Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement and the listing document referred herein is for informational purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and is not an offer to sell or the solicitation of an offer to buy any securities in the United States or in any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Neither this announcement nor anything herein (including the listing document) forms the basis for any contract or commitment whatsoever. *The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an applicable exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about West China Cement Limited (the "Company") and management, as well as financial statements. No public offer of securities is to be made by the Company in the United States.*

For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

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)

US$600 MILLION 4.95% SENIOR NOTES DUE 2026

(Stock Code: 40756)
(the "Notes")

PUBLICATION OF THE OFFERING MEMORANDUM

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Please refer to the offering memorandum dated 29 June 2021 (the "**Offering Memorandum**") appended herein in relation to the issuance of the Notes. The Offering Memorandum is in English only. No Chinese version of the Offering Memorandum has been published. As disclosed in the Offering Memorandum, the Notes were intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Stock Exchange on that basis. Accordingly, the Company and the Subsidiary Guarantors (each as defined in the Offering Memorandum appended herein) confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Offering Memorandum does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Memorandum must not be regarded as an inducement to subscribe for or purchase any securities of the Company, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Memorandum.

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

Hong Kong, 9 July 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. Tam King Ching, Kenny and Mr. Zhu Dong.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum (the ''offering memorandum'') following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''SECURITIES ACT''), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT (''REGULATION S'')), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

The following offering memorandum is not a prospectus for the purposes of the European Union's Directive 2003/71/EC (and any amendments thereto) as implemented in member states of the European Economic Area (the ''EU Prospectus Directive''). The following offering memorandum has been prepared on the basis that all offers of the securities described herein made to persons in the European Economic Area will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus in connection with offers of securities described herein.

CONFIRMATION AND YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED OFFERING MEMORANDUM, YOU MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED OFFERING MEMORANDUM ON THE BASIS THAT YOU HAVE CONFIRMED TO NOMURA INTERNATIONAL PLC AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED (COLLECTIVELY THE ''INITIAL PURCHASERS'') AND WEST CHINA CEMENT LIMITED (THE ''COMPANY'') THAT YOU (I) ARE OUTSIDE THE UNITED STATES AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED OFFERING MEMORANDUM, YOU WILL BE DOING SO IN AN OFFSHORE TRANSACTION, AS DEFINED IN REGULATION S, IN COMPLIANCE WITH REGULATION S; AND (II) CONSENT TO DELIVERY OF THE ATTACHED OFFERING MEMORANDUM BY ELECTRONIC TRANSMISSION.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (''EEA''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, ''MiFID II''); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the ''Insurance Distribution Directive''), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the ''PRIIPs Regulation'') for offering or selling the securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — The securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (''UK''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (''EUWA''); or (ii) a customer within the meaning of the provisions of the United Kingdom's Financial Services and Markets Act 2000, as amended (''FSMA'') and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the ''UK PRIIPs Regulation'') for offering or selling the securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification — In connection with Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the ''SFA'') and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the ''CMP Regulations 2018''), the Company has determined, and hereby notifies all relevant persons (as defined in section 309a(1) of the SFA), the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of this offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Initial Purchasers or any affiliate of the Initial Purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Initial Purchasers or such affiliate on behalf of the issuer in such jurisdiction. This offering memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Nomura International plc and China International Capital Corporation Hong Kong Securities Limited as the Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners, the Company or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the offering memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Bookrunners.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

西部水泥

West China Cement Limited

(incorporated in Jersey with limited liability with registered number 94796)

US$600,000,000 4.95% SENIOR NOTES DUE 2026

Issue Price per Note: 100%

plus, in each case, accrued interest, if any, from the issue date

The 4.95% Senior Notes due 2026 (the "Notes") will bear interest from July 8, 2021 at 4.95% per annum payable semi-annually in arrears on January 8 and July 8 of each year, beginning January 8, 2022. The Notes will mature on July 8, 2026.

The Notes are unsecured senior obligations of West China Cement Limited (the "Company") guaranteed by WC Cement Limited (British Virgin Islands), Faithful Alliance Limited (Hong Kong) and West International Holding Limited (Hong Kong) (the "Subsidiary Guarantors") (such guarantees provided by the Subsidiary Guarantors, the "Subsidiary Guarantees"). Investors should be aware that the Notes are guaranteed by the Subsidiary Guarantors and thus involve the structure of multiple credit support providers and upper guarantee and that there are various other risks relating to the Note, our Company and the Subsidiary Guarantors, our business and our jurisdiction of operations which investors should familiarize themselves before making an investment in the Notes. See "Risk Factors" beginning on page 13.

We may at our option redeem the Notes, in whole or in part, at any time on or after July 8, 2024, at the redemption prices set forth in this offering memorandum plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time and from time to time prior to July 8, 2024, we may redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of the Company at a redemption price of 104.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, we may redeem the Notes, in whole but not in part, at any time prior to July 8, 2024, at a price equal to 100% of the principal amount of the applicable Notes plus a premium as set forth in this offering memorandum. Upon the occurrence of a Change of Control Triggering Event (as defined herein), we must make an offer to repurchase all Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the date of repurchase.

The Notes will (1) rank senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes, (2) rank at least *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law), (3) be effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (as defined herein), and (4) be effectively subordinated to secured obligations (if any) of the Company and the Subsidiary Guarantors to the extent of the value of the collateral securing such obligations. However, applicable law may limit the enforceability of the Subsidiary Guarantees. See "Risk Factors — Risks Relating to the Subsidiary Guarantees."

For a more detailed description of the Notes, see "Description of the Notes" beginning on page 142.

Application will be made to The Stock Exchange of Hong Kong Limited (the "HKEX") for the listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("Professional Investors") only. This document is for distribution to Professional Investors only.

The HKEX has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the HKEX is not to be taken as an indication of the commercial merits or credit quality of the Notes or the Company and the Subsidiary Guarantees or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the HKEX take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice to Hong Kong investors: Each of the Company and Subsidiary Guarantors confirms that the Notes are intended for purchase by Professional Investors only and will be listed on the HKEX on that basis. Accordingly, each of the Company and Subsidiary Guarantors confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company and the Subsidiary Guarantors. The Company and the Subsidiary Guarantors accept full responsibility for the accuracy of the information contained in this offering memorandum and confirms, having made all reasonable enquiries, that to the best of their respective knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Notes are expected to be rated "BB" by Fitch Ratings Ltd. ("Fitch") and "Ba2" by Moody's Investor Service, Inc. ("Moody's"). The rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Fitch or Moody's. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

Pursuant to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知發改外資[2015]2044號) (the "NDRC Notice") promulgated by National Development and Reform Commission (the "NDRC") of the PRC on September 14, 2015 which came into effect on the same day, we have registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC on June 22, 2021 evidencing such registration. Pursuant to the registration certificate, we will cause relevant information relating to the issue of the Notes to be reported to the NDRC within 10 PRC working days after the issue date of the Notes.

The Notes and the Subsidiary Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities law. The Notes are being offered and sold by the Initial Purchasers (as defined herein) only outside the United States in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on resale or transfer, see "Transfer Restrictions" beginning on page 200.

It is expected that the delivery of the Notes will be made on or about July 8, 2021 through the book-entry facilities of Euroclear Bank SA/NV ("Euroclear") and Clearstream Banking S.A. ("Clearstream") against payment therefor in immediately available funds.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

Nomura **China International Capital Corporation**

The date of this offering memorandum is June 29, 2021.

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This offering memorandum does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this offering memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this offering memorandum or that the information contained in this offering memorandum is correct as of any time after that date.

IN CONNECTION WITH THIS OFFERING, ANY OF THE INITIAL PURCHASERS (OR ITS AFFILIATES), AS STABILIZING MANAGER, OR ANY PERSON ACTING FOR IT, MAY PURCHASE AND SELL THE NOTES IN THE OPEN MARKET. THESE TRANSACTIONS MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND REGULATIONS, INCLUDE SHORT SALES, STABILIZING TRANSACTIONS AND PURCHASES TO COVER POSITIONS CREATED BY SHORT SALES. THESE ACTIVITIES MAY STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE MARKET PRICE OF THE NOTES. AS A RESULT, THE PRICE OF THE NOTES MAY BE HIGHER THAN THE PRICE THAT OTHERWISE MIGHT EXIST IN THE OPEN MARKET. IF THESE ACTIVITIES ARE COMMENCED, THEY MAY BE DISCONTINUED AT ANY TIME AND MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (''EEA''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, ''MiFID II''); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the ''Insurance Distribution Directive''), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the ''PRIIPs Regulation'') for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (''UK''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (''EUWA''); or (ii) a customer within the meaning of the provisions of the United Kingdom's Financial

Services and Markets Act 2000, as amended ("FSMA") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore Securities and Futures Act Product Classification — In connection with Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), the Company has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Notes are expected to be rated "BB" by Fitch and "Ba2" by Moody's. The rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by Fitch or Moody's. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

This offering memorandum is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Notes. You should read this offering memorandum before making a decision whether to purchase the Notes. You must not use this offering memorandum for any other purpose,or disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum, and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the Notes. By purchasing the Notes, you will be deemed to have acknowledged that you have made certain acknowledgements, representations and agreements as set forth under the section headed "Transfer Restrictions" below.

No representation or warranty, express or implied, is made by the Initial Purchasers (as defined in the "Plan of Distribution"), DB Trustees (Hong Kong) Limited (the "Trustee"), Deutsche Bank AG, Hong Kong Branch (the "Principal Paying and Transfer Agent" and the "Registrar", collectively, the "Agents") or any of their respective affiliates or advisors as to the accuracy or completeness of the information set forth herein, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

Each person receiving this offering memorandum acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Initial Purchasers, the Trustee, the Agents, or any person affiliated with the Initial Purchasers, or the Trustee or the Agents in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Notes or the Subsidiary Guarantees (other than as contained herein) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers, or the Trustee or the Agents.

The Notes and the Subsidiary Guarantees have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense in the United States.

We are not, and the Initial Purchasers are not, making an offer to sell the Notes (including the Subsidiary Guarantees) in any jurisdiction except where an offer or sale is permitted. The distribution of this offering memorandum and the offering of the Notes (including the Subsidiary Guarantees) may in certain jurisdictions be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the Notes (including the Subsidiary Guarantees) and distribution of this offering memorandum, see the sections headed "Transfer Restrictions" and "Plan of Distribution" below.

This offering memorandum summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. None of the Company, the Initial Purchasers or our or their respective directors, officers or advisors are making any representation to you regarding the legality of an investment in the Notes by you under any legal, investment, tax or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business adviser and tax adviser for legal, business and tax advice regarding an investment in the Notes.

A copy of this offering memorandum has been delivered to the registrar of companies in Jersey (the "Registrar") in accordance with Article 5 of the Companies (General Provisions) Jersey Order 2002, and the Registrar has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission (the "Commission") has given, and has not withdrawn, or will have given prior to the issue of the Notes and not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Notes. It must be distinctly understood that in giving these consents, neither the Registrar nor the Commission takes any responsibility for the financial soundness of the Company or for the correctness of any statements made, or opinions expressed with regard to it. The Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that law. It should also be noted that the price of the Notes and the interest payable on the Notes can go down as well as up.

If you are in any doubt about the contents of this offering memorandum you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

We reserve the right to withdraw the offering of Notes at any time, and the Initial Purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire for their own account a portion of the Notes.

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of giving information with regard to us. We accept full responsibility for the accuracy of the information contained in this offering memorandum and confirm, having made all reasonable enquiries that to the best of our knowledge and belief there are no other material facts the omission of which would make any statement herein misleading.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this offering memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Company," the "Group" and words of similar import, we are referring to West China Cement Limited itself, or to West China Cement Limited and its consolidated subsidiaries, as the context requires.

Market data and certain industry forecast and statistics in this offering memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Initial Purchasers or their respective directors and advisors, and neither us, the Initial Purchasers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. This offering memorandum summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents. In making an investment decision, each investor must rely on its own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

The information and statistics set forth in this offering memorandum relating to the PRC and the cement industry in the PRC were taken or derived from various government and private publications. The Initial Purchasers do not make any representation as to the accuracy of such information and statistics, which may not be consistent with other information or statistics compiled within or outside the PRC. Due to possibly inconsistent collection methods and other problems, the information and statistics herein may be inaccurate and should not be unduly relied upon.

Our financial information is prepared and presented in accordance with International Financial Reporting Standards ("IFRS"), which differ in certain respects from generally accepted accounting principals ("GAAP") in certain countries, including the United States, which might be material to the financial information herein. We have made no attempt to quantify the impact of those differences. In making an investment decision, investors must rely upon their own examination of us, the terms of the offering and the financial information. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and GAAP and how those differences might affect the financial information herein.

In this offering memorandum, references to "US$" and "U.S. dollars" are to United States dollars, the official currency of the United States of America (the "United States" or "U.S."); references to "HK$" and "H.K. dollars" are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the PRC ("Hong Kong" or "HK"); and references to "RMB" or "Renminbi" are to Renminbi, the official currency of the People's Republic of China, or the PRC.

We record and publish our financial information in Renminbi. Unless otherwise stated in this offering memorandum, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.5249 to US$1.00, being the median exchange rate of Renminbi to U.S. dollars as published by the State Administration of Foreign Reserve of China prevailing on December 31, 2020, while all translations from H.K. dollars into U.S. dollars were made at the rate of HK$7.7534 to US$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2020 as set forth in the H.10 weekly statistical release of the Federal Reserve Board. All such translations in this offering memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or *vice versa*, at any particular rate or at all. For further information relating to the exchange rates, see "Exchange Rate Information."

References to the "PRC" and "China" are to the People's Republic of China and for the purposes of this offering memorandum and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan.

"**PRC government**" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof.

“**Ankang Yaobai**” means Ankang Yaobai Cement Co., Ltd. (安康市堯柏水泥有限公司)

“**Ankang Yaobai Jianghua**” means Ankang Yaobai Jianghua Cement Co., Ltd. (安康堯柏江華水泥有限公司)

“**Faithful Alliance**” means Faithful Alliance Limited, an indirect wholly-owned subsidiary of the Company incorporated under the laws of Hong Kong.

“**Fuping Cement**” means Shaanxi Fuping Cement Co., Ltd. (陝西富平水泥有限公司)

“**Guizhou Linshan**” means Guizhou Linshan Cement Co., Ltd. (貴州麟山水泥有限責任公司)

“**Hancheng Yaobai**” means Hancheng Yaobai Yangshanzhuang Cement Co., Ltd. (韓城堯柏陽山莊水泥有限公司)

“**Hanzhong Yaobai**” means Hanzhong Yaobai Cement Co., Ltd. (漢中堯柏水泥有限公司)

“**Hetian Yaobai**” means Hetian Yaobai Cement Co., Ltd. (和田堯柏水泥有限公司)

“**Hetian Luxin**” means Hetian Luxin Building Materials Co., Ltd. (和田魯新建材有限公司)

“**Lantian Yaobai**” means Xi’an Lantian Yaobai Cement Co., Ltd. (西安藍田堯柏水泥有限公司)

“**Longqiao Yaobai**” means Shangluo Yaobai Longqiao Cement Co., Ltd. (商洛堯柏龍橋水泥有限公司)

“**Mianxian Yaobai**” means Hanzhong Mianxian Yaobai Cement Co., Ltd. (漢中勉縣堯柏水泥有限公司)

“**Pucheng Yaobai**” means Pucheng Yaobai Special Cement Co., Ltd. (蒲城堯柏特種水泥有限公司)

“**SAMR**” means the State Administration for Market Regulation (中華人民共和國國家市場監督管理總局)

“**Shaanxi Yaobai**” means Yaobai Special Cement Group Co., Ltd. (堯柏特種水泥集團有限公司)

“**Shangluo Yaobai Longqiao**” means Shangluo Yaobai Longqiao Cement Co., Ltd. (商洛堯柏龍橋水泥有限公司)

“**Shifeng Cement**” means Shaanxi Shifeng Cement Co., Ltd. (陝西實豐水泥股份有限公司)

“**Shaanxi Fuda**” means Shaanxi Fuda Mining Engineering Co., Ltd. (陝西富達礦山工程有限公司)

“**Shaanxi Fengsheng**” means Shaanxi Fengsheng Deyuan Shiye Co., Ltd. (陝西豐盛德遠實業有限公司)

“**Shaanxi Xinyida**” means Shaanxi Xinyida Jiancai Construction Materials Development Co., Ltd. (陝西新意達建材產業發展有限公司)

“**Tongchuan Yaobai**” means Tongchuan Yaobai Special Cement Co., Ltd. (銅川堯柏特種水泥有限公司)

“**Tongchuan Yaowangshan**” means Tongchuan Yaowangshan Ecology Cement Co., Ltd. (銅川藥王山生態水泥有限公司)

“**Xiushan Yaobai**” means Xiushan Yaobai Cement Co., Ltd. (商洛堯柏秀山水泥有限公司)

“**Weinan Yaobai**” means Weinan Pucheng Yaobai Cement Co., Ltd. (渭南蒲城堯柏水泥有限公司)

"**West China BVI**" means WC Cement Limited, a wholly-owned subsidiary of the Company incorporated under the laws of the British Virgin Islands.

"**Xi'an Yaobai**" means Xi'an Yaobai Material Co., Ltd. (西安市堯柏物資有限公司)

"**Xi'an Zhonggang**" means Xi'an Zhonggang Intelligent Logistics Co., Ltd. (西安中港智慧物流有限公司)

"**Xixiang Yaobai**" means Xixiang Yaobai Cement Co., Ltd. (漢中西鄉堯柏水泥有限公司)

"**Yaobai Environmental**" means Xi'an Yaobai Environmental Technology Engineering Co., Ltd. (西安堯柏環保科技工程有限公司)

"**Yaobai Group**" refers to our PRC-incorporated subsidiaries directly or indirectly owned by Shaanxi Yaobai

"**Yili Yaobai**" means Yili Yaobai Cement Co., Ltd. (伊犁堯柏水泥有限公司)

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes "forward-looking statements." All statements other than statements of historical fact contained in this offering memorandum, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "aim," "intend," "will," "may," "anticipate," "seek," "should," "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our business strategies, objectives and plan of operation;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general;
- capital market developments;
- actions and developments of our competitors;
- future developments, trends and conditions in our industry in China or other jurisdictions in which we have operations; and
- other statements in this offering memorandum that are not historical facts.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Risk Factors" and elsewhere in this offering memorandum. We caution you not to place undue reliance on these forward-looking statements which reflect our management's view only as of the date of this offering memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this offering memorandum might not occur.

ENFORCEMENT OF CIVIL LIABILITIES

We are a company incorporated in Jersey with limited liability, and each Subsidiary Guarantor is also incorporated outside the United States. Jersey has a different body of securities laws from the United States and protections for investors may differ.

All of our assets and the assets of the Subsidiary Guarantors are located outside the United States. In addition, most of our directors and officers and the Subsidiary Guarantors' directors and officers are nationals or residents of countries other than the United States (principally in the PRC), and a substantial portion of such persons' assets are located or may be located, as the case may be, outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us, any of the Subsidiary Guarantors or other such persons or to enforce against us or any of the Subsidiary Guarantors or other such persons judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof.

We and each of the Subsidiary Guarantors expect to appoint Cogency Global Inc. as our and their respective agent to receive service of process with respect to any action brought against us or the Subsidiary Guarantors in any New York state or U.S. federal court in The City of New York and County of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby.

