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 ANNUAL RESULTS ANNOUNCEMENT

Financial highlights:

RMB' Million (unless otherwise specified)	**Year ended 31 December 2020**	Year ended 31 December 2019	% Change
Total Cement and Clinker Sales Volume (million tons)	**19.9**	19.3	3.1%
Cement Sales Volume (million tons)	**19.6**	18.8	4.3%
Aggregates Sales Volume (million tons)	**3.44**	1.98	73.7%
Commercial Concrete sales volume (million cubic meters)	**1.57**	0.90	74.4%
Revenue	**7,131.1**	7,247.4	(1.6%)
Gross Profit	**2,342.5**	2,440.5	(4.0%)
EBITDA(1)	**2,996.8**	3,098.0	(3.3%)
Profit Attributable to Owners of the Company	**1,560.5**	1,801.3	(13.4%)
Basic Earnings Per Share	**28.7 cents**	33.1 cents	(13.3%)
Interim Dividend	**N/A**	3.6 cents	N/A
Proposed Final Dividend	**8.6 cents**	6.3 cents	36.5%
Proposed Special Dividend	**3.4 cents**	N/A	N/A
Gross Profit Margin	**32.9%**	33.7%	(0.8 ppt)
EBITDA Margin	**42.0%**	42.7%	(0.7 ppt)

	31 December 2020	31 December 2019	% Change
Total Assets	**18,906.2**	14,579.8	29.7%
Net Debt[(2)]	**2,237.0**	1,613.0	38.7%
Net Gearing[(3)]	**21.2%**	17.5%	3.7 ppt
Net Assets Per Share	**194 cents**	170 cents	14.1%

Notes:

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

(2) Net debt equal to borrowings and medium-term notes less bank balances and cash, restricted/pledged bank deposits and structure 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 2020 together with the comparative figures for the corresponding year of 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Revenue	2	**7,131,052**	7,247,389
Cost of sales		**(4,788,586)**	(4,806,905)
Gross profit		**2,342,466**	2,440,484
Other income	3	**285,476**	287,753
Selling and marketing expenses		**(63,413)**	(57,406)
Administrative expenses		**(405,389)**	(360,319)
Other expenses		**(77,819)**	(25,729)
Other gains and losses, net	4	**(152,663)**	(68,008)
Impairment losses under expected credit loss model, net of reversal	5	**(128,408)**	(36,517)
Share of profit of an associate		**16,628**	22,388
Interest income	6	**195,762**	228,231
Finance costs	7	**(165,184)**	(187,076)
Profit before tax	8	**1,847,456**	2,243,801
Income tax expense	9	**(264,494)**	(394,272)
Profit for the year		**1,582,962**	1,849,529
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(3,552)**	–
Other comprehensive expense for the year		**(3,552)**	–
Total comprehensive income for the year		**1,579,410**	1,849,529

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — *Continued*
For the year ended 31 December 2020

	NOTES	**2020** *RMB'000*	2019 *RMB'000*
Profit for the year attributable to:			
— Owners of the Company		**1,560,480**	1,801,281
— Non-controlling interests		**22,482**	48,248
		1,582,962	1,849,529
Total comprehensive income attributable to:			
— Owners of the Company		**1,556,928**	1,801,281
— Non-controlling interests		**22,482**	48,248
		1,579,410	1,849,529
Earnings per share			
— Basic (RMB)	*10*	**0.287**	0.331
— Diluted (RMB)	*10*	**0.287**	0.331

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2020

	NOTES	**2020** *RMB'000*	2019 *RMB'000*
Non-current assets			
Property, plant and equipment		**11,161,110**	7,793,345
Right-of-use assets		**643,185**	469,021
Mining rights		**539,903**	542,352
Other intangible assets		**208,186**	199,235
Interest in an associate		**77,643**	80,269
Loan receivables	*11*	**524,091**	724,182
Deferred tax assets		**42,673**	36,557
Prepayments for right-of-use assets		**100,278**	100,278
Prepayments for mining rights		**49,170**	–
Deposits paid for acquisition of property, plant and equipment		**199,497**	518,276
Deposits paid for acquisition of subsidiaries		**85,200**	–
Other deposits		**23,123**	31,241
Investment in entrusted product		**81,855**	181,855
		13,735,914	10,676,611
Current assets			
Inventories		**731,434**	665,526
Trade and other receivables and prepayments	*12*	**1,748,635**	958,525
Loan receivables	*11*	**1,214,955**	1,055,444
Structure deposits		**100,000**	90,000
Restricted/pledged bank deposits		**723,831**	354,148
Bank balances and cash		**651,463**	779,559
		5,170,318	3,903,202
Current liabilities			
Borrowings	*13*	**1,878,894**	1,126,000
Trade and other payables	*14*	**2,734,518**	1,735,544
Dividend payable		**8,000**	–
Contract liabilities		**260,594**	226,589
Income tax payable		**63,698**	121,005
		4,945,704	3,209,138
Net current assets		**224,614**	694,064
Total assets less current liabilities		**13,960,528**	11,370,675

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — *Continued*
At 31 December 2020

	NOTES	**2020** **RMB'000**	2019 RMB'000
Non-current liabilities			
Borrowings	*13*	**600,548**	1,189,589
Medium-term notes	*15*	**1,232,842**	521,098
Asset retirement obligation		**347,413**	336,398
Deferred tax liabilities		**78,701**	63,721
Deferred income		**35,301**	34,205
Amount due to a non-controlling shareholder of a subsidiary		**1,138,506**	–
		3,433,311	2,145,011
Net assets		**10,527,217**	9,225,664
Capital and reserves			
Share capital		**141,837**	141,771
Share premium and reserves		**10,188,965**	8,911,168
Equity attributable to owners of the Company		**10,330,802**	9,052,939
Non-controlling interests		**196,415**	172,725
Total Equity		**10,527,217**	9,225,664

NOTES:
(All amounts in RMB thousands unless otherwise stated)

1. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

1.1 Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in IFRS Standards* and the following amendments to IFRSs for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the 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, 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 year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impact on application of Amendments to IAS 1 and IAS 8 Definition of Material

The Group has applied the Amendments to IAS 1 and IAS 8 for the first time in the current year. 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 year had no impact on the consolidated financial statements.

Impacts on application of Amendments to IFRS 3 Definition of a Business

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

1. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

1.1 Amendments to IFRSs that are mandatorily effective for the current year — *Continued*

Impacts on application of Amendments to IFRS 3 Definition of a Business **—** *Continued*

The Group has elected not to apply the optional concentration test on the acquisition of Hongxing Glass Congo SARL ("Hongxing Glass") and concluded that such acquisition does not constitute a business upon application of the amendments.

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

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

IFRS 17	*Insurance Contracts and related Amendments*[1]
Amendment to IFRS 16	*Covid-19-Related Rent Concessions*[4]
Amendments to IFR 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform — Phase 2*[5]
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 1	*Classification of Liabilities as Current or Non-current*[1]
Amendment to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to IAS 8	*Definition of Accounting Estimates*[1]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts — Cost of Fulfilling a Contract*[2]
Amendments to IFRS Standards	*Annual Improvements to IFRS Standards 2018–2020*[2]

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 June 2020.
[5] Effective for annual periods beginning on or after 1 January 2021.

Except for the amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

1. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") — *Continued*

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

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2 relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements and disclosure requirements applying IFRS 7 *Financial Instruments: Disclosures* to accompany the amendments regarding modifications and hedge accounting.

- **Modification of financial assets, financial liabilities and lease liabilities.** A practical expedient is introduced for modifications required by the reform (modifications required as a direct consequence of the interest rate benchmark reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRSs requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16 *Lease*;

- **Hedge accounting requirements.** Under the amendments, hedge accounting is not discontinued solely because of the interest rate benchmark reform. Hedging relationships (and related documentation) are required to be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements; and

- **Disclosures.** The amendments require disclosures in order to allow users to understand the nature and extent of risks arising from the interest rate benchmark reform to which the Group is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from interbank offered rates to alternative benchmark rates, and how the entity is managing this transition.

