to the differentiated marketing strategy, coordinate optimized allocation of resources and continue to enhance the development of the end-user market; it will fully leverage the fundamental role of material procurement in cost control, strengthen the control of key resources and accelerate the development of alternative resources.

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 2020. Infrastructure demand is expected to grow reasonably and there are a number of major new projects that have commenced or will commence in 2020, but significant growth is not expected. Both urban property demand and rural demand is expected to remain stable with continued urbanisation trends supporting rural growth rates.

With regards to the supply side, the Group expects stable prices in the second half of 2020, both as a result of the limited supply under the increasingly stringent environmental policies imposed by the government as well as the impact of the COVID-19 outbreak.

In Central Shaanxi, the continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy is expected to remain an important feature and this can support ASPs. There are a number of infrastructure projects that have recently started or are expected to start construction in 2020, including the constructions of several Central Shaanxi Intercity Railways, the Meixian to Fengxiang Expressway — Central Circuit, the Hohhot to Beihai Expressway, the Expansion of the Beijing to Kunming Expressway, the Yan'an East Ring Expressway, the Xi'an Xianyang International Airport (Phase 3) and the Shanxi Yellow River Bridge.

In Southern Shaanxi, the Group expects to maintain its relatively stable performance due to reasonable infrastructure construction activities and an already disciplined supply side. There are a number of infrastructure projects in Southern Shaanxi which have recently started or are expected to start construction in 2020, including the constructions of the Hanzhong to Bazhong to Nanchong Intercity Railway, the Chengkou Transportation Projects, the Kangxian to Lueyang Expressway, the Micangshan Avenue Project, the Cangxi to Bazhong Expressway, the Zhenba to Wangping to Tongjiang Expressway, the Ankang to Langao Expressway — Phase 3, the Sanhekou Water Plant Project, the Hongyudong Reservoir and Irrigation District Project, the Hengkou Reservoir, the Lengshuihe Reservoir and the Tuxikou Reservoir. In addition, the Group expects to see substantial demand from a number of new railways and expressways in 2021 and 2022, including the constructions of the High Speed Railways from Lanzhou to Hanzhong to Shiyan, from Xi'an to Ankang and from Xi'an to Wuhan, the Yangxian to Xixiang Expressway as well as the Danfeng to Ningshan Expressway.

Operations — Xinjiang & Guizhou

Operations in Xinjiang and Guizhou are likely to remain subdued in 2020. 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 as well as the occasional peak-shifting production halts during low season periods under the stringent environmental policy, the Group can see a more stable market of the cement industry with increasing ASPs since then. 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 2020 and beyond. These include the constructions of the Minfeng to Heishihu Expressway, the Hetian to Kangxiwa G580 National Expressway, the Yutian Airport and the Hetian to Ruoqiang Railway. However, in Northern Xinjiang, the 1.5 million-ton Yili Plant with production volume remained low and decreasing pricing in the first half of 2020 due to the impact of the COVID-19 outbreak. The Group expects to see higher volume sold from the Yili Plant and an improvement in pricing in 2020 and after COVID-19 is under control in China. In Guizhou, the decreases in both ASPs and sales volume were mainly due to imbalance between demand and supply as a result of the continuation of decreasing demand scenario and the Group expects that the scenario may continue for a certain period. Fortunately, the 1.8 million-ton Huaxi Plant was located close to Guiyang City Centre and the Group expects it can keep benefiting from its location advantage, with a continuation of better volume than other locations in Guizhou in 2020 and beyond.

Costs Control

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 2020. These measures include administrative and head office cost cuts and staff incentives to promote efficient use of raw materials and resources.

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 up grades. The Group plans to further implement measures to strengthen environmental management and monitoring during the second half of 2020 and will continue to implement the "Sustainable Safety Development Project". Moreover, the Group will continue to implement the green mine projects to reduce the pollution to the soil and mines during mining in order to comply with the government policy of "managing while mining" in the future.

In an effort to comply with the PRC government's decision to plan for ecological civilization construction, the Group will sustain its implementation of environmental protection technological modification, increase environmental protection investment, carry out forward-looking development and application of cutting-edge environmental protection technologies, so as to consolidate its comparative advantage. Committed to being innovation-driven, the Group will push forward technology upgrade and modification that meet the requirements for intelligentization, informatization, and environmental protection; it will enhance the development and application of new technologies by accelerating the transformation of research outcome into innovations; it will step up efforts to push forward the construction of smart factories, and to strengthen its core competitiveness.

Capital Expenditure

Other than the capital expenditure spent for maintenance and upgrading of existing production facilities, the capacity replacement projects, the construction of a new production facility in Mozambique and the development to be commenced upon completion of the acquisition of certain equity interest in Kangding Paomashan Cement Ltd* (康定跑馬山水泥有限責任公司) (please refer to the announcement of the Company dated 31 July 2020 for further details), the Group has no particular plans for capacity expansion and related capital expenditure in 2020.

DIVIDEND

Due to the impact of the COVID-19 outbreak, both macroeconomic uncertainties and the risk of economic recession have increased. Accordingly, the Company decided not to declare interim dividend for the six months ended 30 June 2020 and the Company will revisit the situation when considering the full year results of 2020 and the declaration of the final dividend (if any).

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 optimise returns for the shareholders of the Company.

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 2020.

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. Zhu Dong 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 2020.

AUDITORS

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 have been reviewed by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the auditors of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2020, 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 2020.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim 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 interim report of the Company for the six months ended 30 June 2020 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

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

Hong Kong, 24 August 2020

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. Fan Changhong and the independent non-executive Directors are Mr. Lee Kong Wai, Conway, Mr. Zhu Dong and Mr. Tam King Ching, Kenny.