The United States and Jersey currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognized or enforceable in Jersey. In order to enforce any such U.S. judgment in Jersey, proceedings must first be initiated before a court of competent jurisdiction in Jersey. In such an action, a Jersey court would not generally reinvestigate the merits of the original matter decided by the U.S. court (subject to what is said below) and it would usually be possible to obtain summary judgment on such a claim (assuming that there is no good defense to it). Recognition and enforcement of a U.S. judgment by a Jersey court in such an action is conditional upon (among other things) the following:

(a) the U.S. court having had jurisdiction over the original proceedings according to Jersey conflicts of laws principles;

(b) the U.S. judgment being final and conclusive on the merits in the sense of being final and unalterable in the court which pronounced it and being for a debt or definite sum of money (although there are circumstances where non-money judgments may also be recognized);

(c) the recognition or enforcement of the U.S. judgment not contravening Jersey public policy;

(d) the U.S. judgment not being for a sum payable in respect of taxes, or other charges of a like nature, or in respect of a penalty or fine;

(e) the U.S. judgment not having been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained and not being otherwise in breach of Section 5 of the United Kingdom Protection of Trading Interests Act 1980 (as extended to Jersey by the Protection of Trading Interests Act 1980 (Jersey) Order 1983);

(f) the U.S. judgment not having been obtained by fraud or in breach of Jersey principles of natural justice or rights under the European Convention on Human Rights; and

(g) there not having been a prior inconsistent decision of a Jersey court in respect of the same matter.

Subject to the foregoing, investors may be able to enforce in Jersey judgments in civil and commercial matters that have been obtained from U.S. federal or state courts. However, there can be no assurance that those judgments will be recognized or enforceable in Jersey. In addition, it is questionable whether a Jersey court would accept jurisdiction and impose civil liability if the original action was commenced in Jersey, instead of the United States, and predicated solely upon U.S. federal securities laws.

We have been advised by our British Virgin Islands legal counsel, Carey Olsen Hong Kong LLP, that the courts of the British Virgin Islands would recognize as a valid judgment, a final and conclusive judgment in personam obtained in any U.S. federal or New York state court located in the borough of Manhattan, City of New York against the Company under which a sum of money is payable (other than a sum of money payable in respect of penalties, taxes, fines or similar fiscal or revenue obligations) and would give a judgment based thereon that in respect of the foreign judgment: (a) such courts had proper jurisdiction over the parties subject to such judgment and the judgment debtor either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process, (b) such courts did not contravene the rules of natural justice of the British Virgin Islands, (c) such judgment was not obtained by fraud, (d) the recognition or enforcement of the judgment would not be contrary to the public policy of the British Virgin Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the British Virgin Islands and (f) there is due compliance with the correct procedures under the laws of the British Virgin Islands.

We have been advised by our Hong Kong legal adviser, Morgan, Lewis & Bockius, that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. Subject to the Foreign Judgments (Restriction on Recognition and Enforcement) Ordinance (Cap 46 of the Laws of Hong Kong) (the "FJO"), a judgment given by the courts of New York could form the basis of a claim in the Hong Kong courts in respect of the judgment debt for which an application for summary judgment could be made provided that:

(a) recognition and/or enforcement of the judgment is not restricted by operation of the provisions of the FJO;

(b) the judgment was not obtained by fraud, misrepresentation or mistake nor obtained in proceedings which contravene the rules of natural justice;

(c) enforcement of the judgment would not be contrary to public policy in Hong Kong;

(d) the relevant court in New York had jurisdiction in accordance with the Hong Kong rules on the conflict of laws;

(e) the judgment is for a definite sum of money which is not payable in respect of taxes or other charges of a similar nature or in respect of a fine or other penalty; and

(f) the judgment is final and conclusive between the parties, but if it is capable of being appealed or an appeal is pending, the proceedings in Hong Kong are likely to be stayed by the courts of Hong Kong pending any such appeal being heard.

Further, we have been advised by our PRC legal advisor, Jingtian & Gongcheng, that there is uncertainty as to whether the courts of China would (i) enforce judgments of U.S. courts obtained against us, our directors or officers, any Subsidiary Guarantor or its directors or officers predicated upon the civil liability provisions of the U.S. federal or state securities laws or (ii) entertain original actions brought in China against us, our directors or officers, any Subsidiary Guarantor or its directors or officers predicated upon the U.S. federal or state securities laws. See "Regulatory Overview — The PRC Judicial System."

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms and definitions used in this offering memorandum in connection with our Company and its business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

"anhydrite"	anhydrous calcium sulfate, a mineral, which, when exposed to water, becomes gypsum
"annual production capacity"	annual production capacity of cement, which is calculated based on three shifts per day and 310 working days per annum
"average selling price"	average selling price of a category or categories of cement products is calculated by dividing the revenue of such category or categories of cement product by its or their sales volume, which is exclusive of VAT
"CAGR"	compound annual growth rate
"cement"	gray powder, made by calcining lime and clay, which hardens when mixed with water and is generally used in producing mortar and concrete
"cement products"	the various cement products, which include high grade cement, low grade cement and clinker
"clinker"	a major semi-finished product in the cement production process
"cm"	centimeter(s)
"Composite Portland Cement"	a mixture comprising Portland Cement and up to 35% of other single constituents
"concrete"	an artificial, stone-like material used for various structural purposes, made by mixing cement and various aggregates, such as sand, pebbles, gravel or shale, with water and allowing the mixture to harden
"Distributed Control System"	a control system, in which the controller elements are not central in location, but are distributed throughout the system
"FAI"	fixed asset investment
"flyash"	one of the residues generated in the combustion of coal
"GDP"	gross domestic product
"gypsum"	a mineral composed of calcium sulphate dihydrate
"GWh"	gigawatt-hour, a unit of energy used in the electric power industry. One gigawatt-hour is the amount of energy that would be produced by a generator producing one billion watts for one hour
"high grade cement"	a category of cement that generally has a 28-day compressive strength of 42.5 MPa (or 425 kg/cm^2) or above
"km"	kilometer(s)
"KW"	kilowatts, one thousand watts

"KWh"	kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
"limestone"	a sedimentary rock composed largely of the mineral calcite
"low grade cement"	a category of cement that generally has a 28-day compressive strength of 32.5 MPa (or 325 kg/cm^2) or below
"MPa"	megapascals, a customary unit in the International System of Units for measuring compressive strength
"MTN Notes"	a note payable that comes with a maturity date that is within five to ten years.
"New Dry Process"	new suspension preheater dry process, during which the raw materials of cement are preheated and disintegrated before being fed into a rotary kiln
"NSP" or "NSP technology"	new Suspension Preheater technology, a highly energy efficient technology, in which raw materials are preheated in conical vessels using high temperature gas from the kiln
"Ordinary Portland Cement"	a mixture comprising Portland Cement and up to 5% of minor additional constituents
"Portland Cement"	a fine powder produced by grinding Portland cement clinker (more than 90%), a limited amount of calcium sulfate which controls the set time, and up to 5% minor constituents (as allowed by various standards)
"Pozzolanic Portland Cement"	blended cement which is produced by either inter-grinding of OPC clinker along with gypsum and pozzolanic materials in certain proportions or grinding the OPC clinker, gypsum and Pozzolanic materials separately and thoroughly blending them in certain proportions.
"Ready-mix concrete"	a type of concrete that is specifically manufactured for delivery to construction sites in a freshly mixed and plastic or unhardened state
"ton(s)"	metric tons
"t/d"	tons per day

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire offering memorandum, including the section entitled "Risk Factors" and our consolidated financial statements and related notes thereto, before making an investment decision.

Overview

We are one of the leading cement producers in Shaanxi Province, with a leading market position in Southern Shaanxi and Eastern-Central Shaanxi and a growing presence in Xinjiang and Guizhou Provinces as well as Mozambique, Africa. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. According to Shaanxi Province Cement Association (陝西水泥協會), we ranked first in Shaanxi Province in terms of NSP production capacity as of December 31, 2020. According to ccement.com (中國水泥網), we ranked first in Shaanxi Province in terms of clinker production capacity in 2020. Our cement products primarily include Ordinary Portland Cement, which has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above and Composite Portland Cement, which has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above. Ordinary Portland Cement has relatively strong initial compressive strength and more resistance to abrasion and is typically used in construction projects, such as roads and bridges. Composite Portland Cement has a lower compressive strength than Ordinary Portland Cement and is commonly used for general industrial and civil buildings. We also produce high quality and special cement products such as Pozzolanic Portland Cement, masonry cement and oil well cement tailored to our customers' needs. Our shares have been listed on The Stock Exchange of Hong Kong Limited since August 2010.

As of December 31, 2020, we had 22 NSP cement product lines with a total annual production capacity of 33.2 million tons, including 23.3 million tons in Shaanxi Province, 6.1 million tons in Xinjiang Province, 1.8 million tons in Guizhou Province and 2.0 million tons in Mozambique, Africa. In addition, we had total annual production capacities of 15.1 million tons of aggregates and 9.8 million cubic meters of commercial concrete as of December 31, 2020. In 2018, we commissioned four aggregates production lines in Shangluo city and Hanzhong city in Shaanxi Province with total annual production capacities of 7.0 million tons. In September 2019, we entered into a cooperation agreement to establish a joint venture for investment and construction of cement production line in Mozambique, Africa. In 2020, we built a production line with a daily production capacity of 4,500 tons of clinker cement in Moyu in Xinjiang Province. In December 2020, we commissioned two new production facilities each in Xinjiang Province and Mozambique, which have a total planned annual production capacity of 7.0 million tons. After the full operation of the new production facility in Moyu, Xinjiang Province, our existing production lines in Hetian and Luxin will cease operation and our annual production capacity is expected to be 30.6 million tons by the end of 2021.

For the years ended December 31, 2018, 2019 and 2020, respectively, we sold 18.2 million, 19.3 million and 19.9 million tons of cement and clinker. Our revenue increased from approximately RMB5,911.7 million for the year ended December 31, 2018 to approximately RMB7,247,4 million for the year ended December 31, 2019 and then to approximately RMB7,131.1 million (US$1,092.9 million) for the year ended December 31, 2020. Our profit before tax increased from approximately RMB1,632.1 million for the year ended December 31, 2018 to approximately RMB2,243.8 million for the year ended December 31, 2019 and decreased to approximately RMB1,847.5 million (US$283.1 million) for the year ended December 31, 2020. Our profit for the year attributable to owners of the Company increased from approximately RMB1,159.4 million for the year ended December 31, 2018 to approximately RMB1,801.3 million for the year ended December 31, 2019 and before decreasing slightly to approximately RMB1,560.5 million (US$239.2 million) for the year ended December 31, 2020.

The decreases in our profit before tax and profit for the year attributable to owners of the Company in 2020 were mainly attributable to the 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, and in the case of profit for the year attributable to owners of the Company, the decrease in income tax expenses.

Limestone is the principal raw material used in our production of cement. We have obtained mining rights to a number of limestone quarries in Shaanxi, Xinjiang and Guizhou provinces, most of which are located near our production facilities. Our mining rights are for periods ranging from one to

27 years, with expiration dates between June 2021 and July 2038. Our convenient access to limestone reserves provides us with a secure and stable supply of limestone at low transportation costs. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 56 years, based on the amounts of our limestone reserves in 16 quarries and the amount of limestone we extracted in 2020. We use coal as fuel in our production process, and it represents one of the largest components of our cost of sales. We have convenient access to large coal mines or producers in Shaanxi, Xinjiang and Guizhou provinces, which ensures that we have an abundant supply of coal at low transportation costs. For the years ended December 31, 2018, 2019 and 2020, our raw materials, which primarily included limestone, gypsum, clay, flyash, pyrite cinder and slag, represented approximately 24.6%, 27.1% and 28.1% of our cost of sales of cement, respectively, coal represented approximately 27.6%, 27.8% and 26.5% of our cost of sales of cement, respectively, and electricity represented approximately 15.8%, 15.6% and 15.4% of our cost of sales of cement, respectively.

Energy conservation and emission controls have become increasingly important in the cement industry in China. We have continued to develop environmental protection solutions. Our technology includes residual heat recovery systems, NSP technology and recycling of industrial by-products, industrial waste and construction waste. Our residual heat recovery systems collect residual heat from the cement production process to generate power that can be used in the production process, thereby lowering electricity costs. As of December 31, 2020, we had residual heat recovery systems installed at 14 of our 22 production lines. These systems reduce our production lines' electricity consumption by approximately 30% and reduce Carbon dioxide, or "CO_2", emissions by approximately 22,000 tons per million tons of cement production. Most of our facilities are located in close proximity to limestone quarries and, at many of the plants, limestone conveyor belt systems are used in order to minimize emissions from road transportation. All of our production facilities employ NSP technology. We were the first cement producer in Shaanxi Province to use desulfurized gypsum and construction waste as raw material inputs into some of its cement products, and regularly recycle flyash from power plants as well as slag from iron and steel plants as raw material inputs into some of our cement products. We also completed the installation of De-nitration, or De-NOx, equipment at all of our plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrous oxide, NOx, emissions by approximately 60% per ton of clinker produced, bringing NOx emissions to within the new standards stipulated by the Cement Industrial Air Pollution Emissions Standards. We have completed modifications of production lines to meet particulate matter, or PM, emission standards, and as a result, all of our plants now meet the new PM emission standards as well. Moreover, we have effectively reduced the emission of dust through the technical renovation of the kiln-head and kiln-end dust collectors and also further reduced the emission of nitrogen oxide and the consumption of ammonia water through the implementation of de-nitration spray guns and automated technological innovation in five plants.

The use of industrial by-products, industrial waste and construction waste in our production process lowers our cost of production and also entitles us to VAT refunds from the PRC government.

Most of our customers are currently located in Shaanxi, Xinjiang and Guizhou provinces. We conduct our sales primarily through our regional and local sales offices in Shaanxi, Xinjiang and Guizhou provinces. We have 16 sales offices (covering Central, South and Southeast Shaanxi) in Shaanxi Province, four in Xinjiang Province and one in Guizhou Province. Our major customers include railway construction companies, real estate developers and concrete manufacturers. We primarily sell our cement either directly to government infrastructure projects and ready-mix concrete stations or to distributors, which then resell our cement to retail purchasers.

Our Strengths

We believe that our competitive strengths include the following:

- We are a leading cement producer in western China with a dominant market position in Shaanxi Province, and we continuously benefit from favorable supply and demand dynamics in our core markets

- We benefit from the effective supply side reform in the PRC cement industry, which creates a positive macro environment with optimized supply conditions and steady demand

- Our diversified operations enable robust growth with strategic presence in China and abroad and extension along value chains

- We have industry-leading cost advantage underpinned by abundant limestone resources in core markets, steady supply of raw materials and various cost control measures

- We are an active practitioner of "CO_2 neutralization" (碳中和) goal with strong energy-saving and emission-reduction capabilities

- We have a stable financial performance, which practically reduces financial risks

- We have a stable, experienced and professional management team

Our Business Strategies

We intend to focus on increasing returns from our leading market position in Shaanxi Province, strengthen our positions in Xinjiang and Guizhou provinces and expand into the African market. To achieve this goal, we plan to pursue the following strategies:

- Continue to develop market leadership in Shaanxi Province and increase our investment returns in other geographical markets;

- Focus on operational and financial positioning to benefit from further industry consolidation;

- Continue to develop environmental protection solutions;

- Further strengthen our sales and marketing capabilities;

- Continue to enhance our cost structure through our research and development efforts; and

- Continue to build a strong management team with qualified personnel.

General Information

Our Company was incorporated in Jersey as a private company on October 16, 2006 and re-registered as a public company on October 27, 2006. Our registered office is located at 47 Esplanade, St. Helier, Jersey JE1 0BD, Channel Islands. Our principal place of business and headquarters in China is located at Yaobai R&D Training Center, No. 336 4th Shenzhou Road, Aerospace Industrial Base, Chang'an District, Xi'an, Shaanxi Province, People's Republic of China. Our principal place of business in Hong Kong is Unit 3705, 37/F, Tower 6, The Gateway, Harbor City, 9 Canton Road, Tsim Sha Tsui, Hong Kong. The shares of the Company are listed on the HKEX (Stock Code: 02233).

Our website is www.westchinacement.com. Information contained on our website does not constitute a part of this offering memorandum.

THE OFFERING

The following summary is provided solely for your convenience. This summary is not intended to be complete. You should read the full text and more specific details contained elsewhere in this Offering Memorandum. For a more detailed description of the Notes, see "Description of the Notes." The information contained in the "Description of the Notes" shall prevail to the extent of any inconsistency with the information set forth in this section. Capitalized terms not defined herein are defined in "Description of the Notes."

Issuer	West China Cement Limited
Notes Offered.	US$600,000,000 aggregate principal amount of 4.95% Senior Notes Due July 8, 2026 (the "Notes").
Offering Price	100% of the principal amount of the Notes
Issue Date	July 8, 2021.
Maturity Date.	July 8, 2026.
Interest	The Notes will bear interest from and including July 8, 2021 at the rate of 4.95% per annum, payable semi-annually in arrears.
Interest Payment Dates	January 8 and July 8 of each year, commencing January 8, 2022.
Ranking of the Notes	The Notes are: • general obligations of the Company; • senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes; • *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); • guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under the caption "Description of the Notes — The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Subsidiary Guarantees;" • effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries; and • effectively subordinated to secured obligations (if any) of the Company and the Subsidiary Guarantors to the extent of the value of the collateral securing such obligations.
Subsidiary Guarantees	Each of the Subsidiary Guarantors will jointly and severally guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. A Subsidiary Guarantee may be released in certain circumstances. See "Description of the Notes — The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of WC Cement Limited (British Virgin Islands), Faithful Alliance Limited (Hong Kong) and West International Holding Limited (Hong Kong). All of the initial Subsidiary Guarantors are holding companies that do not have significant operations.

A non-PRC Restricted Subsidiary (and its subsidiaries, if any) established or acquired after the Original Issue Date does not have to provide a Subsidiary Guarantee if (i) within 30 days of the establishment or acquisition of such Restricted Subsidiary, either (x) one or more independent third parties owns 30% or more of the capital stock of such Restricted Subsidiary or (y) the Company is in discussions with one or more independent third parties for a potential investment by such independent third parties in such Restricted Subsidiary and (ii) no later than 180 days after the establishment or acquisition of such Restricted Subsidiary and at anytime thereafter, such independent third party or parties own no less than 30% of the capital stock of such Restricted Subsidiary. If any of the New Offshore Non-Guarantor Subsidiaries guarantees Indebtedness of the Company or any Subsidiary Guarantor after the Original Issue Date, such New Non-Guarantor Restricted Subsidiary will be required to guarantee the payment of the Notes as a Subsidiary Guarantor.

The Company will cause each of its future Restricted Subsidiaries (other than the PRC Subsidiaries, the New Offshore Non-Guarantor Subsidiary and Exempted Subsidiaries), within 30 days of becoming a Restricted Subsidiary, to Guarantee the payment of the Notes as a Subsidiary Guarantor. Notwithstanding of the foregoing, the Company may designate any Offshore Restricted Subsidiary (including those Offshore Restricted Subsidiaries not providing Subsidiary Guarantees on the Original Issue Date, but excluding any New Offshore Non-Guarantor Subsidiary or Exempted Subsidiaries) as a Designated Offshore Non-Guarantor Subsidiary; provided that, after giving effect to the consolidated assets of such Offshore Restricted Subsidiary, (i) at any time of determination, the total Relevant Non-Guaranteed Portion would not exceed 15% of Total Assets (excluding for this purpose the consolidated assets of all Exempted Subsidiaries and New Offshore Non-Guarantor Subsidiaries as of the date of calculation); and (ii) such designation would not cause a Default. If, at any time, the Relevant Non-Guaranteed Portion exceeds 15% of Total Assets (calculated as provided above), the Company must remove the designation of one or more Offshore Non-Guarantor Subsidiaries and cause such Offshore Restricted Subsidiaries to provide a Subsidiary Guarantee such that the Relevant Non-Guaranteed Portion would not exceed 15% of Total Assets (calculated as provided above).