As at 31 December 2020, the Group has a London Interbank Offered Rate ("LIBOR") bank loan which will be subject to interest rate benchmark reform. The Group expects no significant gains or losses should the interest rate benchmark for these loans change resulting from the reform on application of the amendments.

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 the following areas, namely central and southern Shaanxi, Xinjiang, Guizhou and overseas. However, no further operating results by these areas are being provided to the CODM. Instead, the CODM reviews the consolidated results of the Group as a whole. Accordingly, no further segment information of operating and reportable segment has been disclosed in the consolidated financial statements.

	2020	2019
	RMB'000	*RMB'000*
Geographical markets		
Central Shaanxi	**3,475,818**	3,322,621
Southern Shaanxi	**2,460,125**	2,782,957
Xinjiang	**843,968**	800,369
Guizhou	**321,771**	341,442
Overseas	**29,370**	–
	7,131,052	7,247,389

The proportion of the Group's non-current assets located in the PRC by locations of assets is 84% as at 31 December 2020 (31 December 2019: 100% located in the PRC). The remaining 16% of non-current assets were located in Africa (2019: nil).

Revenue is recognised at a point in time when control of the goods has been transferred to the customer, being at the point the goods are delivered to the customer. The normal credit term is 90 to 180 days upon delivery.

No single customer contributed 10% or more to the Group's revenue for both years ended 31 December 2020 and 2019.

During the year ended 31 December 2020, RMB226,589,000 (2019: RMB231,000,000) of revenue recognised relates to carried-forward contract liabilities.

All contracts of sale of cement products are for periods of one year or less, as permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

3. OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Tax refund *(Note)*	**246,635**	269,634
Government grant, including release from deferred income	**38,797**	18,102
Others	**44**	17
	285,476	287,753

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

4. OTHER GAINS AND LOSSES, NET

	2020	2019
	RMB'000	*RMB'000*
Gain on disposal of entrusted product	**16,030**	–
Net foreign exchange losses *(Note a)*	**(149,725)**	(21,506)
Loss on disposal of property, plant and equipment	**(18,909)**	(37,662)
Loss on partial redemption of senior notes *(Note b)*	**–**	(13,435)
Others	**(59)**	4,595
	(152,663)	(68,008)

Notes:

(a) The amounts during the year ended 31 December 2020 mainly relate to the translation of the amounts due to the non-controlling shareholder of a subsidiary from United States Dollar ("US$") to Meticais ("MZN") as well as the exchange loss incurred on intercompany balances between the subsidiaries with different functional currencies.

The amount during the year ended 31 December 2019 mainly related to the translation of senior notes from US$ to RMB.

(b) During the year ended 31 December 2019, the Company early redeemed part of the outstanding senior notes of US$120,000,000 (equivalent to RMB826,752,000) and recorded loss on early redemption of senior notes of US$1,950,000 (equivalent to RMB13,435,000). The remaining balance was due and repaid during the year ended 31 December 2019.

5. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2020	2019
	RMB'000	*RMB'000*
Impairment losses recognised on:		
— Trade receivables	**41,170**	7,463
— Loan receivables	**85,921**	5,751
— Other receivables	**1,317**	1,333
— Amount due from non-controlling shareholder of a subsidiary *(Note)*	**–**	21,970
	128,408	36,517

Note: 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 in local governmental policy, the acquisition was cancelled and the Group agreed with YSZ to recover the amount already paid. As of 31 December 2018, total of approximately RMB41,255,000 was recovered. The Group made allowance for credit losses for the remaining balance during the year ended 31 December 2019 after YSZ had failed to adhere to its repayment schedule signed in 2017 and such amount was written off during the year ended 31 December 2020.

6. INTEREST INCOME

	2020	2019
	RMB'000	*RMB'000*
Interest income from:		
— loan receivables	**183,998**	212,995
— bank deposits	**11,764**	15,236
	195,762	228,231

7. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on:		
— bank loans	**143,051**	79,457
— senior notes	**–**	90,766
— medium-term notes	**55,544**	25,598
	198,595	195,821
Less: amount capitalised	**(50,489)**	(10,265)
	148,106	185,556
Unwinding of discount	**17,078**	1,520
	165,184	187,076

Borrowing costs capitalised during the year arose on general borrowing by applying capitalisation rates at 5.55% (2019: 6.48%) per annum to expenditure on qualifying assets.

8. PROFIT BEFORE TAX

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

	2020	2019
	RMB'000	*RMB'000*
Depreciation and amortisation:		
Depreciation of property, plant and equipment	**864,888**	803,080
Depreciation of right-of-use assets	**14,267**	14,013
Amortisation of mining rights	**21,159**	17,985
Amortisation of other intangible assets	**1,469**	1,950
Total depreciation and amortisation	**901,783**	837,028
Recognised in cost of sales	**(79,179)**	(63,735)
Capitalised in inventories	**(745,770)**	(704,601)
	76,834	68,692
Staff costs (including directors' emoluments):		
Salaries and allowances	**619,512**	542,544
Share-based payments	**–**	264
Retirement benefits *(Note)*	**4,646**	48,167
Total staff costs	**624,158**	590,975
Recognised in cost of sales	**(16,275)**	(17,171)
Capitalised in inventories	**(354,207)**	(362,052)
	253,676	211,752
Research and development costs recognised as an expense (included in cost of sales)	**366,737**	304,788
Auditors' remuneration	**3,252**	3,244
Cost of inventories recognised as expenses	**4,440,575**	4,502,117
Reversal of write-down of inventories	**(18,726)**	–
Donations (included in other expenses)	**24,710**	3,695
Legal and professional fees (included in other expenses)	**53,109**	22,034

Note: During the outbreak of COVID-19 in the current year, the Group received support from the PRC government and the payment of social welfare pension amounting to approximately RMB54,354,000 was waived by the PRC government (2019: Nil).

9. INCOME TAX EXPENSE

	2020 *RMB'000*	2019 *RMB'000*
Current tax:		
PRC enterprise income tax ("EIT")	**287,115**	387,512
Withholding tax	**49,836**	66,018
	336,951	453,530
Over provision in prior years:		
PRC EIT *(Note)*	**(81,321)**	(45,253)
Deferred tax:		
Current year	**14,010**	(15,031)
Attributable to change in tax rate	**(5,146)**	1,026
	8,864	(14,005)
Income tax expense	**264,494**	394,272

Note: Certain of the Group's subsidiaries were subject to PRC EIT at the rate of 25% 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 year.

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") did not have any assessable income for tax purpose in those jurisdictions for both reporting periods.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first 2 million Hong Kong Dollars ("HK$") of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The Group's subsidiaries in Mozambique, Mauritius, the Republic of Congo and Ethiopia are subject to profit tax at the rates of 32%, 15%, 30% and 30%, respectively. There is no taxable profits for the year ended 31 December 2020.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, unless the group entities entitle to other preferential tax treatment granted by the relevant PRC tax authority.

9. INCOME TAX EXPENSE — *Continued*

Income tax expense for the year can be reconciled from the profit before tax as follows:

	2020 *RMB'000*	2019 *RMB'000*
Profit before tax	**1,847,456**	2,243,801
Tax at domestic income tax rate of 25% (2019: 25%)	**461,864**	560,950
Tax effects on:		
Expenses not deductible for tax purpose	**93,930**	57,201
Income not taxable for tax purpose	**(16,327)**	(17,008)
Additional tax benefit applicable to the Group *(Note a)*	**(66,160)**	(54,048)
Tax holiday and concession rates of group entities *(Note b)*	**(196,170)**	(150,502)
Tax effect of share of profit of an associate	**(4,157)**	(5,597)
Change in tax rate for deferred tax assets recognised	**(5,146)**	1,026
Tax on interest income on intra-group loans *(Note c)*	**3,235**	4,762
Withholding tax on undistributed profits of PRC subsidiaries *(Note d)*	**81,021**	36,018
Tax losses not recognised as deferred tax assets	**5,510**	7,372
Utilisation of tax losses previously not recognised as deferred tax assets	**(9,009)**	(358)
Recognition of deferred tax assets on tax losses generated in previous years	**–**	(291)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,776)**	–
Over provision in respect of prior years	**(81,321)**	(45,253)
Tax expense for the year	**264,494**	394,272

Notes:

a. Pursuant to the relevant tax rules and regulation in the PRC, expenses in research nature are deductible at 75% (2019: 75%) of such expenses incurred additionally. The related tax benefit amounted to RMB66,160,000 (2019: RMB54,048,000) for the year ended 31 December 2020.

b. Certain of the Company's subsidiaries are established in areas where preferential tax rates were granted by the local tax authorities:

Entities	**Place of establishment**	**Tax rate for the year ended 31 December 2020**	2019	**Tax benefit**
和田堯柏水泥有限公司 Hetian Yaobai Cement Co., Ltd. * ("Hetian Yaobai")	Xinjiang	**15%**	15%	(i)
和田魯新建材有限公司 Luxin Building Materials Co., Ltd. * ("Luxin")	Xinjiang	**15%**	15%	(i)
西安藍田堯柏水泥有限公司 Xi'an Lantian Yaobai Cement Co., Ltd. * ("Lantian Yaobai")	Shaanxi	**15%**	15%	(i)

9. **INCOME TAX EXPENSE** — *Continued*

Notes: — Continued

(b) — *Continued*

Entities	**Place of establishment**	**Tax rate for the year ended 31 December 2020**	2019	**Tax benefit**
陝西富平水泥有限公司 Fuping Cement Co., Ltd. * ("Fuping")	Shaanxi	**15%**	15%	(i)
陝西實豐水泥股份有限公司 Shifeng Cement Co., Ltd. * ("Shifeng")	Shaanxi	**15%**	15%	(i)
商洛堯柏龍橋水泥有限公司 Longqiao Yaobai Cement Co., Ltd. * ("Longqiao Yaobai")	Shaanxi	**15%**	15%	(i)
蒲城堯柏特種水泥有限公司 Pucheng Yaobai Special Cement Co., Ltd * ("Pucheng Yaobai")	Shaanxi	**15%**	15%	(i)
西安中港智慧物流有限公司 Xi'an Zhonggang Intelligent Logistics Co., Ltd * ("Zhonggang Logistics")	Shaanxi	**15%**	15%	(i)
貴州麟山水泥有限責任公司 Guizhou Linshan Cement Co., Ltd. * ("Guizhou Linshan")	Guizhou	**15%**	15%	(i)
西安光信小額貸款有限公司 Xi'an Guangxin Microfinance Co., Ltd. *	Shaanxi	**15%**	15%	(i)
韓城堯柏陽山莊水泥有限公司 Hancheng Yangshanzhuang Cement Co., Ltd. * ("Hancheng")	Shaanxi	**15%**	15%	(i)
安康市堯柏水泥有限公司 Ankang Yaobai Cement Co., Ltd. * ("Xunyang")	Shaanxi	**15%**	15%	(i)
漢中堯柏水泥有限公司 Hanzhong Yaobai Cement Co., Ltd. * ("Yangxian")	Shaanxi	**15%**	15%	(i)
漢中勉縣堯柏水泥有限公司 Hanzhong Mianxian Yaobai Cement Co., Ltd. * ("Mianxian")	Shaanxi	**15%**	15%	(i)

9. **INCOME TAX EXPENSE** — *Continued*

Notes: — Continued

(b) — *Continued*

Entities	Place of establishment	Tax rate for the year ended 31 December **2020**	2019	Tax benefit
漢中西鄉堯柏水泥有限公司 Hanzhong Xixiang Yaobai Cement Co., Ltd. * ("Xixiang")	Shaanxi	**15%**	15%	(i)
伊犁堯柏水泥有限公司 Yili Yaobai Cement Co., Ltd. * ("Yili")	Xinjiang	**15%**	15%	(i)
銅川藥王山生態水泥有限公司 Tongchuan Yaowangshan Ecological Cement Co., Ltd. * ("Yaowangshan")	Shaanxi	**15%**	25%	(i)
陜西新意達建材產業發展有限公司 Shaanxi Xinyida Building Materials Industry Development Co., Ltd. * ("Xinyida Jiancai")	Shaanxi	**15%**	25%	(i)
陜西新意達恒眾混凝土有限公司 Shaanxi Xinyida Hengzhong Concrete Co., Ltd. * ("Xinyida Hengzhong")	Shaanxi	**15%**	25%	(i)
銅川堯柏節能環保建材有限公司 Tongchuan Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd. *	Shaanxi	**15%**	20%	(i)
韓城市堯柏節能環保建材有限公司 Hancheng Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd. *	Shaanxi	**15%**	20%	(i)
安康堯柏節能環保建材有限公司 Ankang Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd. *	Shaanxi	**15%**	(vi)	(i)
陜西堯柏新材料科技有限公司 Shaanxi Yaobai New Material Technology Co., Ltd. * ("Xincai")	Shaanxi	**15%**	25%	(i)
銅川中港智慧物流有限公司 Tongchuan Zhonggang Intelligent Logistics Co., Ltd * ("Tongchuan Zhonggang Logistics")	Shaanxi	**15%**	(vi)	(i)

9. INCOME TAX EXPENSE — *Continued*

Notes: — Continued

(b) — *Continued*

Entities	Place of establishment	Tax rate for the year ended 31 December 2020	2019	Tax benefit
光信（伊犁）融資租賃有限公司 Guangxin (Yili) Financial Leasing Co., Ltd. * ("Guangxin Yili")	Xinjiang	**0%**	0%	(ii)
陝西柏源盛通人力資源有限公司 Baiyuan Shengtong Human Resources Co., Ltd. *	Shaanxi	**20%**	20%	(iii)
漢中堯柏節能環保建材有限公司 Hanzhong Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd. *	Shaanxi	**20%**	20%	(iii)
渭南華源碩混凝土有限公司 Weinan Huayuanshuo Concrete Co., Ltd. *	Shaanxi	**20%**	20%	(iii)
陝西堯柏節能環保建材有限公司 Shaanxi Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd. *	Shaanxi	**20%**	20%	(iii)
銅川柏雲智能數據技術有限公司 Tongchuan Baiyun Intelligent Data Technology Co., Ltd. *	Shaanxi	**20%**	(vi)	(iii)
陝西柏安外加劑有限公司 Shaanxi Baian Admixture Co., Ltd. *	Shaanxi	**25%**	20%	(vii)
漢中堯柏磊金節能環保建材有限公司 Hanzhong Yaobai Leijin Energy Conservation and Environmental Protection Building Materials Co., Ltd. *	Shaanxi	**25%**	20%	(vii)
西安新柏商業運營管理有限公司曲江新區分公司 Xinbai Commercial Operation Management Co., Ltd Qujiang Branch Office. *	Shaanxi	**25%**	20%	(vii)
西安新柏騰鴻旅遊有限公司 Xinbai Tenghong Travel Co., Ltd. *	Shaanxi	**25%**	20%	(vii)
墨玉堯柏建材有限公司 Moyu Yaobai Building Materials Co., Ltd. * ("Moyu Jiancai")	Xinjiang	**0%**	20%	(iv)

9. INCOME TAX EXPENSE — *Continued*

Notes: — Continued

(b) — *Continued*

Entities	Place of establishment	Tax rate for the year ended 31 December 2020	2019	Tax benefit
和田堯柏建材有限公司 Hetian Yaobai Building Materials Co., Ltd. * ("Hetian Jiancai")	Xinjiang	**0%**	(vi)	(iv)
陝西豐盛德遠實業有限公司 Shaanxi Fengshengdeyuan Industrial Co., Ltd. * ("Shaanxi Fengsheng")	Shaanxi	**15%**	15%	(v)
西安柏雲智慧資料技術有限公司 Baiyun Intelligent Data Technology Co., Ltd. * ("Baiyun")	Shaanxi	**15%**	15%	(v)
商洛堯柏秀山水泥有限公司 Shangluo Yaobai Xiushan Cement Co., Ltd. * ("Xiushan")	Shaanxi	**15%**	25%	(v)

(i) Concession rate of 15% is granted by the local tax authorities in western region expiring in 2030. According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. During the years ended 31 December 2019 and 2020, the aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business for the years ended 31 December 2019 and 2020 accounted for more than 70% of their total revenue in these years. Therefore these entities enjoy the preferential EIT rate of 15%.