Ranking of Subsidiary Guarantees . . . .

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;
- is effectively subordinated to all secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;
- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks *pari passu* with the subsidiary guarantee of such Subsidiary Guarantor for all unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); and
- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Use of proceeds	The Company intends to use the net proceeds of the offering of the Notes for refinancing, replenishing working capital and general corporate purposes including overseas expansion and investment in Africa. Pending application of the net proceeds of the offering, the Company intends to invest the net proceeds in Temporary Cash Investments (as defined herein).
Optional Redemption.	The Company at its option at any time on or after July 8, 2024 may redeem the Notes, in whole or in part, at the redemption prices set forth in "Description of the Notes — Optional Redemption" plus accrued and unpaid interest, if any, to (but not including) the redemption date. At any time prior to July 8, 2024, the Company may at its option redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date, as set forth herein. At any time and from time to time prior to July 8, 2024 the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 104.95% of the principal amount of the Notes, plus accrued and unpaid interest, if any, with the proceeds from sales of certain kinds of its capital stock, subject to certain conditions.
Repurchase of Notes Upon a Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes at a purchase price equal to 101% of their principal amount plus accrued and unpaid interest, if any, to the Offer to Purchase Payment Date.
Withholding Taxes; Additional Amounts.	All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any Relevant Jurisdiction, unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, Holders will receive additional amounts (subject to certain exceptions) as will result in receipt by the Holder of each Note of such amounts as would have been received by such Holder had no such withholding or deduction been required. See "Description of the Notes — Additional Amounts."

Redemption for Taxation Reason	Subject to certain exceptions and as more fully described in the section entitled "Description of the Notes — Redemption for Taxation Reasons," the Company may redeem the Notes, in whole but not in part, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest, if any, to the date fixed by the Company or the Surviving Person, as the case may be, for redemption, if the Company, a Surviving Person or a Subsidiary Guarantor would be obligated to pay certain Additional Amounts as a result of certain changes in specified tax laws. See "Description of the Notes — Redemption for Taxation Reasons."
Covenants	The Notes and the Indenture governing the Notes and the Subsidiary Guarantees will limit the Company's ability, and the ability of its Restricted Subsidiaries to, among other things: • incur or guarantee certain additional Indebtedness and issue Preferred Stock; • declare dividends on its capital stock or purchase or redeem capital stock; • make investments or other specified Restricted Payments; • issue or sell capital stock of Restricted Subsidiaries; • guarantee indebtedness of the Company or Restricted Subsidiaries; • enter into transactions with shareholders or affiliates; • create liens; • enter into sale and leaseback transactions; and • sell assets. These covenants are subject to a number of important qualifications and exceptions described in "Description of the Notes — Certain Covenants."
Transfer Restrictions	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Transfer Restrictions."
Form, Denomination and Registration	The Notes will be issued only in fully registered form, without coupons, in minimum denominations of US$200,000 of principal amount and integral multiples of US$1,000 in excess thereof and will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream.
Book-Entry Only	The Notes will be issued in book-entry form through the facilities of Euroclear and Clearstream. For a description of certain factors relating to clearance and settlement, see "Description of the Notes — Book-Entry; Delivery and Form."

Delivery of the Notes	The Company expects to make delivery of the Notes, against payment in same-day funds on or about July 8, 2021, which will be the fifth business day following the pricing date of the Notes referred to as "T+5." You should note that initial trading of the Notes may be affected by the T+5 settlement. See "Plan of Distribution."
Trustee	DB Trustees (Hong Kong) Limited
Principal Paying and Transfer Agent	Deutsche Bank AG, Hong Kong Branch
Registrar	Deutsche Bank AG, Hong Kong Branch
Lock-up.	During a period of 30 days from the Original Issue Date, the Company and each of the Subsidiary Guarantors will not, without obtaining the prior written consent of the representatives of the Initial Purchasers, offer, sell, contract to sell, or otherwise dispose of, any debt securities, including debt securities linked to, convertible to or exchangeable with equity securities, issued or guaranteed by the Company or the Subsidiary Guarantors (other than the Notes and the Subsidiary Guarantees).
Listing and Trading.	Application will be made to the HKEX for the listing of, and permission to deal in, the Notes by way of debt securities to Professional Investors only. The Notes will be traded on the HKEX in a minimum board lot size of US$200,000 for so long as the Notes are listed on the HKEX.
Clearing System and Settlement.	The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream.

Security Codes . . . .

ISIN	Common Code
XS2346524783	234652478

Ratings	The Notes have been provisionally rated "BB" by Fitch and "Ba2" by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organization. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Company.
Governing Law.	The Notes and the Indenture will be governed by and will be construed in accordance with the laws of the State of New York.
Risk Factors.	For a discussion of certain factors that you should consider in evaluating an investment in the Notes, see "Risk Factors."

SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial information for the years ended December 31, 2018, 2019 and 2020 has been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. Our consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Summary Consolidated Statements of Profit or Loss and Comprehensive Income

	For the year ended December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue	5,911,744	7,247,389	7,131,052	1,092,898
Cost of sales	(3,925,988)	(4,806,905)	(4,788,586)	(733,894)
Gross profit	1,985,756	2,440,484	2,342,466	359,004
Other income(1)	343,986	287,753	285,476	43,752
Impairment loss under expected credit loss mode, net of reversal	(8,387)	(36,517)	(128,408)	(19,680)
Selling and marketing expenses	(54,136)	(57,406)	(63,413)	(9,719)
Administrative expenses	(336,745)	(360,319)	(405,389)	(62,130)
Other expenses	—	(25,729)	(77,819)	(11,926)
Other gains and losses, net	(233,828)	(68,008)	(152,663)	(23,397)
Share of profit of an associate	23,683	22,388	16,628	2,548
Interest income	140,578	228,231	195,762	30,002
Finance costs	(228,796)	(187,076)	(165,184)	(25,316)
Profit before tax	1,632,111	2,243,801	1,847,456	283,138
Income tax expense	(451,648)	(394,272)	(264,494)	(40,536)
Profit for the year	1,180,463	1,849,529	1,582,962	242,602
Other comprehensive expense	—	—	(3,552)	(544)
Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations				
Other comprehensive expense for the year	—	—	(3,552)	(544)
Total comprehensive income for the year	1,180,463	1,849,529	1,579,410	242,058
Profit for the year attributable to:				
Owners of our Company	1,159,449	1,801,281	1,560,480	239,158
Non-controlling interests	21,014	48,248	22,482	3,446
	1,180,463	1,849,529	1,582,962	242,604
Total comprehensive income attributable to attributable to:				
Owners of our Company	1,159,449	1,801,281	1,556,928	238,613
Non-controlling interests	21,014	48,248	22,482	3,446
	1,180,463	1,849,529	1,579,410	242,059
Basic earnings per share (RMB/share)(2)	0.213	0.331	0.287	0.04
Diluted earnings per share (RMB/share)(3)	0.213	0.331	0.287	0.04
Other Financial Data				
EBITDA(4)	2,637,455	3,097,409	2,996,794	459,286
EBITDA margin(5)	44.6%	42.7%	42.0%	42.0%
EBITDA/Gross interest expense(6)	11.4	15.7	15.1	15.1
Total Debt(7)/EBITDA	1.2	0.9	1.2	1.2
Net Debt(8)/EBITDA	0.7	0.5	0.7	0.7
Total Debt(7)/Total Capitalization(9)	28.7%	23.5%	26.1%	26.1%

Notes:

(1) Our other income primarily includes (i) VAT refunds we received from the PRC government for sales of certain types of cement that use industrial by-products, industrial waste and construction waste and (ii) government grants.

(2) Basic earnings per share is calculated by dividing the profit attributable to owners of our Company by the weighted average number of ordinary shares in issue during the three years ended December 31, 2020.

(3) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The calculation of our Company's diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 did not take into account the share options of our Company because the exercise price or the exercise price after adjustment for the unvested share-based payments of these share options was higher than the average market price of our Company's shares during these years/periods and hence the exercise of the share options would have an anti-dilutive effect.

(4) EBITDA equal to profit before tax plus finance costs, depreciation and amortization, share-based payments, impairment losses under expected credit loss model, net of reversal and Net foreign exchange losses from consolidated statement of cash flows less interest income. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit and total comprehensive income attributable to the owners of the Company or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs, Net foreign exchange losses from consolidated statement of cash flows, share-based payments or depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and profit and total comprehensive income attributable to the owners of the Company and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that the EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

(5) EBITDA margin is calculated by dividing EBITDA by revenue.

(6) Gross interest expense includes interest expense capitalized in property, plant and equipment and excludes unwinding of discount on asset retirement obligation. Gross interest expense is not a standard measure under IFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our gross interest expense to the gross interest expense provided by other companies because not all companies use the same definition. Investors should also note that the gross interest expense presented herein is calculated differently from Consolidated Interest Expense as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated Interest Expense is defined for purposes of the Indenture governing the Notes.

(7) Total debt includes bank borrowings, medium-term notes and senior notes.

(8) Net debt equals to total debt less bank balances and cash, restricted/pledged bank deposits and structured deposits.

(9) Total capitalization equals total debt plus total equity.

Summary Consolidated Statements of Financial Position Information

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
ASSETS				
Non-current assets				
Property, plant and equipment	7,180,198	7,793,345	11,161,110	1,710,541
Right-of-use assets	—	469,021	643,185	98,574
Prepaid lease payments	459,275	—	—	—
Mining rights	326,926	542,352	539,903	82,745
Other intangible assets	199,561	199,235	208,186	31,906
Interest in an associate	80,661	80,269	77,643	11,899
Loan receivables	837,203	724,182	524,091	80,322
Deferred tax assets	39,110	36,557	42,673	6,540
Prepayments for right-of-use assets	—	100,278	100,278	15,369
Prepayments for mining rights	—	—	49,170	7,536
Deposits paid for acquisition of property, plant and equipment	—	518,276	199,497	30,575
Deposits paid for acquisition of subsidiaries	—	—	85,200	13,058
Other deposits	—	31,241	23,123	3,544
Investment in entrusted product	—	181,855	81,855	12,545
Amount due from a non-controlling shareholder of a subsidiary	15,218	—	—	—
Prepayments for construction in progress	101,002	—	—	—
	9,239,154	10,676,611	13,735,914	2,105,154
Current assets				
Inventories	491,116	665,526	731,434	112,099
Trade and other receivables and prepayments	477,284	958,525	1,748,635	267,994
Loan receivables	855,453	1,055,444	1,214,955	186,203
Structure deposits	—	90,000	100,000	15,326
Restricted/pledged bank deposits	189,032	354,148	723,831	110,934
Bank balances and cash	886,046	779,559	651,463	99,843
Bill receivables at fair value through other comprehensive income	253,972	—	—	—
	3,152,903	3,903,202	5,170,318	792,399
Total assets	12,392,057	14,548,572	18,906,232	2,897,553

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	141,771	141,771	141,837	21,738
Share premium and reserves	7,383,494	8,911,168	10,188,965	1,561,551
Equity attributable to owners of our Company	7,525,265	9,052,939	10,330,802	1,583,289
Non-controlling interests	73,690	172,725	196,415	30,102
Total equity	7,598,955	9,225,664	10,527,217	1,613,391
Non-current liabilities				
Borrowings	—	1,189,589	600,548	92,039
Medium-term notes	—	521,098	1,232,842	188,944
Asset retirement obligation	45,935	336,398	347,413	53,244
Deferred tax liabilities	80,279	63,721	78,701	12,062
Deferred income	45,542	34,205	35,301	5,410
Amount due to a non-controlling shareholder of a subsidiary	—	—	1,138,506	174,486
	171,756	2,145,011	3,433,311	526,185
Current liabilities				
Borrowings	863,571	1,126,000	1,878,894	287,958
Trade and other payables	1,152,034	1,735,544	2,734,518	419,090
Dividend payable	—	—	8,000	1,226
Contract liabilities	231,000	226,589	260,594	39,938
Income tax payable	186,738	121,005	63,698	9,762
Senior notes	2,188,003	—	—	—
	4,621,346	3,209,138	4,945,704	757,974
Total liabilities	4,793,102	5,354,149	8,379,015	1,284,159
Total equity and liabilities	12,392,057	14,579,813	18,906,232	2,897,550
Net current assets (liabilities)	(1,468,443)	694,064	224,614	34,425
Total assets less current liabilities	7,770,711	11,370,675	13,960,528	2,139,579

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this offering memorandum before investing in the Notes. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also materially and adversely affect our business, financial condition or results of operations. If any of the possible events described below occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Notes, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Our business depends significantly on the level of activity and growth in the construction industry in the regions where we operate, particularly in Shaanxi Province.

Demand for our products is directly related to the level of activity in the construction industry, which includes residential, commercial and infrastructure construction. As a result, the demand for our products is predominantly dependent on the level of activity and growth in the construction industry in the regions where we operate, namely, Shaanxi, Xinjiang and Guizhou provinces and Mozambique, which in turn depends on factors such as general economic conditions, government policy, GDP growth, FAI, RDI, consumer confidence, inflation and demographic trends in those regions. Historically, a substantial majority of our cement products have been sold in Shaanxi Province and about 70.2% of our production capacity has been located in Shaanxi Province as of December 31, 2020, and we expect these trends to continue in the near future. Our lack of geographical diversity exposes us to risks associated with fluctuations in the political and economic conditions of Shaanxi Province. We have historically benefited from the high rate of growth in the economy of Shaanxi Province. Since 2015, the growth rates of Shaanxi Province's FAI have consistently been above the national averages, except for 2019. The GDP level of Shaanxi Province has ranked 11th to 15th between 2015 and 2020 among all 31 provinces in China. The RDI in Shaanxi Province grew by 12.8% in 2020. Xi'an, Weinan, Ankang, Hanzhong and Shangluo regions, all of which are within our core markets, had relatively high FAI growth rates in the same year. As a result of the continued economic development and growth in Shaanxi Province, the demand for construction materials, including cement, continued to grow. The fast growth of the economy and the construction industry, particularly government infrastructure projects, has been the main driver of the growth of the cement industry in Shaanxi Province and the growth of our business. We, however, cannot assure you that the GDP, FAI, RDI or the demand for cement in Shaanxi Province will continue to grow at historical rates, or at all. For example, the outbreak of COVID-19 in China in 2020 affected construction activities and demand for cement in Shaanxi and has led to a decrease in the market price for cement and therefore a decrease in our average selling price for cement in Southern Shaanxi and Central Shaanxi, which has gradually recovered since the second half of 2020. Any slowdown in the growth of economy or a downturn in the construction industry, particularly government infrastructure projects, in the regions where we operate, particularly in Shaanxi Province, could affect the demand for our products, which in turn could have a material and adverse effect on our business, financial condition and results of operations. Furthermore, activity in the infrastructure construction business is directly related to the amount of government funding available for such projects. Any decrease in the amount of government funds available for such projects or change in policies could have a material adverse effect on our business, financial condition and results of operations.

Our products are commodities, which are subject to significant changes in supply and demand and price fluctuations.

Cement products are commodities and competition among manufacturers is based largely on price. Prices are often subject to material changes in response to relatively minor fluctuations in supply and demand, general economic conditions and other market conditions beyond our control. Increases in the production capacity of industry participants tend to create an oversupply leading to an imbalance between supply and demand, which can have a negative impact on product prices. In recent years, there has been excess capacity of cement in Central Shaanxi, Xinjiang and Guizhou provinces in China, which led to increasing competition and pressure on average selling prices in 2019 and 2020. On the other hand, since 2017, there have been various governmental policies and measures which ease the pressure of excess supply, including capacity replacement guidelines, peak-shifting production halts measures, phasing out P●C 32.5R grade cement which led to phasing out of small-scale producers, The average selling price of our cement increased from approximately RMB312 per ton in 2018 to RMB333 per ton and decreased to RMB301 per ton, respectively, which led to fluctuations in our profit margin. There can be no assurance that prices will not continue to decline in the future. Many factors could cause the prices to decrease, some of which are beyond our control, including the level of demand and supply in our primary markets, the nature and extent of governmental regulation and taxation, the number, strength and pricing policy of our competitors, the availability, proximity and capacity of transportation facilities, and general economic conditions. Accordingly, the average unit selling prices of our products could decrease. Any substantial or prolonged decrease in the selling prices of our products may materially and adversely affect our liquidity, business, results of operations and financial condition.

The cement industry is capital intensive, and we may need to seek additional financing to support our growth.

The cement industry is highly capital intensive. We require a substantial amount of capital to build our production facilities, purchase production equipment and develop and implement new technologies in our new and existing facilities. For the years ended December 31, 2018, 2019 and 2020, our capital expenditures, as represented by purchase of property, plant and equipment, right-of-use assets, cash used for the acquisition of subsidiaries, land use rights, mining rights and other intangible assets, were approximately RMB843.0 million, RMB1,669.0 million, and RMB3,049.3 million (US$467.3 million), respectively, accounting for approximately 14.2%, 23.0% and 42.8% of our revenue for the same periods.

If our internally generated capital resources, net proceeds from the offering of the MTN Notes and available credit facilities are insufficient to finance our capital expenditure and growth plans, we may have to seek additional financing from third parties, including banks, venture capital funds, joint-venture partners and other strategic investors. We may also consider raising funds through issuance of new shares, which would lead to dilution of our existing shareholders' interests in our Company. If we are unable to obtain financing in a timely manner, at a reasonable cost and on acceptable terms, we may be forced to delay our expansion plans, downsize or abandon such plans, which may materially and adversely affect our business, financial condition and results of operations, as well as our future prospects.

We recorded net current liabilities as of December 31, 2018. We may record net current liabilities after the offering of the Notes and in future periods as we continue to expand and make significant capital investments. Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations (including the Notes and the MTN Notes) as and when they become due will depend primarily on our ability to maintain adequate cash inflows from operating activities.

Our level of indebtedness may expose us to liquidity risks.

We have historically relied on cash generated from our operations, bank loans, offerings of debt securities and share issuances to fund our capital requirements, finance the construction of our production facilities and purchase production equipment. As of December 31, 2018, 2019 and 2020, our total indebtedness were approximately RMB3,051.6 million, RMB2,836.7 million and RMB3,712.3 million (US$ 568.9 million), respectively. We had net current liabilities of approximately RMB1,468.4 million as of December 31, 2018 and net current asset of approximately RMB694.1 million and RMB224.6 million as of December 31, 2019 and 2020, respectively. We cannot assure you that we will not have a net current liabilities position in the future. Our net debt to equity ratios, calculated as a percentage of net debt (total debt less bank balances and cash, restricted/pledged bank deposits and structured deposits) divided by total equity, were 26.0%, 17.5%, 21.2% as of the December 31, 2018, 2019 and 2020. Our level of indebtedness could increase in the future and materially and adversely affect our liquidity. For example, it could:

- require us to allocate a higher portion of our cash flow from operations to fund repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate;

- potentially restrict us from pursuing strategic business opportunities;
- limit our ability to take on more debt; and
- increase our exposure to interest rate fluctuations.

As of the date of this offering memorandum, we have not experienced a reduction or withdrawal of credit or banking facilities by our lenders or any liquidity problems in settling our trade payables in the ordinary course of business when they became due. However, we cannot assure you that we will always be able to refinance or repay our bank loans, repay the Notes or the MTN Notes when they become due or always be able to raise the necessary funding to finance our current liabilities and our capital commitments.

We have a substantial amount of bank borrowings and some of our bank loans have floating interest rates and an increase in the interest rate may have an adverse effect on our financial performance.