In addition, according to the Notice of the Continuation of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the Ministry of Finance, State Administration of Taxation and National Development and Reform Commission No. 23 [2020]) issued on 23 April 2020, companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% from 1 January 2021 to 31 December 2030 if the operating revenue of the encouraged business in a year accounted for more than 60% of the total income in that year. Accordingly, the Group adjusted the applicable tax rate for its deferred tax assets and liabilities as at 31 December 2020.

9. INCOME TAX EXPENSE — *Continued*

Notes: — Continued

(b) — *Continued*

(ii) Five-year tax holidays with 0% tax rate starting from year 2018.

(iii) Concession rate of 20% were granted to the small and micro enterprises. Apart from the concessional tax rate, additional tax benefits were granted to these entities for the first RMB3,000,000 taxable income as below:

Taxable income	Tax reduction
Below RMB1,000,000	75% reduction on income tax expense
Between RMB1,000,000 to RMB3,000,000	50% reduction on income tax expense

(iv) Tax incentive of "兩免三減半" was granted to these subsidiaries starting from 2020.

(v) Three-year tax holidays with 15% tax rate were granted to high-tech enterprises from 2020.

(vi) Subsidiaries were established in 2020.

(vii) These subsidiaries enjoyed the tax benefits as disclosed in (iii) above during the year ended 31 December 2019 but are no long entitled to such benefits in 2020 and is hence taxed at 25% during the year ended 31 December 2020.

c. 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 the PRC.

d. Withholding tax is imposed on dividends declared to foreign investors in respect of profit earned by PRC subsidiaries from 1 January 2008 onward at a tax rate of 5% under the PRC Enterprise Income Tax Law.

* *The English name is for identification purpose*

10. 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:

	2020	2019
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,560,480**	1,801,281

Number of shares	**2020**	2019
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,437,167**	5,435,133
Effect of dilutive potential ordinary shares from share options issued by the Company	**8,314**	5,595
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,445,481**	5,440,728

The computation of diluted earnings per share in 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 years.

11. LOAN RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Loans collateralised by property, plant and equipment *(Note a)*	**1,111,189**	1,157,376
Entrusted loan *(Note b)*	**200,000**	200,000
Loans collateralised by receivables *(Note b)*	**473,800**	383,800
Small loans *(Note c)*	**65,374**	63,846
	1,850,363	1,805,022
Less: Allowance for credit losses	**(111,317)**	(25,396)
	1,739,046	1,711,196
Analysed as:		
Current	**1,214,955**	1,055,444
Non-current	**524,091**	724,182
	1,739,046	1,779,626

11. **LOAN RECEIVABLES** — *Continued*

Notes:

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

(i) The third parties transferred the ownership titles of their 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 are with fixed interest rates at the contract dates over the contract terms. The interests are receivable periodically based on contractual terms. All principals 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:

	2020 ***RMB'000***	2019 *RMB'000*
Within one year	**1,214,955**	1,055,444
In more than one year but not more than two years	**524,091**	724,182
	1,739,046	1,779,626

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

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

Included in the carrying amount of loans receivables as at 31 December 2020 is accumulated impairment losses of RMB111,317,000 (2019: RMB25,396,000).

As at 31 December 2020, carrying amount of loan receivables of RMB1,023,325,000 (2019: RMB36,192,000) were past due.

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**778,993**	461,254
Trade receivables backed by bills	**539,557**	189,676
	1,318,550	650,930
Less: Allowance for credit losses	**(62,276)**	(21,106)
	1,256,274	629,824
Other receivables *(Note a)*	**177,713**	172,131
Less: Allowance for credit losses	**(4,409)**	(3,095)
	173,304	169,036
VAT recoverable	**231,275**	101,680
VAT refund receivable	**20,841**	26,119
Amount due from a non-controlling shareholder of a subsidiary *(Note b)*	**–**	6,000
Dividend receivable from associate	**12,000**	–
Prepayments to suppliers	**78,064**	57,107
	1,771,758	989,766
Less: Non-current portion of other deposits (included in "Other receivables" above)	**(23,123)**	(31,241)
	1,748,635	958,525

Notes:

(a) Included in other receivables represent amounts of RMB108,594,000 (2019: RMB106,414,000) advanced to third parties.

On 20 September 2019, pursuant to a cooperation agreement entered into among an indirect wholly-owned subsidiary of the Company and the other three independent parties, a joint venture (the "Joint Venture") would be established for joint investment and construction of a cement production line in Mozambique in which the Group has an equity interest of 60% in the Joint Venture. Additionally, the Company will provide a shareholder's loan to the Joint Venture of US$50,000,000 (equivalent to RMB348,810,000) and it shall be provided in batches as and when needed by the Joint Venture to fund the construction work of the cement production line and the shareholder's loan is non-interest bearing. As at 31 December 2019, the Joint Venture had yet to establish (subsequently established and became the Group's non-wholly owned subsidiary during the year ended 31 December 2020) and in order to speed up the completion of the remaining construction work of the cement production line, the Group advanced RMB59,254,000 to one of the joint venture partners who owned the cement production line. The profits of the Joint Venture will be used to repay the advances owing to the Group until it is paid off in full. During the year ended 31 December 2020, the joint venture partner repaid RMB45,108,000 and the remaining balance is expected to be settled in 2021.

The remaining balances as at 31 December 2020 and 2019 represent the advances to other third parties which were non-interest bearing and repayable on demand.

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

Notes: — Continued

(b) The amount due from a non-controlling shareholder of a subsidiary as of 31 December 2019 represents advance to the non-controlling shareholder of a subsidiary and the amount of which has been recovered by offsetting the future dividend payable to non-controlling shareholder of the subsidiary.

As at 1 January 2019, trade receivables from contracts with customers amounted to RMB181,753,000.

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.

	2020	2019
	RMB'000	*RMB'000*
0 to 90 days	**293,632**	196,954
91 to 180 days	**193,677**	75,155
181 to 360 days	**182,348**	164,779
361 to 720 days	**95,224**	15,931
Over 720 days	**14,112**	8,435
	778,993	461,254

As at 31 December 2020, total bills received amounting to RMB493,764,000 (2019: RMB31,191,000) are held by the Group, which were further endorsed by the Group. As the Group has not transferred substantially all the risks and rewards relating to these receivables, it continues to recognise their full carrying amounts and the corresponding trade payables.

The Group allows a credit period of 90 to 180 days to its trade customers. Before accepting any new customer, the Group uses a credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB425,034,000 (2019: RMB243,867,000) which are past due as at the reporting date. Out of the past due balances, RMB235,188,000 (2019: RMB169,605,000) has been past due longer than 90 days and is not considered as in default taking into account these debtors' high credit ranking attributable under the credit scoring system used by the Group. The Group does not hold any collateral over these balances.

13. BORROWINGS

	2020	2019
	RMB'000	*RMB'000*
Secured bank loans	**2,300,959**	1,316,000
Unsecured — syndicated loan *(Note)*	**178,483**	999,589
	2,479,442	2,315,589
Carrying amount repayable as follows:		
— Within one year	**1,878,894**	1,126,000
— More than one year but not more than two years	**493,483**	472,159
— More than two years but not more than five years	**–**	717,430
— Within a period of more than five years	**107,065**	–
	2,479,442	2,315,589
Less: Amount due for settlement within one year and shown under current liabilities	**(1,878,894)**	(1,126,000)
Amounts shown under non-current liabilities	**600,548**	1,189,589

Note: On 5 September 2019, the Company entered into term and revolving credit facilities agreement with a group of financial institutions for a loan of US$150,000,000 (equivalent to RMB1,062,690,000) for a period of 3 years ("Syndicated Loan"). The Syndicated Loan carried variable interest rate of 3% plus LIBOR with an effective interest rate of 6.83% (2019: 6.86%) per annum as at year end date after adjusting for transaction cost of US$6,708,000 (equivalent to RMB47,521,000). During the year ended 31 December 2020, the Group repaid US$120,000,000 (equivalent to RMB800,436,000).

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

	2020	2019
	RMB'000	*RMB'000*
Fixed rate borrowings		
— expiring within one year	**1,583,894**	1,116,000
— Within a period of more than five years	**107,065**	–
Variable rate borrowings		
— expiring within one year	**295,000**	10,000
— expiring more than one year but not more than two years	**493,483**	472,159
— expiring more than two years but not more than five years	**–**	717,430
	2,479,442	2,315,589

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

	2020	2019
Effective interest rate per annum:		
Fixed rate borrowings	**0.70% to 8.00%**	2.90% to 6.12%
Variable rate borrowings	**4.65% to 6.83%**	5.46% to 7.12%

13. BORROWINGS — *Continued*

Included in borrowing represents carrying amount of RMB960,000,000 (2019: RMB165,000,000) jointly guaranteed by Mr. Zhang Jimin, the executive director and his wife.

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

14. TRADE AND OTHER PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**1,968,450**	992,162
Bill payables	**121,500**	256,218
	2,089,950	1,248,380
Payables for constructions and equipment purchase	**81,044**	10,490
Other tax liabilities	**98,238**	86,321
Payroll and welfare payable	**101,197**	73,617
Interest payable	**610**	12,382
Other payables *(Note)*	**255,010**	246,182
Amounts due to non-controlling shareholders of subsidiaries	**9,060**	–
Deposits payables	**86,448**	47,194
Deferred income — current portion	**12,961**	10,978
	2,734,518	1,735,544

Note: According to the Collection and Management of the Revenue from the Transfer of Mining Rights in Shaanxi Province "陝西省礦業權出讓收益徵收管理實法", an entity is required to pay a premium when acquiring the relevant exploration right or mining right. Included in other payable as of 31 December 2020 represents an amount of RMB137,854,000 (2019: RMB137,854,000) payable to the Department of Land and Resource of Fuping County which is expected to be settled in 2021.

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.

	2020	2019
	RMB'000	*RMB'000*
0 to 90 days	**1,061,310**	697,675
91 to 180 days	**407,598**	150,404
181 to 360 days	**434,008**	120,106
361 to 720 days	**50,217**	14,908
Over 720 days	**15,317**	9,069
	1,968,450	992,162

15. MEDIUM-TERM NOTES

On 30 April 2019, Yaobai Special Cement Group Co., Ltd. ("Shaanxi Yaobai"), a subsidiary of the Company, 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 the interest rate of 7.50% per annum. First Tranche of the Medium-term Note is unsecured with maturity of three years and carries effective interest rate of approximately 7.58% per annum after adjusting for transaction costs of RMB4,500,000.

On 2 September 2020, the Group issued the second tranche of the medium-term note with principal amount of RMB700,000,000 ("Second Tranche of the Medium-term Note") which carry interest of 7% per annum with maturity date of three years from the date of 4 September 2020. The Second Tranche of the Medium-term Note carries effective interest rate of approximately 7.11% per annum after adjustment for transaction costs of RMB6,300,000.

	2020	2019
	RMB'000	*RMB'000*
Carrying amount at 1 January	**521,098**	–
Proceeds from issuance	**700,000**	500,000
Interest expenses	**55,544**	25,598
Interest paid	**(37,500)**	–
Transaction cost	**(6,300)**	(4,500)
Carrying amount at 31 December	**1,232,842**	521,098

16. ASSETS PLEDGED FOR SECURITY

The carrying amounts of the assets at the end of each reporting period pledged to secure trade facilities and bank loans are analysed as follows:

	2020	2019
	RMB'000	*RMB'000*
Property, plant and equipment	**2,815,916**	2,734,801
Trade receivables	**21,600**	212,744
Right-of-use assets	**88,202**	140,813
Pledged bank deposits	**565,434**	113,924
Structure deposits	**–**	90,000
	3,491,152	3,292,282

During the year ended 31 December 2019, the Group pledged its equity interests in three subsidiaries, Mianxian, Xiushan Yaobai and Guizhou Linshan, to banks to secure banking facilities totalling RMB400,000,000 for a period of one year and a borrowing of RMB400,000,000 was incepted. The Group fully repaid the borrowings to the bank during the year ended 31 December 2020 and the pledge has been released accordingly.

* *The English name is for identification purpose*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group has faced a stable operating environment in the year ended 31 December 2020. Sales volume in Shaanxi Province remained stable even under the continuous low demand in the Xi'an Metropolitan Area and Central Shaanxi region through the continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy. Sales volume in Xinjiang and Guizhou Provinces recorded an increase during the year. The sales volume of cement and clinker of the Group for the year ended 31 December 2020 was 19.9 million tons, representing a 3.1% increase from the 19.3 million tons recorded in 2019.

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 average selling prices ("ASPs") premiums and more stable margins. ASPs in Central Shaanxi have been increasing in recent years even under the continuing low demand scenario through the continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy. However, due to the impact of the coronavirus disease 2019 ("COVID-19") outbreak, the ASPs in Southern Shaanxi, Central Shaanxi, Guizhou and Xinjiang decreased. Fortunately, the Group has continued to implement efficiency enhancements and cost-cutting measures and has been able to maintain a decreasing cost in 2020. Taken together, these have contributed to the Group's stable margins in 2020 even under the impact of COVID-19 outbreak.

The Group has maintained healthy cash flows, with EBITDA of RMB2,996.8 million for the year ended 31 December 2020, which is slightly lower than that of RMB3,098.0 million recorded in 2019.

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 2020.

Due to the impact of the COVID-19 outbreak, a key feature of the Group's operational performance in 2020 has been the reversal of the difference 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 an increasing Fixed Asset Investment ("FAI") and Real Estate Development Investment ("RDI") growth rates in 2020. During the year, the FAI and the RDI increased by 4.1% and 12.8% as compared with 2019. 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 increasing FAI and RDI growth rates have led to a stable demand for cement products from all producers in the Shaanxi Province. On the other hand, intense competition from the supply side is still a strong factor affecting the ASPs in Shaanxi Province, which continued to be balanced through the continuation of 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 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 remained reasonable and stable, taking into account the impact of the COVID-19 outbreak, during 2020. The supply side has remained rational, as a result of little new capacity and effective closure of obsolete and small-scale clinker kiln and cement grinding capacity over recent years, as well as long transportation distances from other regions. The Group has effectively maintained strong market leadership in this area, promoting a disciplined supply side.

During the year, 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. The Lushi to Luanchuan Expressway and the Ningshan to Shiquan Expressway, have been, amongst others, particularly important demand drivers; and the constructions of the Hanzhong to Bazhong to Nanchong Intercity Railway, the Wuxi to Zhenping Expressway, the Xixia to Xichuan Expressway, the Ankang to Langao Expressway, the Micangshan Avenue Project, the Chengkou Transportation Projects, the Yuehe Hydropower Station, the Xunyang Hydropower Station and the Tuxikou Reservoir 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 slightly by approximately 4.5% to approximately 7.70 million tons in 2020 (2019: 8.06 million tons), there have also been a decrease in ASPs mainly due to the impact of the COVID-19 outbreak. During the year, the Group has recorded cement ASPs in Southern Shaanxi of approximately RMB291 per ton (2019: RMB333 per ton) (excluding VAT), which is slightly lower than the Group's overall ASP of RMB301 per ton (2019: RMB333 per ton), with capacity utilization rate at approximately 79% (2019: 83%).

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 2020.

During the year, 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/Municipal Projects, the Dongzhuang Reservoir, the Yanchang to Huanglong Expressway, the Pucheng to Huanglong Expressway, the Hancheng to Huanglong Expressway, the Heyang to Tongchuan Expressway, the Chengcheng to Weizhuang Expressway and the Xianyang Airport. The largest project, Xixian Expressway-Southern Section consumed over 0.38 million tons of cement in 2020.

Sales volumes in Central Shaanxi have increased by approximately 11.3% to approximately 8.55 million tons in 2020 (2019: 7.68 million tons) and have been accompanied by decreased ASPs. During the year, the Group has recorded a decrease of approximately 7.8% in cement ASPs in Central Shaanxi to approximately RMB294 per ton (2019: RMB319 per ton) (excluding VAT), which is slightly lower than the Group's overall ASP of RMB301 per ton (2019: RMB333 per ton), with capacity utilization rate at approximately 61% (2019: 57%).