As of December 31, 2020, we had total bank loans of approximately RMB2,479.4 million (US$380.0 million), among which a number of loans have floating interest rates linked to, among others, benchmark rates of the People's Bank of China ("PBOC") and the London Interbank Offered Rate ("LIBOR"). If there is a material increase in the reference rates during the term of our relevant loan facilities or when our current loan facilities become due, our finance costs may increase substantially and our results of operations and financial performance may be adversely affected.

We operate in a competitive market and, if we are unable to compete successfully, our business, financial condition and results of operations may be adversely affected.

The cement industry is highly competitive in the provinces where we operate, and we expect that competition will increase as a result of the increasing industry consolidation. We face a significant number of competitors, including both established companies with recognized brand names as well as new market entrants. See "Business — Competition." We compete with our competitors for customers, raw materials, energy resources and distribution network. Many of our current and potential competitors may have better brand recognition in local markets, better pricing or greater financial, distribution, technical or marketing resources than we do. Companies in these markets often employ aggressive pricing strategies to gain market share. Most of our competitors' core markets are in Central Shaanxi area, which is one of our core markets and is also adjacent to our other core markets. As a result, they compete or could compete with us for the same target customers. In addition, there has been a trend toward industry consolidation among cement producers for the past several years and we expect this trend toward industry consolidation to continue, which may result in larger and potentially stronger competitors in the markets where we operate. We compete primarily on the basis of price of our products, variety of product offerings, access to resources, sales and marketing network, production efficiency and brand image. If we are unable to compete successfully, our business, financial condition and results of operations could be materially and adversely affected.

Our business, financial condition and results of operations may be adversely affected by increases in coal or electricity prices or shortages of coal and electricity.

We use a substantial amount of coal and electricity in our production, and any shortage or interruption in the supply of coal or electricity could disrupt our operations and increase our costs of sales. The pricing for coal in our supply agreements is directly linked to market prices, so we bear the risk of coal price fluctuations. For the years ended December 31, 2018, 2019 and 2020, our cost of coal as a percentage of our total cost of sales of cement was approximately 27.6%, 27.8% and 26.5%, respectively. Our average purchase prices of coal were approximately RMB508.0, RMB525.6, and RMB486.5 per ton for the years ended December 31, 2018, 2019 and 2020, respectively. We cannot predict future price trends for coal or the degree of any price volatility.

For the years ended December 31, 2018, 2019 and 2020, our cost of electricity as a percentage of our total cost of sales of cement was approximately 15.8%, 15.6%, and 15.4%, respectively. Electricity prices for industrial enterprises are generally regulated by provincial governments in China. Our average electricity purchase price per KWh was approximately RMB0.40, RMB0.41 and RMB0.40 for the years ended December 31, 2018, 2019 and 2020, respectively. For example, there was a decrease in average electricity cost in 2018 as there was a reduction in the regulated electricity prices in certain areas where some of our production facilities were located. We cannot predict future price trends for electricity or the degree of any volatility. Any significant increase in the prices of coal or electricity or any shortage or interruption in their supply could increase our costs of sales and/or cause disruptions to our operations and if we fail to pass on such increase to our customers, it could have a material adverse effect on our business, financial condition and results of operations.

The resource tax we pay to local governments may increase and we may not be able to renew our existing mining rights or secure additional mining rights.

Under the Mineral Resources Law of the PRC (中華人民共和國礦產資源法), all mineral resources in China are owned by the state. We are required to obtain mining rights before undertaking any mining activities, and the mining rights are limited to a specific area during a fixed license period. We are also required to pay a resource tax of RMB3.0 per ton, RMB3.0 per ton and 6% on the price of excavated limestone to the local government in Shaanxi, Guizhou and Xinjiang provinces, respectively. For the years ended December 31, 2018, 2019 and 2020, we incurred approximately RMB14.5 million, RMB18.4 million and RMB39.2 million (US$6.0 million) in resource tax for the limestone excavated from the quarries for which we have mining rights, respectively. The amount of this resource tax may increase in the future, which could have a negative impact on our profitability and our results of operations.

As of December 31, 2020, we owned mining licenses for 17 limestone quarries, five of which are due to expire before the end of 2021. We cannot assure you that such mining licenses will be renewed upon expiration or that upon expiration, we will be able to renew on terms that are commercially reasonable. If we are unable to renew these licenses, we may have to seek alternative sources of limestone that may be further away from our production facilities which will result in higher transportation costs. For the years ended December 31, 2018, 2019 and 2020, we incurred approximately RMB103.3 million, RMB62.8 million and RMB45.7 million (US$7.0 million), respectively, for the limestone excavated from our quarries and purchased from third party suppliers. Of the RMB276.6 million (US$42.4 million) spent for limestone during the year ended December 31, 2020, RMB236.6 million (US$36.3 million) was attributable to costs for excavation from our quarries and RMB40.3 million (US$6.2 million) was attributable to purchases from third party suppliers. If we are unable to find alternative sources of limestone, the affected production facilities may not be able to continue their operations, in which case our business, financial condition and results of operations will be materially and adversely affected. As of the date of this offering memorandum, we have not yet obtained certain mining licenses for quarries in Tongchuan, Zhen'an and Danfeng, respectively. We expect to receive the mining license for the quarry in Zhen'an by the end of June 2021. As the application for mining license for quarries in Tongchuan and Danfeng is at the preliminary stage, the timing of receiving the license is to be confirmed. Failure to obtain such mining license may cause us to be ordered by the relevant authorities to cease excavation at this limestone quarry until we obtain such mining license, which could disrupt our operations. We may also be subject to fines and required to disgorge profits obtained from unauthorized mining.

As part of our growth strategy, we intend to acquire additional limestone reserves and production facilities. However, we cannot assure you that we will be able to acquire suitable limestone reserves in the future and obtain the mining rights for them. If we are unable to secure additional mining rights, our operations and growth prospects may be materially and adversely affected. Our financial performance and results of operations could also be adversely affected if we fail to pass on any increase in the cost of limestone excavation and purchases to our customers.

We may not be able to successfully identify suitable acquisition targets or complete the acquisitions, and if we do, we may face difficulties in integrating our acquired businesses or investments. If we fail to identify suitable acquisition targets, complete the acquisitions or realize the anticipated benefits from our acquisitions or investments, our business, financial condition and results of operations may be materially and adversely affected.

We have historically expanded our operations and markets in part through acquisitions and investment, including acquisition of Hongxing Glass in 2020. We also built one production facility following our joint venture investment in Mozambique in 2020. For more information, see ''Business — Acquisitions in Recent Years.'' However, we may acquire additional facilities in the future to take advantage of the industry consolidation trend and acquisition opportunities. The identification and completion of such acquisitions are dependent upon various factors, including satisfactory completion of due diligence, negotiation of definitive agreements and our ability to compete with other entities to acquire attractive targets. There can be no assurance that in the future we will be able to identify and acquire appropriate acquisition targets on commercially acceptable terms, if at all, or that we will have sufficient capital to fund such acquisitions. Failure to identify or acquire suitable acquisition targets in the future could materially and adversely affect our growth.

We may also experience difficulties in integrating the businesses and personnel that we have acquired or may acquire in the future with ours due to differences in our respective business models and cultures. Our management's time and attention may be diverted from other business concerns and we may experience difficulties in retaining key employees and customers of the acquired businesses. In addition, we may incur higher capital expenditure and integration costs than we initially anticipated. Our future acquisitions may also result in the inheritance of debt or other liabilities, which could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that we will be successful in realizing all of the anticipated benefits in the acquisitions that we have made or may make in the future. Failure to realize these anticipated benefits may materially and adversely affect our business, financial condition and results of operations.

We rely on third-party contractors to excavate limestone from all our limestone quarries and we may be liable for their failure to comply with applicable laws and regulations.

We engage third-party contractors to excavate limestone from all limestone quarries for which we have mining rights. We are not able to guarantee that the third-party contractors will continue to provide the limestone excavation services to us and, if any of them ceases to provide such services or fails to perform to our satisfaction, whether we will be able to locate suitable replacement to ensure a continuous supply of limestone for our production of cement products. If any of the third-party contractors ceases to provide such limestone excavation services to us and we are not able to locate suitable replacement, we may have to source limestone from other third party suppliers at higher cost and our results of operations and financial performance could be adversely affected.

We require our contractors to provide us with the applicable licenses and renewal certificates, as mandated under the relevant PRC laws and regulations, as well as conduct safety inspections at the quarries on a monthly basis. However, we may still be held liable by the regulatory authorities if our contractors fail to comply with relevant PRC laws and regulations and we may be subject to fines or other penalties and as a result our results of operations and financial performance may be adversely affected.

The prices of raw materials may continue to rise, and we may be unable to pass on some or all of the increases to our customers.

Certain raw materials used in our production, such as gypsum, flyash, pyrite cinder and slag, are subject to price volatility caused by external conditions, including commodity price fluctuations and changes in governmental policies. For the years ended December 31, 2018, 2019 and 2020, our cost of raw materials accounted for approximately 24.6%, 27.1% and 28.1%, respectively, of our total costs of sales.

We cannot assure you that our key suppliers will continue to provide us with raw materials at reasonable prices, or that our raw materials prices will remain stable in the future. In addition, we may not be able to transfer some or all of the increase in costs in our raw materials to our customers. As a result, any increase or material fluctuation in the prices of our raw materials could have a material adverse effect on our business, financial condition and results of operations.

Our business operations and construction of new facilities may be disrupted by reasons beyond our control, which could materially and adversely affect our business, financial condition and results of operations.

Our business operations and construction of new facilities may be disrupted by, among other things, extreme climatic and weather conditions, fires, natural disasters, epidemics, raw material supply shortages, equipment and system failures and labor force shortages. We hire independent contractors to excavate limestone for us and their operations are beyond our control. If our operations are disrupted for any reason, our business, financial condition and results of operations could be materially and adversely affected. In addition, due to the nature of our business and despite compliance with safety requirements and standards, our operations are subject to operational risks associated with the production of construction materials, such as storage tank leaks, explosions, discharges of hazardous substances and malfunctioning of production machinery. These risks may result in personal injuries, property damage and imposition of civil or criminal penalties.

We currently enjoy certain PRC tax incentives. Expiration of, or changes to, these incentives could materially and adversely affect our results of operations and financial condition.

We currently enjoy certain PRC tax incentives as a result of the locations of all of our PRC subsidiaries in western China and our use of recycled materials in our cement production. Some of our PRC subsidiaries are entitled to preferential enterprise income tax, or EIT, rate of 0 to 20% under the applicable government policies, compared with the regular national enterprise income tax rate of 25%. For example, Hetian Yaobai was entitled to a preferential EIT rate of 15% in 2020 and will continue to be entitled to this preferential rate until December 31, 2030 if its main business income from encouraged business as defined in the Catalog of Encouraged Industries in the Western Regions (2020 version) (西部地區鼓勵產業目錄(2020年本)) in a year accounted for more than 60% of its total income in that year. Moyu Jiancai and Hetian Jiancai are entitled to 0% EIT rate from 2020. As enterprises located in western China operating in "encouraged" industries and being eligible high-tech enterprises, 24 of our PRC subsidiaries in Shaanxi, Guizhou and Xinjiang provinces are entitled to a preferential enterprise income tax rate of 15% under the (i) Western Development Plan implemented by the PRC government to encourage development in the western region of China, or (ii) relevant tax incentives for high-tech enterprises compared with the regular national enterprise income tax rate of 25%. Our net profit after tax may be lower after 2030 when the current Western Development Plan expires.

In addition, pursuant to the Announcement on the Value-added Tax Policies for Comprehensive Utilization of Resources (關於資源綜合利用增值稅政策的公告), we enjoy valued-added tax ("VAT") refunds for cement products that utilize waste materials. In years ended December 31, 2018, 2019 and 2020, such VAT refunds amounted to approximately RMB316.2 million, RMB269.6 million and RMB246.6 million (US$37.8 million), respectively, representing 5.3%, 3.7%, and 3.5% of our revenue during the same periods.

There is no assurance that we will be able to continue to enjoy these incentives on the same terms, or at all, in the future. Expiration of, or unfavorable changes to, these incentives in the future may adversely and materially affect our business, financial condition and results of operations.

Changing standards and regulations could make our products obsolete, which would have a material adverse effect on our business, financial condition and results of operations.

Our cement products are subject to changing government regulations and industry standards. We might be required to adhere to new and more stringent standards or regulations in the future as the PRC government seeks to improve standards that govern certain aspects of the production and sales of cement products to promote environment protection and suppress overcapacity of the cement industry. If the industry groups adopt standards or the PRC central or local government issues regulations with which our products are not compatible, some or all of our products may become obsolete. For example, the State Council issued "Guidelines on Resolving the Excessive Overcapacity Issue" (國務院關於化解產能嚴重過剩矛盾的指導意見) on October 6, 2013, which, among other things, set a goal to abolish P●C 32.5R grade cement as soon as possible and gradually reduce the use of P●C 32.5R grade cement. Pursuant to the requirements of the State Administration for Market Regulation and Standardization on Administration of the PRC, from October 2019, P●C 32.5R grade cement has been formally abolished, and its market is currently being replaced by M 32.5 and P●C 42.5 cement. We cannot assure you that there will not be new standards or requirement to phase out other products. If we are unable to successfully develop or acquire new product production capabilities to replace other products as they become obsolete, our business, financial condition and results of operations would be materially affected.

Our expansion into new markets and overseas markets may not be successful.

We expanded our operations into Mozambique in Africa in 2020 and we currently plan to enter into Sichuan province. Our limited operating experience and experience with regulatory environments and market practices in these new markets may limit our expansion strategy and cause our business and growth to suffer. We may also encounter difficulty growing our business in these new markets because of limited brand recognition leading to delayed acceptance of our products by customers in these new markets. We will also face different market dynamics and competition as we expand our presence in the new markets and may not be as successful as our competitors in generating revenues in those markets. Any expansion efforts in Sichuan province and/or Mozambique could be more costly and less profitable than our efforts in our existing markets. In addition, we have established subsidiaries in other African countries including Mauritius, the Republic of Congo and Ethiopia, and plan to engage in business lines such as real estate construction, logistics, the manufacture and sales of glass as well as the production and sale of cement in these countries. We face risks associated with expanding into an increasing number of markets where we have limited or no experience, we may be less well-known or have fewer local resources and we may need to localize our business practices, culture and operations. We may lack knowledge of the local regulatory environment, market conditions, cultural and economic background, labor market and competitive landscape. We may also face protectionist policies that could, among other things, hinder our ability to execute our business strategies and put us at a competitive disadvantage relative to domestic players in other jurisdictions. In particular, the expansion of our African businesses will also expose us to risks and challenges inherent in operating businesses internationally, including:

- increased resources requirements to manage regulatory compliance across our international businesses;
- failure to attract and retain capable talent with international and local perspectives who can effectively manage and operate local businesses;
- uncertain enforcement of our intellectual property rights in different jurisdictions;
- uncertain, complex and potentially adverse and conflicting customs, import/export laws, currency controls, anti-dumping rules tax rules and regulations or other trade barriers or restrictions, which could negatively affect margins on sales of our products in foreign countries and on sales of products that include components obtained from foreign suppliers;
- credit and collectability risk on our trade receivables with customers in different regions;
- availability, reliability and security of international and cross-border payment systems and logistics infrastructure;
- exchange rate fluctuations;
- political instability and general economic or political conditions in particular countries or regions, including territorial or trade disputes, war and terrorism;
- challenges in replicating or adapting our company policies and procedures to operating environments different from that of China;
- challenges of maintaining efficient and consolidated internal systems, and of achieving customization and integration of these systems;
- lack of acceptance of our product and service offerings, and challenges of localizing our offerings to appeal to local tastes;
- increased competition with local players in different markets and sub-markets; and
- protectionist or national security policies that restrict our ability to invest in or acquire companies, develop, import or export certain technologies, or utilize technologies that are deemed by local governmental regulators to pose a threat to their national security.

There is no assurance we will be able to manage these risks and challenges as we continue to grow our businesses and enter into new markets. If we are less successful in the new markets than we expect, we may not be able to realize an adequate return on our initial investment and our business, financial condition and results of operations may be materially and adversely affected. If we incorrectly gauge market demand, we may not be able to grow our revenue at expected growth rates and may incur expenses and capital expenditure costs relating to the development of new projects that do not generate a positive return on the investment. Therefore, failure to manage any of the above-mentioned risks and challenges could negatively affect our ability to expand our businesses and operations as well as materially and adversely affect our business, financial condition and results of operations.

Our business depends on our ability to manage our working capital successfully.

We depend on cash from our operating activities, short-term bank loans and net proceeds from offerings of debt securities for our working capital needs. Our success depends on our ability to continue to secure and successfully manage sufficient amounts of working capital. Such successful management primarily involves (i) timely payments of, or rolling over of, our short-term indebtedness and securing new loans on favorable terms, (ii) timely payments or re-negotiation of our payment terms for our trade payables, (iii) efficiently utilizing banking facilities, (iv) timely collection of trade receivables and (v) establishing and executing accurate and feasible budgets for our business operations. If we cannot manage our working capital successfully, our business, financial condition and results of operations could be materially and adversely affected.

Our business depends substantially on the continuing efforts of our executive directors, senior management, key personnel, and our ability to maintain a skilled labor force.

We are dependent on the ability and expertise of our executive directors and senior management for our daily business operations and formulating and implementing our business strategies. If one or more of our executive directors or senior management were unable or unwilling to continue in their present positions, we may be unable to identify and recruit suitable replacements in a timely manner, or at all. In addition, if any member of our senior management were to join a competitor or form a competing company, we may lose some of our know-how and customers.

Furthermore, recruiting and retaining capable personnel, particularly experienced engineers and technicians familiar with our production processes, are vital to maintaining the quality of our products, continuously improving our production processes and supporting the expansion of our production capacity. We also need to recruit personnel with internal control experience to maintain and strengthen our internal control systems and procedures. We may also need to employ and retain more management personnel to support our expansion in the future. There is substantial competition for qualified personnel in the cement industry and we have experienced difficulties in recruiting suitable personnel with internal control experience in the past. We cannot assure you that we will be able to attract or retain qualified personnel. If we are unable to attract and retain qualified employees, key personnel and senior management, our business, financial condition and results of operations may be materially and adversely affected.

Our controlling shareholders will have substantial influence over us and there may be conflicts of interest between our controlling shareholders and our other shareholders.

Our controlling shareholders, Zhang Jimin (''Mr. Zhang'') and Asia Gain Investments, Ltd. (盈亞投資有限公司) (''Asia Gain'') in aggregate beneficially own 32.3% of our issued share capital as of the date of this offering memorandum. Accordingly, our controlling shareholders, through their voting power at shareholders' meetings and their delegate(s) to our board, will be in a position to exert significant influence over our management and corporate policies, including our development strategies, capital expenditure, dividend distribution plan, change of control and corporate opportunities. In addition, circumstances may arise in which the controlling shareholders' interests may conflict with your interests. Potential conflicts of interest with our controlling shareholders may include matters relating to:

- approval of potential mergers or acquisitions, asset sales, and other significant corporate transactions, including transactions which may lead to a change of control;
- issuances of securities;
- investment decisions and decisions relating to capital expenditures; and
- payment of dividends and other distributions.

So long as our controlling shareholders continue to own a significant amount of our equity, even if such amount is less than 50% of the issued and outstanding shares, our controlling shareholders will continue to be able to strongly influence or effectively control our decisions.

Our results of operations are subject to seasonal fluctuations.

Demand for our products is subject to seasonal fluctuations. We usually record our lowest quarterly sales in the first quarter due to the Chinese New Year holidays and cold weather in Shaanxi Province. Certain climatic conditions, such as snow, storms and heavy or sustained rainfall, also negatively affect our sales because the level of activity in the construction industry is relatively low under those conditions. We generally experience an increase in sales volume of our products in the second and third quarters because of improved weather conditions and we generally increase the prices of our products due to higher demand during this period as a result of the higher level of construction activities. As a result of the seasonal fluctuations, our quarterly and semi-annual results may not be indicative of our business and financial performance for the year as a whole.

Any failure to maintain an effective quality control system at our production facilities could have a material and adverse effect on our business, financial condition and results of operations.

The quality of our products is critical to the success of our business. The quality of our products depends on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training program, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of defective or substandard products, which in turn may result in delays in the delivery of our products, the need to replace defective or substandard products and damage to our reputation, which could have a material and adverse effect on our business, financial condition and results of operations.

We may be subject to liabilities in connection with accidents arising from our business and operations. We may not have sufficient insurance coverage for such liabilities.

We face various risks, including the risk of liability for personal injury and loss of life, damage to or destruction of facilities and equipment, transportation damages and delays, environmental pollution, and risks posed by natural disasters, in connection with our business and operations which may not be completely eliminated through the implementation of preventive measures. Our business involves the operation of heavy machinery, which, if operated improperly, may result in physical injury or even death. Accidents have happened in the past due to, among others, improper operation of machinery, machinery malfunction or employee negligence. See ''Business — Occupational Health and Safety.'' There can be no assurance that similar accidents will not happen in the future. If accidents resulting in employee injuries or deaths occur, we may be liable for medical and other payments to the employees and their families, in addition to possible fines or penalties. Furthermore, we may be forced to shut down certain equipment or suspend our operations due to government investigation or government requirement to implement additional safety measures. Such business interruptions will result in loss of profit to us. We cannot assure you that all risks have been covered adequately by our existing insurance policy. If we incur substantial liabilities and they are not covered by our insurance policies, our business, financial condition and results of operations could be materially and adversely affected.

Any unauthorized use of our brand names, trademarks and other intellectual property rights may materially and adversely affect our business, financial condition and results of operations.

We rely on the PRC intellectual property and competition laws and contractual restrictions to protect our brand names, trademarks and other intellectual property rights, which are important to our business. Our products are principally sold under the trademarks ''堯柏'' (Yao Bai), ''堯柏水泥'' (Yaobaishuini), ''堯柏石灰'' (Yaobaishihui), ''堯柏新材'' (Yaobaixincai) and ''蝸牛'' (Snail). unauthorized use of our brand name, trademark, and other intellectual property rights by third parties could adversely affect our business, reputation and market position.

We cannot assure you that the measures we take to protect our brand name, trademark and other intellectual property rights will be sufficient. In addition, the application and interpretation of the PRC laws governing intellectual property rights in China are uncertain and still evolving, which could expose us to substantial risks. If we are unable to adequately protect our brand name, trademark and other intellectual property rights, our business, financial condition and results of operations could be adversely and materially affected.

Product liability claims may be brought against us and, whether or not successful, could harm our business, financial condition and results of operations.

We are exposed to risks associated with product liability claims if the use of our cement products results in property damage or personal injury. Our cement products are mainly used as construction materials. While we seek to conform our products to meet a variety of contractual specifications and regulatory requirements, we cannot assure you that product liability claims against us will not arise, whether due to product malfunctions, defects, or other causes. We do not maintain any product liability insurance coverage and any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. Furthermore, we cannot assure you that we will be able to defend against such claims successfully. If any such claims against us were ultimately successful, we may be required to pay substantial damages, which could materially and adversely affect our business, financial condition and results of operations.

Our internal controls over financial reporting may have deficiencies and weaknesses.

We have engaged a reputable external consulting firm to review selected areas of our internal controls over financial reporting. In response to the recommendations of the internal control advisor, we have revised and implemented internal control policies and procedures in areas of deficiencies and weaknesses and have instituted a monitoring process. However, we cannot assure you that any deficiencies or weaknesses in our internal control for financial reporting will not occur in the future. If we fail to maintain effective internal controls over our financial reporting, we may not be able to timely and accurately prepare our financial reporting and therefore our results of operation may be adversely affected.

Our business, results of operations, financial condition and prospects may be adversely affected as a result of negative media coverage relating to us or the industry or market in which we operate.

We may be subject to and associated with negative publicity, including those on the Internet or any rating, research or short-selling reports, with respect to our corporate affairs and conduct related to our personnel. The industry or market in which we operate may also be subject to negative reports or criticisms by various media, such as alleged use of forced labor or human rights abuses issues in Xinjiang, or incidents of fraud and bribery. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Nonetheless, any negative coverage, whether or not related to us or our related parties and regardless of truth or merit, may have an impact on our reputation and, consequently, may undermine the confidence of our customers and investors, which may in turn materially and adversely affect our business, results of operations, financial condition and prospects.

RISKS RELATING TO THE CEMENT INDUSTRY IN THE PRC

The cement industry is subject to significant regulation by the PRC government.

Various PRC government authorities, including the Ministry of Land and Resources, the State Environmental Protection Administration, State Administration for Market Regulation of the PRC, or SAMR, the Ministry of Industry and Information Technology and the Ministry of Construction of the PRC, have the authority to issue and implement regulations governing various aspects of cement production.

In order to engage in cement production, we are required to maintain certain licenses and permits such as a cement production permit and a production safety permit in China. In addition, our products are also required to meet certain standards stipulated by various PRC government authorities. For example, PRC Standardization Administration issued the GB175–2007/JC/T452–2009 standards that govern certain aspects of the production and sales of cement products.

All cement producers in the PRC must comply with these standards, and cement products that fail to meet the relevant quality standards may not be sold in the PRC. These standards include strict guidelines regarding the composition and technical specifications for cement products. They also standardize the testing methods for cement products and the types of packaging permitted. Should there be any change to the existing requirements or new requirements applicable to our cement products, we may need to incur additional expenses to ensure compliance and we cannot assure you that we will successfully obtain such licenses, permits or approvals in a timely manner, or at all. For example, Tongchuan Yaobai is in the process of applying for production license, and some of our PRC subsidiaries are in the process of applying for or renewing mining license, safety production license, and license for water drawing (取水許可證). The documents of approval and record filing with NDRC for some production lines belonging to some of our PRC subsidiaries could not be retrieved. If we are not able to meet all the licensing conditions or the regulatory requirements, our business, financial condition and results of operations could be adversely and materially affected.

The cement industry has traditionally been subject to government control at the policy level in terms of production method and volume, product mix and environmental protection. While the PRC Government's current policies in respect of the domestic cement industry are generally market oriented, the PRC government still closely monitors the development of the cement industry and may from time to time regulate the industry by issuing and implementing new regulations and policies. For example, according to the Guidelines on Resolving the Excessive Overcapacity Issue (國務院關於化解產能嚴重過剩矛盾的指導意見) issued by the State Council on October 6, 2013, excess capacity will be eliminated through the absolute restraint of blind expansion of capacity, cessation of illegal capacity and closure of outdated capacity. In addition, P●C 32.5R grade cement has been formally abolished from October 2019 and its use will be significantly reduced. The constraints on the discharge of major pollutants, such as nitrogen oxide, and the energy and resource consumption indices will be strengthened; the product line that fails to meet these standards will be shut down. According to the Implementation Opinions of Shaanxi Province Government on Resolving the Excessive Overcapacity (陝西省人民政府關於化解產能嚴重過剩矛盾的實施意見) issued by Shaanxi Province Government on February 14, 2014, obsolete cement production capacity, including mechanized shaft kilns, dry-process hollow kilns (except those for producing high-alumina cement, sulphoaluminate cement and other kind of special cement), Lepol kilns, wet-process kilns, cement grinding equipment of less than three meters in diameter was eliminated.

In addition, according to the Standard Criteria for the Cement Industry (水泥行業規範條件) promulgated by the Ministry of Industry and Information Technology, which came into effect on March 1, 2015, newly built cement projects shall be planned to build an industrial chain of circular economy. Newly built cement clinker projects shall take into account the disposal of local solid wastes and industrial solid wastes cooperatively. Newly built cement grinding projects shall be planned to absorb and utilize local solid wastes suitable to be used as mixtures.

In addition to its entry barriers, the cement industry has been subject to a credit control policy in recent years as it is an energy intensive industry. In June 2007, the PBOC promulgated the Guidelines on the Enhancement and Improvement of Financial Services in Energy Saving and Environmental Protection Fields (中國人民銀行關於改進和加強節能環保領域金融服務工作的指導意見), or the "2007 Guidelines," which tightened credit in energy intensive and heavily polluting industries and effectively constrained bank lending to PRC cement companies. Although we have adopted energy saving and environmentally friendly production technologies, and our production facilities are in compliance with industry policies, we may still have limited access to RMB-denominated loans from time to time due to different interpretations and implementation of the 2007 Guidelines by various PRC banks.

Moreover, projects involving significant capital investment are subject to approval or filing requirements at different levels of the PRC government. Compliance with these government regulations and policies and efforts to obtain such approvals may result in significant adjustments to our current or future development plans, increase our costs and divert our management resources, which may adversely affect our profitability and growth prospects.

Compliance with environmental and energy conservation regulations can be expensive, and any failure to comply with these regulations could result in adverse publicity, significant monetary damages and fines and suspension of our business operations.

As an industry that generates significant levels of pollution and consumes large amounts of energy, the cement industry is subject to national and local environmental protection and energy conservation laws and regulations. As the production of cement is regarded as one of the major sources of pollution in the PRC, the PRC government has adopted a series of environmental policies to reduce the adverse effects of the cement industry on the environment, such as the requirement to use the more environmentally friendly NSP production technology. Governmental requirements that affect our operations include those relating to noise, soil, air quality, solid waste management, and wastewater treatment. On November 25, 2010, the Ministry of Industry and Information Technology issued the "Guidelines on Energy Saving and Emission Reduction of the Cement Industry" (工業和信息化部關於水泥工業節能減排的指導意見), which aims to conserve energy and reduce the emissions resulting from cement production in the coming years. On September 10, 2013, the State Council issued the "Action Plan for Air Pollution Prevention and Control" (大氣污染防治行動計畫), which designated the cement industry as one of the key industries to carry out clean production. The Notice requires the cement producers, among other things, to accelerate the facility upgrades by installing denitration (De-NOx) equipment at cement kilns. The Ministry of Environmental Protection of the PRC issued the latest "Emission Standard of Air Pollutants for Cement Industry" (水泥工業大氣污染物排放標準) in December 2013 pursuant to which the limit for NOx emission in general areas must be reduced to 400 mg/m^3. Newly established enterprises were required to comply with the new standard from March 1, 2014, while existing enterprises must implement the new standard from July 1, 2015. On September 29, 2020, the Standardization Administration of China promulgated the New Standard for Cement Package (GB/T 9774–2020) which requires that from April 1, 2022, all cement producers must adopt the new package for cement which means cement producers have to upgrade their packaging machinery, equipment and adopt automation more widely. With the implementation of the new standard, our operating costs may increase. In addition, the PRC government has adopted energy saving or production control policies specifically for the cement industry. For example, the "Three-year Action Plan to Win the Blue Sky Protection War" by the State Council (國務院《打贏藍天保衛戰三年行動計劃》) in 2018 specifically restricted new capacity construction of highly-polluting industry such as cement industry in certain important areas and strengthened the implementation of peak-shifting production halts to achieve the targets such as reduction of SO_2 and NOx emission by 15% or above by 2020 compared with 2015.

Failure to comply with these policies and regulations may result in the assessment of damages or imposition of penalties, fines, administrative sanctions, proceedings and/or suspension of production or cessation of our operations or revocation of our licenses or permits to conduct our business. With the increasing awareness of environmental protection and energy conservation issues, we anticipate that the PRC regulatory framework will become increasingly stringent. The implementation of more stringent laws and regulations or stricter interpretation of the existing laws and regulations may require us to incur additional expenses for compliance purposes. We cannot assure you that we will be able to comply with any additional regulations in the future, or enhanced implementation of such existing regulations, on a cost-effective basis, or at all. For example, some of our PRC subsidiaries have not completed the procedures of environmental assessment and acceptance, the procedures of inspection and acceptance for fire protection. The documents of geologic disaster danger evaluation for some production lines belonging to some of our PRC subsidiaries could not be retrieved. In such circumstances, our business, financial condition and results of operations could be adversely and materially affected.

We are subject to safety and health laws and regulations in China, and any failure to comply could adversely affect our operations.

We are required to comply with the applicable production safety standards in relation to our production processes. Our production plants and facilities are subject to regular inspections by the regulatory authorities for compliance with the Work Safety Law of the PRC (中華人民共和國安全生產法). Furthermore, under the PRC Labor Law and the PRC law on the Prevention and Control of Occupational Diseases (中華人民共和國職業病防治法), we must ensure that our facilities comply with PRC standards and requirements on occupational safety and health conditions for employees. We also provide our employees with labor safety training, all necessary protective tools and facilities, and regular health examinations for those who may be exposed to occupational hazards. Nevertheless, we cannot assure you that we will be able to comply with all the relevant legal requirements. For example, some of our PRC subsidiaries have not conducted an evaluation of the control effect of occupational diseases, an evaluation of the safety production equipment or completed a final acceptance (竣工驗收). Failure to meet the relevant legal requirements on production safety and labor safety could subject us to warnings from relevant governmental authorities, governmental orders to rectify such non-compliance within a specified time frame and maximum fines of up to RMB500,000 per incident. We may also be required to suspend our production temporarily or cease our operations permanently for significant non-compliance, which may have a material adverse effect on our reputation, business, financial condition and results of operations.

RISKS RELATING TO THE PRC

Any slowdown in the PRC economy or changes in political and economic policies of the PRC government could have an adverse effect on the overall growth in the PRC, which could reduce the demand for our products and materially and adversely affect our business, financial condition and results of operations.

Substantially all of our assets are located in PRC and all of our business operations are conducted in the PRC. During the years ended December 31, 2018, 2019 and 2020, we derived a substantial portion of our revenue from the sale of our products to customers in Shaanxi, Guizhou and Xinjiang Provinces, PRC. Accordingly, our business, results of operations and financial condition are significantly affected by economic, political and legal developments in the PRC. Demand for our products is dependent on the pace of the economic growth in the PRC and in particular the general level of activity and growth in the construction industry in western China where we operate. In addition, general national economic conditions, mortgage and interest rate levels, inflation, unemployment, demographic trends, GDP growth and consumer confidence also influence the performance and growth of the construction industry and, consequently, the demand for our products. A downturn in the construction industry in the PRC or in any of the regional markets in Shaanxi, Guizhou and Xinjiang Provinces where we operate could materially and adversely affect our business, financial condition and results of operations.

The PRC government has implemented economic reform measures and industrial policies in the past three decades and will continue to do so in order to utilize market forces in the development of the PRC economy. Some of these measures and policies, while benefiting the overall PRC economy, may have a negative effect on us. For example, efforts by the PRC government to slow the pace of growth of the real estate industry to a more sustainable level in the PRC may negatively affect the real estate market and consequently impede the growth of the construction industry. Any weakening in the real estate sector in our target markets could adversely affect our business, financial condition and results of operations.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

Our business and operations are conducted in the PRC and governed by PRC laws, rules and regulations. The PRC legal system is a civil law system based on written statutes and prior court decisions can only be used as reference. Since the late 1970s, the PRC government has significantly enhanced PRC laws and regulations in relation to economic matters such as foreign investments, corporate organization and governance, commerce, taxation and trade. However, the PRC does not yet have a fully integrated legal system. Due to the limited volume of published cases and the non-binding nature of prior court decisions, the interpretation and enforcement of many recently enacted laws, rules and regulations may be uncertain or inconsistent. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention, which in turn could have a material and adverse effect on our business, financial condition and results of operation.

We may be deemed a PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income.

Under the PRC Enterprise Income Tax Law that took effect on January 1, 2008, enterprises established outside of the PRC whose "de facto management bodies" are located in the PRC are considered "resident enterprises" and will generally be subject to the uniform 25% enterprise income tax rate on their worldwide income. The State Council of the PRC has promulgated implementation rules of this tax law which define "de facto management body" as an organization that exercises substantial and overall management and control over an enterprise's manufacturing or business operation, staff, accounting and property. In addition, the Notice of the State Administration of Taxation on Issues Relating to Determining the Resident Enterprise Status of Overseas Registered Chinese Holding Enterprises Based on the "de facto Management Bodies" Standard (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), which was issued on April 22, 2009 and has a retrospective effect since January 1, 2008, provides specific tests regarding under what situations an enterprise's "de facto management body" would be considered to be located in the PRC. Substantially all of our management is currently based in the PRC, and we expect them to continue to be located in the PRC for the foreseeable future. Although the PRC tax authorities have not notified us to date that we should be treated as a PRC tax resident enterprise, it is not clear whether the PRC tax authorities will seek to assert such characterization. In the event that we are treated as a "resident enterprise" for enterprise income tax purposes, our worldwide income, excluding dividends received from our PRC subsidiaries, will be subject to PRC enterprise income tax. See "— Interest payable by us to our foreign investors and gains on the sale of our Notes may be subject to withholding taxes under PRC tax laws" below.

Additionally, under the Announcement of the State Administration of Taxation on Several Issues concerning Enterprise Income Tax on the Indirect Transfer of Property by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) issued by the State Administration of Taxation (國家稅務總局) on February 3, 2015, even if we or our non-PRC subsidiaries are considered as non-PRC resident enterprises, we cannot provide any assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries via our non-PRC holding companies in the future will not be subject to examinations by our PRC subsidiaries' tax authorities and therefore will not be subject to a withholding tax of 10%.

Interest payable by us to our foreign investors and gains on the sale of our Notes may be subject to withholding taxes under PRC tax laws.

Under PRC tax laws, withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their investors that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent such interest is from sources within the PRC (or at the rate of 20% from interest paid to investors that are non-resident individuals), subject in each case to the provisions of any applicable double tax treaty. In addition, any gain realized on the transfer of our Notes is subject to PRC enterprise income tax if such gain is regarded as income derived from sources within the PRC at the rate of 10% for enterprises, or possibly 20% for individuals, subject to the provisions of any applicable double tax treaty.

Our Company currently takes the view that it is not a "resident enterprise" for these purposes. However, if our Company is considered to be a "resident enterprise," the interest we pay with respect to our Notes may be treated as income derived from sources within the PRC and be subject to PRC enterprise income tax. Further, in the event that our Company is considered a "resident enterprise," it is unclear whether the gain from the transfer of our Notes would be treated as income derived from sources within the PRC and be subject to PRC enterprise income tax. If the holders of our Notes are required to pay PRC enterprise income tax on the transfer of their Notes, the value of their investment in our Notes may be materially and adversely affected.

Our Company has agreed to pay, subject to certain exceptions, such additional amounts as will result in the holders' receipt of the amounts that would have been received in the absence of withholding of taxes by our Company. If our Company is considered as a "resident enterprise" and is required to withhold PRC taxes from payments on the Notes, the requirement to pay additional amounts with respect to any PRC tax withheld will increase the cost of servicing the Notes and will adversely affect our cash flows and financial position.

We may be subject to fines and penalties under the PRC Labor Contract Law, and our labor costs may increase.

The PRC Labor Contract Law, which became effective on January 1, 2008, imposes requirements on employers concerning, among others, the types of contracts to be executed between an employer and an employee, and establishes time limits for probation periods and for fixed-term employment contracts. It also requires the employer to contribute to social insurance and housing funds on behalf of its employees. We are unsure whether the PRC Labor Contract Law will affect our current employment policies due to different interpretations and implementation policies by local bureaus and we cannot assure you that our employment policies do not or will not violate the PRC Labor Contract Law and that we will not be subject to related penalties, fines or legal fees.