Xinjiang & Guizhou Provinces

Operations at the Group's plant in Xinjiang Province is stable in 2020. Sales volume in Xinjiang have increased by approximately 14.0% to approximately 2.04 million tons (2019: 1.79 million tons). During the year, ASPs in Xinjiang have decreased due to the impact of the COVID-19 outbreak, the Group has recorded cement ASPs at approximately RMB406 per ton (2019: RMB440 per ton) (excluding VAT), with capacity utilization rate at approximately 50% (2019: 44%), adjusted with the new capacity of 2 million tons of the Moyu Plant commissioned in December 2020.

In Guizhou Province, the Group's plant contributed approximately 1.33 million tons of cement as compared to the sales volume of 1.29 million tons in 2019, which represented an increase of approximately 3.1%. During the year, the Group has recorded cement ASP in Guizhou of approximately RMB240 per ton (2019: RMB263 per ton) (excluding VAT), with capacity utilization rate at approximately 74% (2019: 72%). 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 were 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

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 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 to some of its cement products, and regularly recycles 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 31 December 2020, these systems are in operation at 14 out of 22 production lines. These systems reduce the Group's production lines' electricity consumption by approximately 30% and reduce carbon dioxide emissions by approximately 22,000 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 nitrogen 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. Modifications of production lines to meet particulate matter ("PM") emission standards have been completed, resulting in all of the Group's plants in China 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.

During the year, the Group has increased the investment in environmental protection, carried out ultra-low emission remodeling at its environmental treatment facilities, established an early warning platform for pollutants exceeding standards, and strictly controlled the concentration of pollutant emissions, so as to achieve the management goal of limiting its pollutant emissions concentration well below the national emission standard. In addition, the Group also regularly invites external online monitoring experts to conduct system checks on the Company's online monitoring equipment, and conduct comprehensive analyses of the equipment operation principle, monitoring principle and production system operation, so as to switch from equipment troubleshooting to fault prevention, thus reduce the equipment failure rate, improve the accuracy of online monitoring equipment measurements, and ensure that the real-time monitoring and control of pollutants meets the national emission standards. Moreover, all plants in China were already refurbished as garden like plants in the preliminary stage and the Group will further develop the garden like plants to meet the environmental policy requirements. Green limestone mines projects, including soil reclamation and mine re-greening, have been 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.

As of the date of this announcement, Yaobai Environmental is 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 include: Phase I & Phase II of the Waste Sludge Treatment Facility at the Group's Lantian Plant ("Lantian Waste Sludge Treatment Facility"), which have been in full operations since 2015; the Municipal Waste Treatment Facility at the Group's Fuping Plant ("Fuping Waste Treatment Facility"), which has been operating since March 2016; and the Solid Waste Treatment Facility at the Group's Mianxian Plant ("Mianxian Waste Treatment Facility") which has been in full operations since October 2017. In 2021, 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.

Financial leasing business

In 2017, Guangxin International Financial Leasing Co., Ltd ("Guangxin International"), a wholly-owned subsidiary of the Group, was approved by the Ministry of Commerce of the People's Republic of China (the "PRC") as a licensed lessor. During 2017, Guangxin International commenced a new financial leasing business under the support of the national policies of the PRC government, in order to ride on the rapid development opportunities present in the financial leasing industry.

Guangxin International entered into certain financial leasing arrangements under which Guangxin International received ownership titles of certain assets from third parties and then leased those assets back to such third parties. The ownership title of those assets would be returned to the third parties upon discharge of all their obligations under the financial leasing arrangements. Guangxin International also entered into certain entrusted loan and loans collateralised by receivables with third parties with fixed interest rates over the term of the contract. The aforementioned financial leasing arrangements were accounted as loan receivables.

In 2020, the Group recorded loan receivables of approximately RMB1,739.0 million (2019: RMB1,779.6 million) arising from the abovementioned financial leasing business and interest income derived from loan receivables amounted to approximately RMB184.0 million for the year ended 31 December 2020 (2019: RMB213.0 million). The Group intends to continue the operations of the financial leasing business; however, the Group expects the capital deployed as well as the size of such business will be gradually decreased.

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 year, charitable donations made by the Group amounted to approximately RMB24.7 million, including donations made in sponsoring deprived students for college education as well as supporting education, sports and cultural events.

PROSPECTS

In 2021, the PRC government will closely follow the goal of ensuring a good start of the 14th Five-Year Plan, and coordinate the normalization of epidemic prevention and control as well as economic and social development work. Under the premise of normalization of epidemic prevention and control, the PRC government will adhere to the keynote of seeking progress in a stable manner, adhere to the new development concept, and innovate to boost the quality and efficiency of various industries. The PRC government will adhere to the supply-side structural reform as the backbone, while focusing on the demand-side reform, in order to make efforts on both the supply and demand side, so as to grasp the strategy of expansion in domestic demand, to form a strong domestic market and to broaden the space for economic development. Moreover, the PRC government will accelerate the construction of the domestic economic cycle as its foundation to push forward the reform and opening up policy, so as to form a new development layout with domestic and international double-loop mutual advancement, and strive to carry out the "14th Five-Year Plan" with a good start. Fiscal policy will be more proactive and focus on concrete effects, while the monetary policy will be more flexible and appropriate and precisely directed. The performance of infrastructure investment is expected to continue to improve, while property investment is expected to remain stable, maintaining the continuous solid support in the demand of cement. Furthermore, in order to preserve the blue sky, the environmental management of atmospheric pollution will not be relaxed, and the local environmental control will be more stringent, and the continuous effect of policies such as peak-shifting production halts and mine comprehensive regulation are in favor of balancing the supply and demand of the cement industry. The cement industry will maintain a stable development trend during the "14th Five-Year Plan" period, the industry in general will further shift towards intelligent, information-based and green high-quality development. The competition within the industry will mainly be reflected in the energy consumption and costs advantages. Against the above background, it is expected that, in relation to cement industry, the overall market demand will slightly increase in 2021, and the market prices will remain stable.

In 2021, the Group will persist on the requirements of high-quality development. In terms of overseas development, the Group will actively and steadily promote the international development strategy, and continuously improve the quality of the operation of commissioned projects and strengthen their internal management. In terms of domestic development, the Group will focus on the cement business, seize appropriate development opportunities and continuously improve the market layout. At the same time, the Group will accelerate the extension of the upstream and downstream industrial chains, push forward the implementation of aggregate projects, steadily expand the concrete business and continuously expand into new business areas. In terms of operation and management, the Group will pay close attention to changes in the macro-economy at home and abroad, make regular efforts in epidemic prevention and control, and endeavor to further improve operation and management. The Group will conduct in-depth study of market supply and demand, coordinate and optimize resource allocation, rationally grasp the rhythm of production and sales, and strengthen its positions in end markets. The Group will also continue to promote traceability and source control, broaden the channels of supply of long-term resources, and lower procurement costs, as well as implement the national ecological civilization policies, and continuously carry out energy-saving and environmental protection technical reform, accelerate the transformation of innovative achievements, and push to launch the technological innovation projects. The Group will strive to carry out information construction, to promote the construction and application of intelligent plants, and continuously enhance the core competitiveness of the enterprise, as well as promote organizational structure optimization and talent echelon formation, to stimulate the innovation and creativity of talents, and encourage the high quality development of the Group.

Operations — Shaanxi

Under the current macroeconomic conditions in the PRC and Shaanxi Province, the Group does not expect to see a significant increase in demand in 2021. Infrastructure demand is expected to grow reasonably and there are a number of major new projects that have commenced or will commence in 2021, but significant growth is not expected. Both urban property demand and rural demand is expected to remain stable with continued urbanization trends supporting rural growth rates.

With regards to the supply side, the Group expects stable prices in 2021, as a result of the limited supply under the increasingly stringent environmental policies imposed by the government.