As a result of the PRC Labor Contract Law, our labor costs may increase, which would in turn lead to an increase in our cost of sales. We may not be able to pass these increases on to our customers due to competitive pricing pressures. If we are subject to large penalties or fees related to the PRC Labor Contract Law or our labor costs increase, our business, financial condition and results of operations may be materially and adversely affected.

Government control over currency conversion may limit our ability to utilize our cash effectively.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange of the PRC ("SAFE"), by complying with certain procedural requirements. However, foreign exchange transactions in the capital account, including the foreign currency capital in any foreign-invested enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require prior approval from SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

All our revenue is in Renminbi. The Renminbi is not a freely convertible currency. We will have to convert portion of our Renminbi revenue or profit to meet our foreign currency obligations, such as the payment of dividends, if declared. Limits in the PRC on conversion of Renminbi into foreign currency may restrict our ability to pay dividends or other payments, or otherwise satisfy foreign currency-denominated obligations. If restrictions imposed by the PRC Government prevent us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

In addition, since our revenues have been and will continue to be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in the PRC to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us, which could have a material and adverse effect on our business, financial condition and results of operations.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Most of our production lines and a majority of our directors are located in the PRC. As a result, it may not be possible for you to effect service of legal process upon us or our directors in the PRC. The PRC does not have treaties providing for reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other western countries. Thus, it may be difficult for you to enforce against us and our directors in the PRC any judgments obtained from non-PRC courts.

Our results of operations and the trading price of our Notes may be adversely affected by the occurrence of an epidemic.

Any threatened or actual outbreak of an epidemic in the PRC, such as the H1N1 virus, severe acute respiratory syndrome, avian influenza, or COVID-19 could have a negative effect on our results of operations and the trading price of our Notes. Our operations may be affected by a number of health-related factors, including quarantines or closures of some of our offices or production facilities, temporary suspension of manufacturing operations, travel restrictions, the sickness or death of our key officers and employees and a general slowdown in the PRC's national and regional economy.

RISKS RELATING TO THE NOTES

We are a holding company and payments with respect to the Notes are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our subsidiaries primarily based in the PRC. The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, subject to the covenants under the caption ''Description of the Notes — The Subsidiary Guarantees'', the Notes will not be guaranteed by the Non-Guarantor Subsidiaries and any future Restricted Subsidiary that is, or is proposed by the Parent Guarantor or any of its Restricted Subsidiaries to be, established at any time in the future. Our primary assets are loans to and ownership interests in our PRC subsidiaries and certain African operating subsidiaries, which are held through the Subsidiary Guarantors and certain Non-Guarantor Subsidiaries incorporated outside the PRC. The Subsidiary Guarantors do not have material operations. In addition, shares of our subsidiaries will not be pledged for the benefit of the holders of the Notes. Accordingly, our ability to pay principal and interest on the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees will depend upon our receipt of principal and interest payments on the intercompany loans and distributions of dividends from our PRC subsidiaries. See ''— Risks Relating to the PRC — Government control over currency conversion may limit our ability to utilize our cash effectively.''

Creditors, including trade creditors of our PRC subsidiaries and any holders of preferred shares in such entities, would have a claim on such subsidiaries, assets that would be prior to the claims of holders of the Notes. As a result, our payment obligations under the Notes will be effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our PRC subsidiaries and our Non-Guarantor Subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Notes. As of December 31, 2020, our subsidiaries had indebtedness in the amount of RMB353.4 million (US$54.2 million) and capital commitments of approximately RMB194.2 million (US$29.8 million). See ''Description of Other

Material Indebtedness." The Notes and the Indenture do not restrict the ability of our subsidiaries to issue certain categories of guarantee in the ordinary course of business. In addition, our secured creditors or those of any Subsidiary Guarantor would have priority as to our assets or the assets of such Subsidiary Guarantor securing the related obligations over claims of holders of the Notes.

Under the terms of the Notes, a non-PRC Restricted Subsidiary (and its subsidiaries, if any) established or acquired after the Original Issue Date does not have to provide a Subsidiary Guarantee if (i) within 30 days of the establishment or acquisition of such Restricted Subsidiary, either (x) one or more independent third parties owns 30% or more of the capital stock of such Restricted Subsidiary or (y) the Company is in discussions with one or more independent third parties for a potential investment by such independent third parties in such Restricted Subsidiary and (ii) no later than 180 days after the establishment or acquisition of such Restricted Subsidiary and at anytime thereafter, such independent third party or parties own no less than 30% of the capital stock of such Restricted Subsidiary.

In addition, the Company may designate any Offshore Restricted Subsidiary (including those Offshore Restricted Subsidiaries not providing Subsidiary Guarantees on the Original Issue Date, but excluding any New Offshore Non-Guarantor Subsidiary or Exempted Subsidiaries) as a Designated Offshore Non-Guarantor Subsidiary; provided that, after giving effect to the consolidated assets of such Offshore Restricted Subsidiary, (i) at any time of determination, the total Relevant Non-Guaranteed Portion would not exceed 15% of Total Assets (excluding for this purpose the consolidated assets of all Exempted Subsidiaries and New Offshore Non-Guarantor Subsidiaries as of the date of calculation); and (ii) such designation would not cause a Default.

We have considerable indebtedness, including that under the MTN Notes, and may incur substantial additional indebtedness in the future, which could adversely affect our financial health and our ability to generate sufficient cash to satisfy our outstanding and future debt obligations.

We now have and will continue to have after the offering of the Notes, a substantial amount of indebtedness. As of December 31, 2018, 2019 and 2020, our total indebtedness amounted to RMB3,051.6 million, RMB2,836.7 million and RMB3,712.3 million (US$568.9 million), respectively.

Our considerable indebtedness could have important consequences to you. For example, it could:

- limit our ability to satisfy our obligations under the Notes and other debt;
- increase our vulnerability to adverse general economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to servicing and repaying our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and for other general corporate purposes;
- limit our flexibility in planning for or reacting to changes in our businesses and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit, along with the financial and other restrictive covenants of our indebtedness, among other things, our ability to borrow additional funds; and
- increase the cost of additional financing.

In the future, we may from time to time incur substantial additional indebtedness and contingent liabilities. Although the Indenture restricts us and our Restricted Subsidiaries from incurring additional debt and contingent liabilities, these restrictions are subject to important exceptions and qualifications. If we or our subsidiaries incur additional debt, the risks that we face as a result of our already substantial indebtedness and leverage could intensify.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors, many of which are beyond our control. We anticipate that our operating cash flow will be sufficient to meet our anticipated operating expenses and to service our debt obligations as they become due. However, we may not generate sufficient cash flows for these purposes. If we are unable to service our indebtedness, we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness or seeking equity capital.

These strategies may not be instituted on satisfactory terms, if at all. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of other debt agreements, including the Notes, or result in a default under our other debt agreements, including the Indenture, in turn magnifying the effect of an individual default. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us. In the event our lenders or holders of debt securities accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness.

In addition, the terms of the Indenture prohibit us from incurring additional indebtedness unless (i) we are able to satisfy certain financial ratios or (ii) we are able to incur such additional indebtedness pursuant to any of the exceptions to the financial ratios requirements, and meet any other applicable restrictions. Our ability to meet our financial ratios may be affected by events beyond our control. We cannot assure you that we will be able to meet these ratios. Certain of our other financing arrangements also impose operating and financial restrictions on our business. See "Description of Other Material Indebtedness." Such restrictions in the Indenture, and our other financing arrangements may negatively affect our ability to react to changes in market conditions, take advantage of business opportunities, obtain future financing, fund required capital expenditures, or withstand a continuing or future downturn in our business. Any of these factors could materially and adversely affect our ability to satisfy our obligations under the Notes and other debt.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Notes, and to fund planned capital expenditures will depend on our ability to generate cash. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business might not generate sufficient cash flows from operations to enable us to pay our indebtedness, including the Notes, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, including the Notes, on or before maturity. We might not be able to refinance any of our indebtedness on commercially reasonable terms or at all. If we are unable to service our indebtedness or obtain refinancing on terms acceptable to us, we may be forced to adopt an alternative strategy that may include reducing or delaying capital expenditures, selling assets or seeking equity capital. These strategies may not be instituted on satisfactory terms, if at all. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of other debt agreements, including the Notes, or result in a default under our other debt agreements, including the Indenture, in turn magnifying the effect of an individual default. An event of default under any debt instrument, if not cured or waived, could have a material adverse effect on us. In the event our lenders or holders of debt securities accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness.

Our subsidiaries are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to us and our subsidiaries.

As a holding company, we depend on the receipt of dividends and the interest and principal payments on intercompany loans or advances from our subsidiaries, including our PRC subsidiaries, to satisfy our obligations, including our obligations under the Notes. The ability of our subsidiaries to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of our subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. See "Description of Other Material Indebtedness." In addition, if any of our subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to us to make payments on the Notes. Further, certain loan agreements with PRC based banks may contain provisions that restrict or prohibit the payment or declaration of dividends or distributions. These restrictions could have a negative impact on the calculation of our EBITDA and could also reduce the amounts that we receive from our subsidiaries, which would restrict our ability to meet our payment obligations under the Notes and the ability of the Subsidiary Guarantors to satisfy their obligations under the Subsidiary Guarantees. See "Description of Other Material Indebtedness."

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. Our PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In addition, starting from January 1, 2008, dividends paid by our PRC subsidiaries to their non-PRC parent companies will be subject to a 10% withholding tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated, which specifically exempts or reduces such withholding tax. Pursuant to a double tax treaty between Hong Kong and the PRC, if the non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in the PRC enterprise, such withholding tax rate may be lowered to 5%.

Furthermore, in practice, the market interest rate that our PRC subsidiaries can pay with respect to offshore loans generally may not exceed comparable interest rates in the international finance markets. The interest rates on shareholders' loans paid by our subsidiaries, therefore, are likely to be lower than the interest rate for the Notes. Our PRC subsidiaries are also required to pay a 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on our behalf on the interest paid under any shareholders' loans. PRC regulations require our non-PRC subsidiaries making shareholder loans in foreign currencies to our PRC subsidiaries to be registered with the SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the withholding tax on the interest payable on any such shareholder loan and evidence of registration with the SAFE, as well as any other documents that the SAFE or its local branch may require.

As a result of the foregoing, we cannot assure you that we will have sufficient cash flows from dividends or payments on intercompany loans or advances from our subsidiaries to satisfy our obligations under the Notes or the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. Pursuant to reforms of the exchange rate system announced by the PBOC on July 21, 2005, Renminbi-to-foreign currency exchange rates are allowed to fluctuate within a narrow and managed band against a basket of foreign currencies, rather than being effectively linked to the U.S. dollar. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on April 16, 2012. On March 17, 2014, the PBOC further widened the floating band against the U.S. dollar to 2.0%. On August 11, 2015, the PBOC announced an adjustment to the mechanism of determining the midpoint price of Renminbi against the U.S. dollar to make the exchange rate of Renminbi more market-based. This modified mechanism allows traders to consider the closing exchange rate in the previous trading day when they quote the midpoint price of Renminbi against U.S. dollar. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 33% from July 21, 2005 to December 31, 2020. If such reforms were implemented and resulted in devaluation of the Renminbi against the U.S. dollar, our financial condition and results of operations could be adversely affected. We cannot predict how and to what extent the exchange rate of the Renminbi will fluctuate in the future.

The Notes are denominated in U.S. dollars, while substantially all of our revenues are generated by our PRC operating subsidiaries and are denominated in Renminbi. To the extent that we need to convert U.S. dollars we receive from the offering into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollars could have a material adverse effect on the value of the net proceeds we will receive from the offering in U.S. dollars, our business, financial condition and results of operations. Conversely, as we rely substantially on dividends paid to us by our PRC-incorporated subsidiaries, any depreciation of the Renminbi may materially and adversely affect our ability to service the Notes. For example, Renminbi depreciated slightly against U.S. dollar and as a result, we incurred foreign exchange losses in the amount of RMB21.5 million for the year ended December 31, 2019 which led to a decrease in our profit and total comprehensive income for the year attributable to owners of the Company during the same period.

There are limited hedging instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. In addition, following the offering of the Notes, we may enter into foreign exchange or interest rate hedging agreements in respect of our U.S. dollar-denominated liabilities under the Notes. These hedging agreements may require us to pledge or transfer cash and other collateral to secure our obligations under the agreements, and the amount of collateral required may increase as a result of mark-to-market adjustments. The Initial Purchasers and their affiliates may enter into such hedging agreements permitted under the Indenture governing the Notes, and these agreements may be secured by pledges of our cash and other assets as permitted under the Indenture. If we were unable to provide such collateral, it could constitute a default under such agreements.

Any hedging obligation entered into or to be entered into by us or our subsidiaries, may contain terms and conditions that may result in the early termination, in whole or in part, of such hedging obligation upon the occurrence of certain termination or analogous events or conditions (howsoever described), including such events relating to us and/or any of our subsidiaries, and the terms and conditions of such hedging obligation(s) may provide that, in respect of any such early termination, limited or no payments may be due and payable to, or that certain payments may be due and payable by, us and/or any of our subsidiaries (as relevant) in respect of any such early termination. Any such early termination, in whole or in part, of any such hedging obligation(s), and the payment and any other consequences and effects of such early termination(s), may be material to our financial condition and/or any of our subsidiaries and may be material in relation to the performance of our or their respective obligations under or in relation to the Notes (if applicable), any indebtedness or any other present or future obligations and commitments.

We may not be able to repurchase the Notes upon a change of control triggering event.

Upon the occurrence of a change of control triggering event, the holder of each Note will have the option to require us to redeem all or some of the holder's Notes at a purchase price equal to 101% of the principal amount plus accrued and unpaid interest. See "Description of the Notes." The source of funds for any such purchase would be our available cash or third-party financing. However, we may not have enough available funds at the time of the occurrence of any change of control triggering event to make purchases of the outstanding Notes. Our failure to make the offer to purchase or to purchase the outstanding Notes would constitute an event of default under the Notes. The event of default may, in turn, constitute an event of default under other indebtedness, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If our other debt were to be accelerated, we may not have sufficient funds to purchase the Notes and repay the debt.

In addition, the definition of change of control triggering event for purposes of the indenture governing the Notes does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalizations, although these types of transactions could increase our indebtedness or otherwise affect our capital structure or credit ratings. The definition of change of control triggering event for purposes of the indenture governing the Notes also includes a phrase relating to the sale of "all or substantially all" of our assets. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition under applicable law. Accordingly, our obligation to make an offer to purchase the Notes, and the ability of a holder of the Notes to require us to purchase its Notes pursuant to the offer as a result of a highly-leveraged transaction or a sale of less than all of our assets may be uncertain.

Noteholders may be unable to enforce their rights under U.S. bankruptcy law.

We are incorporated under the laws of Jersey, and our principal assets are primarily located in the PRC. Under federal bankruptcy law in the United States, courts typically have jurisdiction over a debtor's property, wherever located, including property situated in other countries. However, courts outside of the United States may not recognize the United States bankruptcy court's jurisdiction. Accordingly, difficulties may arise in administering a United States bankruptcy case involving a Jersey, British Virgin Islands or Hong Kong debtor with property located outside of the United States, and any orders or judgments of a bankruptcy court in the United States may not be enforceable outside of the United States.

The insolvency laws of Jersey and other local insolvency laws may differ from U.S. bankruptcy law or those of another jurisdiction with which holders of the Notes are familiar.

Because we are incorporated under the laws of Jersey, an insolvency proceeding relating to us, even if brought in the United States, would likely involve Jersey insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of United States federal bankruptcy law. In addition, the Subsidiary Guarantors are incorporated in the British Virgin Islands or Hong Kong and the insolvency laws of the British Virgin Islands and Hong Kong may also differ from the laws of the United States or other jurisdictions with which the holders of the Notes are familiar.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Notes depends heavily upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to the SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Notes.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements, which could cause repayment of our debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Indenture or our current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate repayment of the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. As a result, our default under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

Our operations are restricted by the terms of the Indenture and other debt agreements, which could limit our ability to plan for or to react to market conditions or meet our capital needs, which could increase your credit risk.

The Indenture and other debt agreements include a number of significant restrictive covenants. These covenants restrict, among other things, our ability, and the ability of our Restricted Subsidiaries, to:

- incur or guarantee additional indebtedness and issue disqualified or preferred stock;
- declare dividends on their capital stock or purchase or redeem capital stock;
- make investments or other specified restricted payments;
- issue or sell capital stock of Restricted Subsidiaries;
- guarantee indebtedness of Restricted Subsidiaries;

- sell assets;
- create liens;
- enter into sale and leaseback transactions;
- enter into agreements that restrict the Restricted Subsidiaries' ability to pay dividends, transfer assets or make intercompany loans;
- enter into transactions with shareholders or affiliates; and
- effect a consolidation or merger.

These covenants could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with these covenants may be affected by events beyond our control, and we may have to curtail some of our operations and growth plans to maintain compliance.

If we are unable to comply with the restrictions and covenants in our debt agreements or the Indenture, there could be a default under the terms of these agreements or the Indenture, which could cause repayment of our debt to be accelerated

If we are unable to comply with the restrictions and covenants in the Indenture, or our current or future debt and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to us, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of our debt agreements, including the Indenture, contain cross-acceleration or cross-default provisions. See "Description of Other Material Indebtedness". As a result, our default under one debt agreement may cause the acceleration of debt, including the Notes, or result in a default under our other debt agreements, including the Indenture. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if we could obtain alternative financing, we cannot assure you that it would be on terms that are favorable or acceptable to us.

A trading market for the Notes may not develop, and there are restrictions on resale of the Notes.

The Notes are a new issue of securities for which there is currently no trading market. As of the date of this offering memorandum, confirmation of the eligibility for the listing of the Notes has not been received from the HKEX, and we cannot assure you that we will obtain or be able to maintain a listing on the HKEX, or that, if listed, a liquid trading market will develop. We have been advised that the Initial Purchasers intend to make a market in the Notes, but the Initial Purchasers are not obligated to do so and may discontinue such market making activity at any time without notice. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, you will only be able to resell your Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act. See "Transfer Restrictions." We cannot predict whether an active trading market for the Notes will develop or be sustained.

The ratings assigned to the Notes or us may be lowered or withdrawn in the future.

The Notes have been provisionally rated "BB" by Fitch and "Ba2" by Moody's. The ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. In addition, we have been assigned a corporate credit rating of "Ba2" with a positive outlook by Moody's and "BB" with a positive outlook by Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. We cannot assure you that the ratings will be confirmed or they will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by the relevant rating agency if in its judgment circumstances in the future so warrant. We have no obligation to inform holders of the Notes of any such revision, downgrade or withdrawal. A suspension, reduction or withdrawal at any time of the rating assigned to the Notes may adversely affect the market price of the Notes.

Certain transactions that constitute "connected transactions" under the Listing Rules will not be subject to the "Limitation on Transactions with Shareholders and Affiliates" covenant.

Our shares are listed on the HKEX and we are required to comply with the Listing Rules, which provide, among other things, that any transaction between a listed company or any of its subsidiaries, on the one hand, and a "connected person" of such listed company, on the other hand, is a "connected transaction" that, if the value of such transaction exceeds the applicable de minimis thresholds, will require the prior approval of the independent shareholders of such listed company. The definition of "connected person" to a listed company includes, among others, any 10% or more shareholder of (i) such listed company or (ii) any subsidiary of such listed company. The concept of "connected person" also captures "associates," which include, among others, (a) any subsidiary of such "connected person," (b) any holding company of such "connected person" and any subsidiary of such holding company, and (c) any company in which such entity or entities mentioned in (a) and (b) above taken together has/have the power to exercise control, directly or indirectly, of 30% or more of the voting power of such company.

The "Limitation on Transactions with Shareholders and Affiliates" covenant in the Notes only applies to transactions between the Company or any Restricted Subsidiary, on the one hand, and (x) any holder (or any Affiliate of such holder) of 10% or more of the shares of the Company or (y) any Affiliate of the Company, on the other hand. As such, transactions between the Company or any Restricted Subsidiary, on the one hand, and an Affiliate of any Restricted Subsidiary, on the other hand, will not be captured by such covenant, even though they may be connected transactions under the Listing Rules and subject to any requirements under the Listing Rules to obtain approval from independent shareholders. As a result, we are not required by the terms of the Notes to ensure that any such transactions are on terms that are fair and reasonable, and we will not need to deliver officers' certificates or procure the delivery of fairness opinions of accounting, appraisal or investment banking firms to the trustee of the Notes for any such transactions.

The liquidity and price of the Notes following the offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. We cannot assure you that these developments will not occur in the future.

Certain facts and statistics are derived from publications not independently verified by us, the Initial Purchasers or our respective advisors.

Facts and statistics in this offering memorandum relating to China's economy and the cement industry are derived from publicly available sources. While we have taken reasonable care to ensure that the facts and statistics presented are accurately reproduced from such sources, they have not been independently verified by us, the Initial Purchasers or our or their respective advisors and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective calculation and collection methods and other problems, the facts and statistics herein may be inaccurate or may not be comparable to facts and statistics produced for other economies and should not be unduly relied upon. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

There may be less publicly available information about us than is available in certain other jurisdictions.

There may be less publicly available information about companies listed in Hong Kong than is regularly made available by public companies in certain other countries. In addition, our financial statements are prepared and presented in accordance with IFRS, which differs in certain significant respects from GAAP in other jurisdictions, which might be material to the financial information contained in this offering memorandum. We have not prepared a reconciliation of our consolidated financial statements and related footnotes between IFRS and other GAAP. You should consult your own professional advisors for an understanding of the differences between IFRS and other GAAP and how those differences might affect the financial information contained in this offering memorandum.

We will follow the applicable corporate disclosure standards for debt securities listed on the HKEX, and such standards may be different from those applicable to debt securities listed in certain other countries.

We will be subject to disclosure obligations in respect of the Notes to be listed on the HKEX. The disclosure standards imposed by the HKEX may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Notes are accustomed to.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificate form and held through Euroclear and Clearstream. Interests in the Notes represented by the global certificate will trade in book entry form only, and notes in definitive registered form, or definitive registered notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book entry interests will not be considered owners or holders of the Notes. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the global certificate representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global certificate representing the Notes will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to accounts of participants that hold book-entry interests in the global certificate representing the Notes and credited by such participants to indirect participants. After payment to the nominee of the common depositary for Euroclear and Clearstream, we will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book entry interests. Accordingly, if you own a book-entry interest, you must rely on the procedures of Euroclear and Clearstream or, if you are not a participant in Euroclear and Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of holders of the Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if you own a book-entry interest, you will be permitted to act only to the extent you have received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable you to vote on a timely basis.

Similarly, upon the occurrence of an Event of Default under the Indenture, unless and until definitive registered notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

We may be able to redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest in the event we are required to pay additional amounts because we are treated as a PRC "resident enterprise."

In the event we are treated as a PRC "resident enterprise" under the PRC Enterprise Income Tax Law, we may be required to withhold PRC tax on interest payable to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such additional amounts as will result in receipt by a holder of a Note of such amounts as would have been received by the holder had no such withholding been required. As described under "Description of the Notes — Redemption for Taxation Reasons" in the event we are required to pay additional amounts as a result of certain changes in or interpretations of tax law or the stating of an official position regarding the application or interpretation of such law, including any change or interpretation that results in our being required to withhold tax on interest payments as a result of our being treated as a PRC "resident enterprise," we may redeem the Notes in whole at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest.

Notes are subject to optional redemption by us.

As set forth in "Description of the Notes — Optional Redemption," the Notes may be redeemed at our option in the circumstances set out therein. An optional redemption feature is likely to limit the market value of the Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be the case prior to any redemption period. We may be expected to redeem Notes when the current financing cost is lower than the interest rate on the Notes. In such case, a noteholder generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to reinvest so at a significantly lower rate. It may therefore cause a negative financial impact on the noteholders. Potential investors should consider reinvestment risk in light of other investments available at that time.

RISKS RELATING TO THE SUBSIDIARY GUARANTEES

Our initial Subsidiary Guarantors do not currently have significant operations and may not have the funds necessary to satisfy our financial obligations under the Notes.

The Notes will not be guaranteed by any current or future PRC subsidiaries. Moreover, subject to the covenants under the caption "Description of the Notes — The Subsidiary Guarantees", the Notes will not be guaranteed by the Non-Guarantor Subsidiaries and any future Restricted Subsidiary that is, or is proposed by the Parent Guarantor or any of its Restricted Subsidiaries to be, established at any time in the future. As a result, the Notes will be effectively subordinated to all the debt and other obligations, including contingent obligations and trade payables, of the PRC subsidiaries and the Non-Guarantor Subsidiaries.

The initial Subsidiary Guarantors that will guarantee the Notes do not have significant operations. You should note that the consolidated financial information presented in this offering memorandum includes information of entities which are not Subsidiary Guarantors, and the contribution to the consolidated financial information by the Subsidiary Guarantors is not material. We cannot assure you that the initial Subsidiary Guarantors or any subsidiaries that may become Subsidiary Guarantors in the future will have the funds necessary to satisfy our financial obligations under the Notes if we are unable to do so.

Under the terms of the Notes, a non-PRC Restricted Subsidiary (and its subsidiaries, if any) established or acquired after the Original Issue Date does not have to provide a Subsidiary Guarantee if (i) within 30 days of the establishment or acquisition of such Restricted Subsidiary, either (x) one or more independent third parties owns 30% or more of the capital stock of such Restricted Subsidiary or (y) the Company is in discussions with one or more independent third parties for a potential investment by such independent third parties in such Restricted Subsidiary and (ii) no later than 180 days after the establishment or acquisition of such Restricted Subsidiary and at anytime thereafter, such independent third party or parties own no less than 30% of the capital stock of such Restricted Subsidiary.

In addition, the Company may designate any Offshore Restricted Subsidiary (including those Offshore Restricted Subsidiaries not providing Subsidiary Guarantees on the Original Issue Date, but excluding any New Offshore Non-Guarantor Subsidiary or Exempted Subsidiaries) as a Designated Offshore Non-Guarantor Subsidiary; provided that, after giving effect to the consolidated assets of such Offshore Restricted Subsidiary, (i) at any time of determination, the total Relevant Non-Guaranteed Portion would not exceed 15% of Total Assets (excluding for this purpose the consolidated assets of all Exempted Subsidiaries and New Offshore Non-Guarantor Subsidiaries as of the date of calculation); and (ii) such designation would not cause a Default.

The Subsidiary Guarantees may be released prior to the maturity of the Notes without consent from the holders of the Notes in accordance with the terms of the Indenture.

Under the terms of the Indenture, a Subsidiary Guarantee given by a Subsidiary Guarantor may be released:

- in the case of a Subsidiary Guarantor that becomes, or is designated by the Company as, a Non-Guarantor Subsidiary or an Unrestricted Subsidiary, in compliance with the terms of the Indenture; or

- upon the sale, disposition or merger of a Subsidiary Guarantor in compliance with the terms of the Indenture resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other indebtedness or any indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture.

Such release of Subsidiary Guarantee may occur prior to the stated maturity of the Notes and, upon such release, the Notes will be subordinated to all obligations owed by the relevant Subsidiary.

The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees.

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the British Virgin Islands or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in Hong Kong and other jurisdictions where future Subsidiary Guarantors may be established or where insolvency proceeding may be commenced with respect to any such Subsidiary Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

For Subsidiary Guarantors incorporated in the British Virgin Islands:

- incurred the debt with the intent to defraud creditors (whenever the transaction took place and irrespective of insolvency);
- either (i) put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given or (ii) received no consideration, or received consideration in money or money's worth that is significantly less than the consideration supplied by the guarantor (although in either case a guarantee will only be voidable if it (i) was entered into at a time when the guarantor was insolvent or if it became insolvent as a consequence of doing so, insolvent in this context meaning that the guarantor is unable to pay its debts as they fall due, and (ii) it was given within the six month, or, if the guarantee and beneficiary are connected entities, two year, period preceding the commencement of liquidation).

For Subsidiary Guarantors incorporated in other jurisdictions:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, a guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of any of the Subsidiary Guarantees. In addition, a guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the guarantee could also be subject to the claim that, since the guarantee was not incurred for the benefit of the guarantor, the obligations of the guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, such guarantee would be rendered void.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Subsidiary Guarantors under the Subsidiary Guarantees will be limited to the maximum amount that can be guaranteed by the applicable Subsidiary Guarantor without rendering the guarantee, as it relates to such Subsidiary Guarantor, voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided a Subsidiary Guarantee, subordinated such guarantee to other indebtedness of the Subsidiary Guarantor, or held the Subsidiary Guarantee unenforceable for any other reason, holders of the Notes would cease to have a claim against that Subsidiary Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of such Subsidiary Guarantor, and would solely be creditors of us and any Subsidiary Guarantor whose guarantee was not voided or held unenforceable. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be approximately US$592.1 million, which we presently plan to use for refinancing, replenishing working capital and general corporate purposes including overseas expansion and investment in Africa.

CHINA

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. From 1994 to July 20, 2005, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, was based on rates set daily by PBOC on the basis of the previous day's inter-bank foreign exchange market rates and then current exchange rates in the world financial markets. During this period, the official exchange rate for the conversion of Renminbi to U.S. dollars remained generally stable. Although the PRC government introduced policies in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currencies for current account items, conversion of Renminbi into foreign currencies for capital items, such as foreign direct investment, loan principals and securities trading, still requires the approval of SAFE and other relevant authorities. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system.

On May 18, 2007, PBOC enlarged, the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by PBOC. The floating band was further widened to 1.0% on April 16, 2012 and 2.0% on March 17, 2014. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. Effective since August 11, 2015, market makers are required to quote their central parity rates for Renminbi against U.S. dollar to the China Foreign Exchange Trade System daily before the market opens by reference to the closing rate of the PRC inter-bank foreign exchange market on the previous trading day in conjunction with the demand and supply conditions in the foreign exchange markets and exchange rate movements of major currencies. PBOC has further authorized the China Foreign Exchange Trade System to announce its central parity rate for Renminbi against the U.S. dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, and makes it the central parity for trading against the Renminbi on the following working day. The International Monetary Fund announced on September 30, 2016 that, effective on October 1, 2016, Renminbi will be added to its Special Drawing Rights currency basket. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York as set forth in the H.10 weekly statistical release of the Federal Reserve Board for the periods indicated:

	Noon Buying Rate			
Period	**End**	**Average[1]**	**High**	**Low**
	(RMB per US$1.00)			
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7350	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020	6.5250	6.8878	7.1681	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February	6.4730	6.4601	6.4869	6.4344
March	6.5518	6.5109	6.5716	6.4648
April	6.4749	6.5186	6.5649	6.4710
May	6.3674	6.4321	6.4749	6.3674
June (through June 11)	6.3967	6.3923	6.4036	6.3796

(1) Annual averages have been calculated from month-end rates. Monthly averages have been calculated using the average of the daily rates during the relevant period.

HONG KONG

The Hong Kong dollar is freely convertible into other currencies, including the U.S. dollar. Since October 17, 1983, the Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to US$1.00. The Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China (the "Basic Law"), which came into effect on July 1, 1997, provides that no foreign exchange control policies shall be applied in Hong Kong.

The market exchange rate of the Hong Kong dollar against the U.S. dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate system which applies to the issuance and withdrawal of Hong Kong currency in circulation, the market exchange rate has not deviated significantly from the level of HK$7.80 to US$1.00. In May 2005, the Hong Kong Monetary Authority broadened the 22-year-old trading band from the original rate of HK$7.80 per U.S. dollar to a rate range of HK$7.75 to HK$7.85 per U.S. dollar. The Hong Kong government has indicated its intention to maintain the link within that rate range. Under the Basic Law, the Hong Kong dollar will continue to circulate and remain freely convertible. However, no assurance can be given that the Hong Kong government will maintain the link at HK$7.80 to US$1.00 or at all.

The following table sets forth the noon buying rate for U.S. dollars in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York for the periods indicated:

	Noon Buying Rate			
Period	**End**	**Average[(1)]**	**High**	**Low**
	(HK$ per US$1.00)			
2016	7.7534	7.7618	7.8270	7.7505
2017	7.8128	7.7950	7.8267	7.7540
2018	7.8305	7.8376	7.8499	7.8043
2019	7.7894	7.8335	7.8499	7.7850
2020	7.7534	7.7562	7.7951	7.7498
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March	7.7746	7.7651	7.7746	7.7562
April	7.7664	7.7691	7.7849	7.7596
May	7.7610	7.7654	7.7697	7.7608
June (through June 11)	7.7604	7.7592	7.7604	7.7566

(1) Annual averages have been calculated from month-end rates. Monthly averages have been calculated using the average of the daily rates during the relevant period.

On June 11, 2021, the noon buying rate for U.S. dollars in New York City for cable transfers in Hong Kong dollars was US$1.00 = HK$7.7604 as certified for customs purposes by the Federal Reserve Bank of New York.

CAPITALIZATION

The following table sets forth our capitalization and indebtedness as of December 31, 2020 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes in this offering with estimated net proceeds of US$592.1 million, after deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with our consolidated financial statements and related notes included in this offering memorandum.

	As of December 31, 2020			
	Actual		As Adjusted	
	RMB	US$	RMB	US$
	(in thousands)			
Bank balances and cash, restricted/ pledged bank deposits and structured deposits(1)	1,475,294	226,103	5,338,687	818,203
Current borrowings:				
Bank borrowings	1,878,894	287,958	1,878,894	287,958
	1,878,894	287,958	1,878,894	287,958
Non-current borrowings:				
Bank and other borrowings	600,548	92,039	600,548	92,039
Notes to be issued(2)	—	—	3,863,393	592,100
MTN Notes	1,232,842	188,944	1,232,842	188,944
	1,833,390	280,984	5,696,783	873,083
Total borrowings	3,712,284	568,941	7,575,677	1,161,041
Total equity	10,527,217	1,613,391	10,527,217	1,613,391
Total capitalization(3)	14,239,501	2,182,332	18,102,894	2,774,432

Notes:

(1) Includes bank balances and cash as of December 31, 2020 in the amount of RMB651.5 million, restricted/pledged bank deposits in the amount of RMB723.8 million and structured deposits of RMB100.0 million

(2) According to our policy, the Notes to be issued will be recognized initially at fair value net of transaction costs incurred. The Notes will be subsequently measured at amortized cost using effective interest method. For the purposes of this capitalization table, estimated net proceeds of US$592.1 million have been used.

(3) Total capitalization equals total debt plus total equity.

Except as otherwise disclosed in this offering memorandum, there has been no material adverse change in our capitalization since December 31, 2020.

SELECTED CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial information for the years ended December 31, 2018, 2019 and 2020 has been derived from our audited consolidated financial statements included elsewhere in this offering memorandum. Our consolidated financial statements for the years ended December 31, 2018, 2019 and 2020 have been prepared in accordance with the IFRS issued by the IASB.

Selected Consolidated Statements of Comprehensive Income

	For the year ended December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue	5,911,744	7,247,389	7,131,052	1,092,898
Cost of sales	(3,925,988)	(4,806,905)	(4,788,586)	(733,894)
Gross profit	1,985,756	2,440,484	2,342,466	359,004
Other income[1]	343,986	287,753	285,476	43,752
Impairment loss under expected credit loss mode, net of reversal	(8,387)	(36,517)	(128,408)	(19,680)
Selling and marketing expenses	(54,136)	(57,406)	(63,413)	(9,719)
Administrative expenses	(336,745)	(360,319)	(405,389)	(62,130)
Other expenses	—	(25,729)	(77,819)	(11,926)
Other gains and losses, net	(233,828)	(68,008)	(152,663)	(23,397)
Share of profit of an associate	23,683	22,388	16,628	2,548
Interest income	140,578	228,231	195,762	30,002
Finance costs	(228,796)	(187,076)	(165,184)	(25,316)
Profit before tax	1,632,111	2,243,801	1,847,456	283,138
Income tax expense	(451,648)	(394,272)	(264,494)	(40,536)
Profit for the year	1,180,463	1,849,529	1,582,962	242,602
Other comprehensive expense	—	—	(3,552)	(544)
Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations				
Other comprehensive expense for the year	—	—	(3,552)	(544)
Total comprehensive income for the year	1,180,463	1,849,529	1,579,410	242,058
Profit for the year attributable to:				
Owners of our Company	1,159,449	1,801,281	1,560,480	239,158
Non-controlling interests	21,014	48,248	22,482	3,446
	1,180,463	1,849,529	1,582,962	242,604
Total comprehensive income attributable to attributable to:				
Owners of our Company	1,159,449	1,801,281	1,556,928	238,613
Non-controlling interests	21,014	48,248	22,482	3,446
	1,180,463	1,849,529	1,579,410	242,059
Basic earnings per share (RMB/share)[2]	0.213	0.331	0.287	0.04
Diluted earnings per share (RMB/share)[3]	0.213	0.331	0.287	0.04
Other Financial Data				
EBITDA[4]	2,637,455	3,097,409	2,996,794	459,286
EBITDA margin[5]	44.6%	42.7%	42.0%	42.0%
EBITDA/Gross interest expense[6]	11.4	15.7	15.1	15.1
Total Debt[7]/EBITDA	1.2	0.9	1.2	1.2
Net Debt[8]/EBITDA	0.7	0.5	0.7	0.7
Total Debt[7]/Total Capitalization[9]	28.7%	23.5%	26.1%	26.1%

Notes:

(1) Our other income primarily includes (i) VAT refunds we received from the PRC government for sales of certain types of cement that use industrial by-products, industrial waste and construction waste and (ii) government grants.

(2) Basic earnings per share is calculated by dividing the profit attributable to owners of our Company by the weighted average number of ordinary shares in issue during the three years ended December 31, 2020.

(3) Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The calculation of our Company's diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 did not take into account the share options of our Company because the exercise price or the exercise price after adjustment for the unvested share-based payments of these share options was higher than the average market price of our Company's shares during these years and hence the exercise of the share options would have an anti-dilutive effect.

(4) EBITDA is defined as profit before tax plus finance costs, depreciation and amortization, share-based payments, impairment losses under expected credit loss model, net of reversal and Net foreign exchange losses from consolidated statement of cash flows less interest income. EBITDA is not a standard measure under IFRS. EBITDA is a widely used financial indicator of a company's ability to service and incur debt. EBITDA should not be considered in isolation or construed as an alternative to cash flows, profit and total comprehensive income attributable to the owners of the Company or any other measure of performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. EBITDA does not account for taxes, net finance costs, Net foreign exchange losses from consolidated statement of cash flows, share-based payments or depreciation and amortization. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as revenue and profit and total comprehensive income attributable to the owners of the Company and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA herein because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash from operations to cover debt service and taxes. EBITDA presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our EBITDA to EBITDA presented by other companies because not all companies use the same definition. Investors should also note that the EBITDA as presented herein is calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated EBITDA is defined for purposes of the Indenture governing the Notes.

(5) EBITDA margin is calculated by dividing EBITDA by revenue.