In Central Shaanxi, the continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy are expected to remain as an important feature, especially during low season periods, and this can support ASPs. There are a number of infrastructure projects that have recently started or are expected to start construction in 2021, including the constructions of several Central Shaanxi Intercity Railways, the Meixian to Fengxiang Expressway — Central Circuit, the Expansion of the Beijing to Kunming Expressway, the Yan'an East Ring Expressway, the Guxian Reservoir and the Shanxi Yellow River Bridge.

In Southern Shaanxi, the Group expects to maintain its relatively strong 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 2021, including the constructions of the High Speed Railways from Xi'an to Ankang and from Xi'an to Wuhan, the Kangxian to Lueyang Expressway, the Cangxi to Bazhong Expressway, the Danfeng to Ningshan Expressway, the Wuxi to Yunyang to Kaizhou Expressway, the Luoyang to Lushi Expressway, the Chengkou to Kaizhou Expressway and the Hengkou Reservoir. In addition, the Group expects to see substantial demand from a number of new railways and expressways in 2022 and 2023, including the constructions of, the High Speed Railway from Lanzhou to Hanzhong to Shiyan and the Yangxian to Xixiang Expressway.

Operations — Xinjiang & Guizhou

Operations in Xinjiang and Guizhou are likely to remain subdued in 2021. However, with the elimination of the use of low grade (32.5) cement since May 2017 in Xinjiang, which led to the closure of inefficient facilities with small production capacity, the Group can see a more stable market of the cement industry with increased ASP since then. In Southern Xinjiang, including the newly commissioned Moyu Plant, the Group has three plants and a total of 4.6 million tons of capacity currently. There are a number of on-going infrastructure projects, which are expected to contribute to support the demand in 2021 and beyond. These include the constructions of the Minfeng to Heishihu Expressway, the Minfeng to Ruoqiang Expressway, the Minfeng to Luopu Expressway and the Hetian to Ruoqiang Railway. In Northern Xinjiang, the 1.5 million-ton Yili Plant with production volumes remained low and decreasing pricing in 2020 due to the impact of the COVID-19 outbreak. The Group expects to see higher volume sold from the Yili Plant and a stable pricing in 2021. 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 volumes than other locations in Guizhou in 2021 and beyond.

Capacity Development

The Moyu Plant is a capacity replacement project for the Group to actively respond to the National 13th Five-Year Plan, in order to leverage on the opportunity of the "Belt and Road" development and to broaden its strategic layout in the west. The production line with a daily production capacity of 4,500 tons of clinker cement in Moyu County, Hotan Region, Xinjiang Province is the most intelligent and relatively low cost production line among the Group's completed production lines. The Moyu Plant was commissioned in December 2020.

The Mozambique plant was built by the Group in Mozambique, a "window" country in South Africa, in close compliance with the "Belt and Road" development policy of the PRC and to seize the opportunity brought by the "Go Global" policy to maximize the cement production capacity. The Mozambique plant is a new dry process cement clinker production line with a daily capacity of 5,000 tons. At present, the Mozambique plant is the Group's most intelligent cement production line in Africa, with the most advanced production equipment and the best technique indicators. It is also a key project to implement the Group's strategy to "open up Africa and develop into the world" to accelerate its deployment in the continent. The Mozambique plant was commissioned in December 2020.

As a key capacity replacement project in Shaanxi Province, the Tongchuan cement clinker production line with 10,000 tons daily capacity is more than halfway through its construction, and is expected to be ready for trial production in the third quarter of 2021. The Tongchuan cement clinker production line with 10,000 tons daily capacity is the world's most advanced second generation new dry process cement production line, with site area of 828 mu. The production line has abandoned the traditional backward production capacity and technology with high energy consumption, high emission and high pollution, and highlighted its three major advantages of intelligence, environment-friendly and cost-effective. The production line will be a digital plant with unmanned workshop and ultra-low emissions, which will meet the Class A national energy efficiency and emission standards; it will utilize waste heat to generate electricity and recycle waste and hazardous waste, with global leading electricity and energy consumption standards.

The Group expects to seize the development opportunities through the abovementioned production capacity development, and continuously improve the market layout to realize the Group's target of high-quality development.

Costs Control

The Group will continue to implement a number of cost-cutting measures, which are expected to benefit the control of cost of sales and selling, general and administrative expenses in 2021. 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 upgrades. The Group plans to further implement measures to strengthen environmental management and monitoring during 2021 and will continue to implement the "Sustainable Safety Development Project". Moreover, the Group will continue to implement the green mine project to all our limestone mines to reduce the pollution to the soil and mines during mining in order to comply with the PRC 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.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by 1.6% from RMB7,247.4 million for the year ended 31 December 2019 to RMB7,131.1 million for the year ended 31 December 2020. Cement sales volume increased by 4.3%, from approximately 18.8 million tons to approximately 19.6 million tons during the year. Including clinker sales, total sales volume for the year ended 31 December 2020 amounted to approximately 19.9 million tons, compared to the 19.3 million tons sold in 2019.

Overall cement prices were lower than those in 2019, and this has resulted in lower revenue. Cement ASPs for the year ended 31 December 2020 were RMB301 per ton as compared with RMB333 per ton in 2019. The reasons for these fluctuations in ASPs are discussed in the "Operating Environment" section above.

Other than the above decrease in cement sales revenue, the revenues arising from the sales of aggregates and commercial concrete increased by 71.1% and 46.0% to RMB128.7 million and RMB720.0 million, for the year ended 31 December 2020, respectively, which is primarily due to the increase in the production capacities and sales volumes.

Cost of Sales

Cost of sales decreased by 0.4% from RMB4,806.9 million for the year ended 31 December 2019 to RMB4,788.6 million for the year ended 31 December 2020.

Coal costs were decreasing in the PRC during the year as a result of the impact of the COVID-19 outbreak. The average cost per ton of coal decreased by approximately 7.4% to approximately RMB486 per ton from approximately RMB525 per ton in 2019. In addition to the increase in efficiency gains, this has resulted in a total cost decrease of approximately RMB5.8 per ton of total cement produced, with total coal costs decreased by approximately 5.9% as compared with that of 2019.

Increase in raw materials costs were lower than expected as a result of the net effect of the increase in transportation costs and suppliers prices under the more stringent environmental policy implemented and the increase in efficiency gains during the year. The average cost per ton of limestone increased by approximately 5.4% to approximately RMB17.5 per ton from approximately RMB16.6 per ton in 2019. As a result of the effect of the increase in efficiency gains, the cost of total cement produced decreased by approximately RMB1.3 per ton, with total raw materials costs increased only by approximately 1.9% as compared with that 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 RMB2.2 per ton of total cement produced, with total electricity costs decreased by approximately 2.7% as compared with that 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 RMB1.9 per ton of total cement produced, with total staff costs decreased by approximately 9.0% as compared with that of 2019.

As to other items comprising the cost of sales, 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. Such expenses 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 year. This has mainly resulted in a cost decrease of approximately RMB1.5 per ton of total cement produced, with other costs in total decreased by approximately 4.3% as compared with that of 2019.

Moreover, as mentioned in the revenue analysis above, as a result of the increase in the production capacities and sales volumes, the costs arising from the production of aggregates and commercial concrete also increased by 85.9% and 44.0% to RMB69.9 million and RMB572.7 million, for the year ended 31 December 2020, respectively.

Gross Profit and Gross Profit Margin

Gross profit decreased by RMB98.0 million, or 4.0%, from RMB2,440.5 million for the year ended 31 December 2019 to RMB2,342.5 million for the year ended 31 December 2020. The decrease in gross profit was mainly due to the decrease in ASPs as described above. Gross profit margins therefore slightly decreased from 33.7% for the year ended 31 December 2019 to 32.9% for the year ended 31 December 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 0.8% from RMB287.8 million for the year ended 31 December 2019 to RMB285.5 million for the year ended 31 December 2020. The ratio of VAT rebates over revenue was 3.5% for the year ended 31 December 2020 (2019: 3.7%). 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 during the year.

Other Expenses

Other expenses primarily included the donations and legal and professional fee. The amount increased by RMB52.1 million from RMB25.7 million for the year ended 31 December 2019 to RMB77.8 million for the year ended 31 December 2020. The increase was mainly due to the increase in the legal and professional fee related to the acquisition and expansion activities of RMB53.1 million for the year ended 31 December 2020 (2019: RMB22.0 million) and the increase in the donations to RMB24.7 million for the year ended 31 December 2020 (2019: RMB3.7 million) during the year. Among the donations, RMB20.0 million was a one-off donation regarding the establishment of a school for deprived students during the year.

Other Gains and Losses, net

Other losses increased by RMB84.7 million from RMB68.0 million for the year ended 31 December 2019 to RMB152.7 million for the year ended 31 December of 2020. The increase was mainly due to the net effect of the following factors. Firstly, there were net foreign exchange losses mainly relating to the translation of the Group's amount due to the non-controlling shareholder of a subsidiary from USD to MZN and the translation of the intercompany balances between the subsidiaries with different functional currencies of RMB149.7 million recorded for the year ended 31 December 2020 (2019: RMB21.5 million was mainly related to the translation of senior notes from USD to RMB). Secondly, the loss on disposal of property, plant and equipment ("PPE") decreased to RMB18.9 million for the year ended 31 December 2020 (2019: RMB37.7 million) as most obsolete PPE were disposed under the technology improvement of PPE to meet the tightened stringent environmental policy requirement in 2019. Thirdly, the fair value gain arising from the disposal of entrusted product purchased in May 2019 of RMB16.0 million was recorded for the year ended 31 December 2020 (2019: Nil). Finally, the loss on partial redemption of Senior Notes of RMB13.4 million was recorded for the year ended 31 December 2019 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 year ended 31 December 2020.

Impairment losses under expected credit loss model, net of reversal

The balance increased by RMB91.9 million from RMB36.5 million for the year ended 31 December 2019 to RMB128.4 million for the year ended 31 December 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 in 2019 while there was no such loss in 2020. Secondly, there were increases in losses on impairment of loan receivables and trade receivables to RMB85.9 million for the year ended 31 December 2020 (2019: RMB5.8 million) and RMB41.2 million for the year ended 31 December 2020 (2019: RMB7.5 million), respectively, as a result of the downturn of the economy under the impact of the COVID-19 outbreak to certain clients.

Interest Income

Interest income decreased by RMB32.4 million from RMB228.2 million for the year ended 31 December 2019 to RMB195.8 million for the year ended 31 December 2020. The decrease was mainly due to the decrease in the interest income arising from the loan receivables business to RMB184.0 million recorded for the year ended 31 December 2020 (2019: RMB213.0 million) as a result of the impact of the downturn of the economy due to COVID-19 outbreak on certain clients.

Finance Costs

Finance costs decreased by RMB21.9 million, or 11.7%, from RMB187.1 million for the year ended 31 December 2019 to RMB165.2 million for the year ended 31 December 2020. The decrease was mainly due to the increase in capitalised interests as a result of the construction of the new plants during the year.

Income Tax Expense

Income tax expenses decreased by RMB129.8 million, from RMB394.3 million for the year ended 31 December 2019 to RMB264.5 million for the year ended 31 December 2020. Current income tax expense net of over provision decreased by RMB141.2 million to RMB255.6 million (2019: RMB408.3 million), whereas deferred tax expenses increased by RMB22.9 million to RMB8.9 million (2019: Deferred tax credit of RMB14.0 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 year.

The detailed income tax expenses for the Group are outlined in Note 9 to the consolidated financial statements above.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company decreased from RMB1,801.3 million for the year ended 31 December 2019 to RMB1,560.5 million for the year ended 31 December 2020. This is primarily due to net effect of the decrease in gross profit as a result of the decrease in ASPs, increases in impairment losses and net foreign exchange losses as well as the decrease in income tax expenses as mentioned above.

Basic earnings per share decreased from RMB33.1 cents for the year ended 31 December 2019 to RMB28.7 cents for the year ended 31 December 2020.

FINANCIAL AND LIQUIDITY POSITION

As at 31 December 2020, the Group's total assets increased by 29.7% to RMB18,906.2 million (2019: RMB14,579.8 million) while total equity increased by 14.1% to RMB10,527.2 million (2019: RMB9,225.7 million).

As at 31 December 2020, the Group had bank balances and cash, restricted/pledged bank deposits as well as structure deposits, amounting to RMB1,475.3 million (2019: RMB1,223.7 million). After deducting total borrowings and medium term notes ("MTN") of RMB3,712.3 million (2019: RMB2,836.7 million), the Group had net debt of RMB2,237.0 million (2019: RMB1,613.0 million). 68.2% (2019: 48.1%) of borrowings are at a fixed interest rate. Moreover, the Group also held loan receivables of RMB1,708.6 million (2019: RMB1,779.6 million) at fixed interest rates. Please refer to Notes 11, 13, 15 and 16 to the consolidated financial statements above for the details of the loan receivables, bank borrowings, MTN and the respective pledge of assets.

As at 31 December 2020, the Group's net gearing ratio, measured as net debt to equity, was 21.2% (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 year, there was no material change in the Group's funding and treasury policy.

CONTINGENT LIABILITIES

As at 31 December 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 year ended 31 December 2020 amounted to RMB2,878.0 million (2019: RMB1,712.2 million). Capital commitments as at 31 December 2020 amounted to RMB1,942.1 million (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 31 December 2020, the Group employed a total of 6,374 (2019: 5,750) full-time employees. Compensation for the employees includes basic wages, variable wages, bonuses and other staff benefits. For the year ended 31 December 2020, employees benefit expenses were RMB624.2 million (2019: RMB591.0 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 ACQUISITIONS AND DISPOSALS

On 31 July 2020, Yaobai Special Cement Group Co., Ltd., an indirect wholly-owned subsidiary of the Company, entered into share purchase agreements to acquire 97.5% equity interest of Kangding Paomashan Cement Ltd. for an aggregate consideration of RMB729.4 million.

For further details in relation to the above acquisition, please also refer to the announcements of the Company dated 31 July 2020 and 25 September 2020.

Save as disclosed above, the Group had no other significant material acquisitions or disposals during the year ended 31 December 2020.

FOREIGN EXCHANGE RISK MANAGEMENT

During the year ended 31 December 2020, the Group's sales, purchases, loans receivables, structured deposits, restricted/pledged deposit, bank balances and cash and bank borrowings were mainly denominated in Renminbi. However, the proceeds raised through the syndicated loan by the Company in September 2019 and the amount due to the non-controlling shareholder of a subsidiary 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 recognized 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, entrusted loan and small 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.

DIVIDEND

At the Board meeting held on 29 March 2021, the Directors proposed to recommend the payment of a final dividend of RMB0.086 per ordinary share for the year ended 31 December 2020. To celebrate the 10th anniversary of the listing of the Company and to reward the shareholders, the Directors also proposed to recommend the payment of a special dividend of RMB0.034 per ordinary share for the year ended 31 December 2020.

The final dividend of RMB0.086 per ordinary share and a special dividend of RMB0.034 per ordinary share are subject to approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 28 May 2021 (Friday), and will be paid to the shareholders whose names appear on the register of members of the Company at the close of business on 7 June 2021 (Monday).

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 28 May 2021 (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 28 May 2021 (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, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 May 2021 (Monday). The register of members of the Company will be closed from 25 May 2021 (Tuesday) to 28 May 2021 (Friday), both days inclusive, during which period no transfer of shares will be registered.

In addition, for the purpose of determining shareholders who qualify for the final dividend and the special dividend, the register of members will be closed from 4 June 2021 (Friday) to 7 June 2021 (Monday), both dates inclusive. In order to qualify for the proposed final dividend and the proposed special dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 3 June 2021 (Thursday). Subject to shareholder's approval of the proposed final dividend and the proposed special dividend at the annual general meeting to be held on 28 May 2021 (Friday), the final dividend and the special dividend will be paid on or around 30 July 2021 (Friday) to shareholders whose names appear on the register of members of the Company at the close of business on 7 June 2021 (Monday).

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.

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 during the year ended 31 December 2020.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by 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 2020.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

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. 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 consolidated financial statements for the year ended 31 December 2020.

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 2020 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 2020 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, 29 March 2021

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.

* *For identification purposes only*