(6) Gross interest expense includes interest expense capitalized in property, plant and equipment and excludes unwinding of discount on assets retirement obligation. Gross interest expense is not a standard measure under IFRS. Gross interest expense presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our gross interest expense to the gross interest expense provided by other companies because not all companies use the same definition. Investors should also note that the gross interest expense presented herein is calculated differently from Consolidated Interest Expense as defined and used in the Indenture governing the Notes. See "Description of the Notes — Definitions" for a description of the manner in which Consolidated Interest Expense is defined for purposes of the Indenture governing the Notes.

(7) Total debt includes bank borrowings, medium-term notes and senior notes.

(8) Net debt equals to total debt less bank balances and cash, restricted/pledged bank deposits and structured deposits.

(9) Total capitalization equals total debt plus total equity.

Summary Consolidated Statements of Financial Position Information

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
ASSETS				
Non-current assets				
Property, plant and equipment	7,180,198	7,793,345	11,161,110	1,710,541
Right-of-use assets	—	469,021	643,185	98,574
Prepaid lease payments	459,275	—	—	—
Mining rights	326,926	542,352	539,903	82,745
Other intangible assets	199,561	199,235	208,186	31,906
Interest in an associate	80,661	80,269	77,643	11,899
Loan receivables	837,203	724,182	524,091	80,322
Deferred tax assets	39,110	36,557	42,673	6,540
Prepayments for right-of-use assets	—	100,278	100,278	15,369
Prepayments for mining rights	—	—	49,170	7,536
Deposits paid for acquisition of property, plant and equipment	—	518,276	199,497	30,575
Deposits paid for acquisition of subsidiaries	—	—	85,200	13,058
Other deposits	—	31,241	23,123	3,544
Investment in entrusted product	—	181,855	81,855	12,545
Amount due from a non-controlling shareholder of a subsidiary	15,218	—	—	—
Prepayments for construction in progress	101,002	—	—	—
	9,239,154	10,676,611	13,735,914	2,105,154
Current assets				
Inventories	491,116	665,526	731,434	112,099
Trade and other receivables and prepayments	477,284	958,525	1,748,635	267,994
Loan receivables	855,453	1,055,444	1,214,955	186,203
Structure deposits	—	90,000	100,000	15,326
Restricted/pledged bank deposits	189,032	354,148	723,831	110,934
Bank balances and cash	886,046	779,559	651,463	99,843
Bill receivables at fair value through other comprehensive income	253,972	—	—	—
	3,152,903	3,903,202	5,170,318	792,399
Total assets	12,392,057	14,548,572	18,906,232	2,897,553

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	141,771	141,771	141,837	21,738
Share premium and reserves	7,383,494	8,911,168	10,188,965	1,561,551
Equity attributable to owners of our Company	7,525,265	9,052,939	10,330,802	1,583,289
Non-controlling interests	73,690	172,725	196,415	30,102
Total equity	7,598,955	9,225,664	10,527,217	1,613,391
Non-current liabilities				
Borrowings	—	1,189,589	600,548	92,039
Medium-term notes	—	521,098	1,232,842	188,944
Asset retirement obligation	45,935	336,398	347,413	53,244
Deferred tax liabilities	80,279	63,721	78,701	12,062
Deferred income	45,542	34,205	35,301	5,410
Amount due to a non-controlling shareholder of a subsidiary	—	—	1,138,506	174,486
	171,756	2,145,011	3,433,311	526,185
Current liabilities				
Borrowings	863,571	1,126,000	1,878,894	287,958
Trade and other payables	1,152,034	1,735,544	2,734,518	419,090
Dividend payable	—	—	8,000	1,226
Contract liabilities	231,000	226,589	260,594	39,938
Income tax payable	186,738	121,005	63,698	9,762
Senior notes	2,188,003	—	—	—
	4,621,346	3,209,138	4,945,704	757,974
Total liabilities	4,793,102	5,354,149	8,379,015	1,284,159
Total equity and liabilities	12,392,057	14,579,813	18,906,232	2,897,550
Net current assets (liabilities)	(1,468,443)	694,064	224,614	34,425
Total assets less current liabilities	7,770,711	11,370,675	13,960,528	2,139,579

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Consolidated Financial Data" and our consolidated financial statements, including the notes thereto, included elsewhere in this offering memorandum. All significant intra-group transactions, balances and unrealized gains on intra-group transactions have been eliminated.

Our historical results do not necessarily indicate our performance for any future periods. The discussion and analysis of our financial condition and results of operations contain forward-looking statements that involve risks and uncertainties. In evaluating our business, you should carefully consider the information provided in the section headed "Risk Factors" in this offering memorandum.

OVERVIEW

We are one of the leading cement producers in Shaanxi Province, with a leading market position in Southern Shaanxi and Eastern-Central Shaanxi and a growing presence in Xinjiang and Guizhou Provinces as well as Mozambique, Africa. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. According to Shaanxi Province Cement Association (陝西水泥協會), we ranked first in Shaanxi Province in terms of NSP production capacity as of December 31, 2020. According to ccement.com (中國水泥網), we ranked first in Shaanxi Province in terms of clinker production capacity in 2020. Our cement products primarily include Ordinary Portland Cement, which has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above and Composite Portland Cement, which has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above. Ordinary Portland Cement has relatively strong initial compressive strength and more resistance to abrasion and is typically used in construction projects, such as roads and bridges. Composite Portland Cement has a lower compressive strength than Ordinary Portland Cement and is commonly used for general industrial and civil buildings. We also produce high quality and special cement products such as Pozzolanic Portland Cement, masonry cement and oil well cement tailored to our customers' needs. Our shares have been listed on The Stock Exchange of Hong Kong Limited since August 2010.

As of December 31, 2020, we had 22 NSP cement product lines with a total annual production capacity of 33.2 million tons, including 23.3 million tons in Shaanxi Province, 6.1 million tons in Xinjiang Province, 1.8 million tons in Guizhou Province and 2.0 million tons in Mozambique, Africa. In addition, we had total annual production capacities of 15.1 million tons of aggregates and 9.8 million cubic meters of commercial concrete as of December 31, 2020. In December 2020, we commissioned two new production facilities each in Xinjiang Province and Mozambique, which have a total planned annual production capacity of 7.0 million tons. After the full operation of the new production facility in Moyu, Xinjiang Province, our existing production lines in Hetian and Luxin will cease operation and our total annual production capacity is expected to be 30.6 million tons by the end of 2021.

For the years ended December 31, 2018, 2019 and 2020, respectively, we sold 18.2 million, 19.3 million and 19.9 million tons of cement and clinker. Our revenue increased from approximately RMB5,911.7 million for the year ended December 31, 2018 to approximately RMB7,247,4 million for the year ended December 31, 2019 and then to approximately RMB7,131.1 million (US$1,092.9 million) for the year ended December 31, 2020. Our profit before tax increased from approximately RMB1,632.1 million for the year ended December 31, 2018 to approximately RMB2,243.8 million for the year ended December 31, 2019 and decreased to approximately RMB1,847.5 million (US$ 283.2 million) for the year ended December 31, 2020. Our profit for the year attributable to owners of the Company increased from approximately RMB1,159.4 million for the year ended December 31, 2018 to approximately RMB1,801.3 million for the year ended December 31, 2019 and before decreasing slightly to approximately RMB1,560.5 million (US$239.2 million) for the year ended December 31, 2020. The decreases in our profit before tax and profit for the year attributable to owners of the Company in 2020 were mainly attributable to the 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, and in the case of profit for the year attributable to owners of the Company, the decrease in income tax expenses.

Due to the impact of the COVID-19 outbreak, the average selling prices in Southern Shaanxi, Central Shaanxi, Guizhou and Xinjiang Provinces decreased in 2020. Our gross margin for 2020 also decreased.

During the three years ended December 31, 2020, we have supplied cement to a number of key infrastructure projects, including the constructions of the Xixian Expressway — Southern Section, Ningshan to Shiquan Expressway, Lushi to Luanchuan Expressway, Hancheng to Huanglong Expressway, Chengchen to Weizhuang Expressway, Wuxi to Zhengping Expressway, the Dongzhuang Reservoir and the Xianyang Airport. In Central Shaanxi, the largest project, Xixian Expressway — Southern Section will pass through Huyi District, Chang'an District and Lantian County in Xi'an City, and ends at the eastern Lantian flyover of Shanghai-Xi'an Expressway in Lantian County with a total distance of about 70 km and it consumed over 0.38 million tons of cement supplied by us in 2020.

With respect to our operations in Shaanxi Province, we anticipate an increase in infrastructure investment and urbanization in Shaanxi Province and plan to focus on increasing returns on our existing capacity in 2021. We expect to continue to expand our operations and increase our market presence in Xinjiang province and Mozambique with our new production line. Having completed the vast majority of production facility upgrades to meet the new emission standards, we also expect to continue to derive revenue from waste treatment projects.

SIGNIFICANT FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Growth in the Construction Industry in Shaanxi Province, particularly in Government Infrastructure Projects

We have derived a majority of our revenue from sales in Shaanxi Province during the three years ended December 31, 2020. Economic trends in Shaanxi Province have a significant impact on all aspects of our operations, including the demand for and pricing of our products, the availability and costs of raw materials, costs of energy supply, labor costs and other operating expenses. Demand for our cement products is particularly sensitive to the level of construction activities in Shaanxi Province. For 2020, Shaanxi Province's FAI and Real Estate Development Investment, or RDI, increased by approximately 4.1% and 12.8%, respectively, compared with 2019, which led to an increase in the demand for construction materials, including cement. We believe the growth of the construction industry in Shaanxi Province will continue to have a significant impact on our results of operations.

The PRC government from time to time issues new industry policies to adjust the level of investment in infrastructure projects and real estate development through economic and administrative means. These policies could have a significant impact on our business. For example, during 2020, the PRC government has continued to launch occasional peak-shifting production halts during low season periods under stringent environmental policy and launched policy to stimulate the economy in response to the impact of the COVID-19 outbreak which involved expediting infrastructure construction, which helped to reduce the decrease in our average selling price in Central Shaanxi for 2020.

The PRC government and various local governments in western China have mandated a large number of infrastructure projects under the "Western Development Plan" and the "Silk Road Economic Development Plan". The "Western Development Plan" is also significant in terms of our strategic move into Xinjiang Province where we currently have four production lines with a total annual capacity of 6.1 million tons. We expect to benefit from the future development of the region, especially the increase in infrastructure construction activities in Xinjiang Province, including the construction of Minfeng to Heishihu Expressway, the Minfeng to Ruoqiang Expressway, the Minfeng to Luopu Expressway and the Hetian to Ruoqiang Railway.

In June 2009, the State Council of the PRC approved the "Guanzhong-Tianshui Economic Zone Development Plan" (關中—天水經濟區發展規劃). Encompassing the Shaanxi Province regions of Xi'an, Xianyang, Tongchuan, Weinan, Baoji as well as some counties of Shangluo City, the "Guanzhong-Tianshui Economic Zone" is one of three key economic development zones in Western China with significant planned infrastructure construction, including highways, railways, power plants and industrial parks, and urbanization initiatives between 2009 and 2020 within or near our core markets. Furthermore, in January 2014, the State Council designated the Xi-Xian New Area, covering 882 square kilometers, as a national development new area to accelerate the development of Xi'an, and surrounding urban areas. This initiative is designed to promote the construction of social and transportation infrastructure, as well as a number of New Eco-Cities, as part of the urbanization and renovation of the Xi'an Metropolitan Area. In 2020, the Xi-Xian New Area has recorded a total investment of RMB156.8 billion for 235 key infrastructure projects and RMB54.4 billion for 39 city-level projects.

Under the further guidance of the PRC Government's "Silk Road Economic Belt Development" policy, in July 2014, the Shaanxi Province National Development and Reform Commission decided to accelerate approvals for infrastructure construction as part of this Xi-Xian New Area development. In 2012, Shaanxi Provincial Party Committee and Provincial Government promulgated the "Opinions on the Joint Construction by Provinces and Cities of Great Xi'an and Accelerate the Construction of New Regions" (關於省市共建大西安加快推進創新型區域建設的若干意見) in light of the "Silk Road Economic Belt Development" policy, pursuant to which the budget for construction projects in the Great Xi'an Area reached RMB12.0 billion in the next five years. In February 2018, the Ministry of Housing and Urban-Rural Development of the PRC and the National Development and Reform Commission issued the "Guanzhong Plain Urban Agglomeration Development Plan" (關中平原城市群發展規劃) and Xi'an became the 9th National Central City, which has led to more infrastructure projects in the relevant areas which are our core markets. As we are in a leading position in our core markets, our business will benefit directly from the infrastructure projects to be constructed near our production facilities. In addition, in May 2020, the State Council issued the "Guiding Opinion on Promoting the Development of the West to Form a New Pattern in the New Era" (關於新時代推進西部大開發形成新格局的指導意見) which provides that the infrastructure development and accessibility in Western China should be largely similar to Eastern China by 2035; and in the strategic planning for Western Development Plan 3.0, it is proposed that the central government will support Shaanxi Province to fully utilize its advantages in historic and cultural aspects and contribute to the Silk Road Economic Belt development. The Shaanxi Province National Development and Reform Commission announced that there were 600 provincial-level key projects in 2020 with a total investment size of RMB3,400.0 billion, including 188 newly launched projects, of which seven were railway projects and five were expressway projects. In February 2021, the State Council promulgated the "Outline for National Comprehensive Transport Network Planning" (國家綜合立體交通網規劃綱要) that Xi'an is recognized as a core city in the Silk Road Economic Belt development and will be developed as a hub for international transport including freight and railway between 2021 and 2035. It is expected that this will greatly benefit the infrastructure development in Shaanxi Province and thus the local cement market.

Production Capacity

Our results of operations depend on our ability to fulfill customer orders, which in turn depends in part on our production capacity. Our annual cement production capacity increased from 29.2 million tons as of December 31, 2018 to 33.2 million tons as of December 31, 2020. In connection with our expansion, we incurred approximately RMB843.0 million, RMB1,669.0 million and RMB3,049.3 million (US$467.3 million) in capital expenditures for, among other things, the construction new production lines and acquisition of new production lines and subsidiaries, and the upgrading of existing production facilities for the years ended December 31, 2018, 2019 and 2020, respectively. Partly due to the increase in our production capacity, our sale of cement products grew by approximately 3.9% between 2018 and 2019 and by approximately 3.1% between 2019 and 2020. We believe that demand for our products will continue to increase. Our two new production facilities in Xinjiang Province and Mozambique, respectively, which have a total planned annual production capacity of 4.0 million tons, were commissioned in December 2020. After the full operation of the new production facility in Moyu, Xinjiang Province, our existing production lines in Hetian and Luxin will cease operation and our total annual production capacity is expected to be 30.6 million tons by the end of 2021.

Pricing

The prices of our products are primarily affected by the supply of, and demand for, cement in the regions where we operate. The average selling prices of our cement products were approximately RMB314, RMB333 and RMB301 per ton in 2018, 2019 and 2020, respectively. Prices fluctuated between 2018 and 2020. The average selling prices in Central Shaanxi in general 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. During 2019, lower supply among all producers as a result of the occasional peak-shifting production halts during low season periods under the stringent environmental policy had led to the rising average selling prices in Shaanxi and Xinjiang Provinces. Due to the impact of the COVID-19 outbreak, the average selling prices in Southern Shaanxi, Central Shaanxi, Guizhou and Xinjiang Provinces decreased in 2020.

The cement industry is fragmented into regional geographic areas rather than a single national or provincial market selling area. Due to the lack of product differentiation, the prices that we charge our customers in each individual market are not likely to be materially different from the prices charged by other producers in the same market. The selling prices of our cement in different markets vary depending on, among other things, regional supply and demand conditions. As a result, our overall average selling price is affected by the proportion of our revenues generated from different markets. For example, the increase in our average selling price in Xinjiang province in the year ended December 31, 2019 was partially offset by the lower average selling price in Guizhou province due to the imbalance between demand and supply as a result of the continuation of decreasing demand scenario. Our average selling prices for all cement products sold in Xinjiang province for 2019 was RMB440 per ton which increased from RMB360 per ton for 2018, as compared with RMB263 per ton for 2019 in Guizhou province in the same period which decreased from RMB278 per ton for 2018. During the same period, we sold approximately 1.8 million tons in Xinjiang compared to approximately 1.3 million tons in Guizhou.

The average selling price of our cement is subject to seasonal fluctuations. Periodically during the winter, many construction projects are suspended due to cold weather or the Chinese New Year holidays, which are typically during January or February. We generally offer our cement products at discounted prices in the winter season in order to attract customers and to maintain our market share. Prices of our cement products typically increase as demand rises after winter and the Chinese New Year holidays are over.

Our centralized sales department based in Xi'an, reviews our pricing strategy regularly and makes recommendations to our product prices in different markets when appropriate based on various factors, including raw material costs, coal and electricity prices, market demand, our production capacity, transportation costs, inventory levels, competitors' prices and credit terms. We have also set up the pricing committee which convene pricing meeting monthly and approve the pricing recommendations from the centralized sales department.

Product Mix

Our results of operations are affected by our product mix. We sell different grades of cement with various physical characteristics at different selling prices. To fully utilize our clinker production capacity, we also sold small amounts of clinker during the three years ended December 31, 2020 when we had surplus clinker in our cement production.

The average selling price of our high-grade cement is higher than the average selling price of our low-grade cement. Our high-grade cement was sold at an average price of approximately RMB319, RMB338 and RMB305 per ton in 2018, 2019 and 2020, respectively, while our low grade cement was sold at an average price of approximately RMB302, RMB314 and RMB283 per ton in 2018, 2019 and 2020, respectively.

As high-grade cement has higher strength, it has been primarily used in government infrastructure projects while the low-grade cement has been primarily used in various rural residential construction projects. As a result of the increasing investment in government infrastructure projects in Shaanxi Province, the percentages of sales volume and revenue contributed by high grade cement generally increased during the three years ended December 31, 2020. We sold approximately 12.8 million tons, 14.7 million tons and 16.1 million tons of high grade cement in 2018, 2019 and 2020, respectively, which represented 70.2%, 75.7% and 80.6% of our total sales volume and contributed to 68.8%, 68.4% and 68.8% of our total revenue for the relevant periods.

Cost of Coal and Electricity

The results of our operations are significantly affected by the cost of coal and electricity. The cost of coal is one of the largest components of our total cost of sales, and represents approximately 27.6%, 27.8% and 26.5% of our cost of sales of cement for the years ended December 31, 2018, 2019 and 2020, respectively. Fluctuations in the price for coal have a direct impact on our results of operations. The price for coal increased in 2019 due to increase in market demand but decreased in 2020 as a result of the impact of the COVID-19 outbreak which led to higher inventory level of coal suppliers and lower demand. Our average purchase prices of coal per ton were approximately RMB508.0, RMB525.6, and RMB486.5 in 2018, 2019 and 2020, respectively.

Our operations also require a significant amount of electricity. The cost of electricity represented approximately 15.8%, 15.6% and 15.4% of our total cost of sales of cement for the years ended December 31, 2018, 2019 and 2020, respectively. Electricity prices have remained relatively stable in recent years. For the years ended December 31, 2018, 2019 and 2020, our average electricity purchase price per KWh was RMB0.40, RMB0.41 and RMB0.40, respectively.

Any significant increase in the prices of coal or electricity could have a significant impact on our costs of sales, which in turn could have a material adverse effect on our business, financial condition and results of operations if we are unable to pass on some or all of such increased costs in the form of higher prices to our customers.

New Production Facilities

Our revenue, cost of sales, gross profit margin and our inventories are affected by additions of production facilities. The table below sets forth the revenue, gross profit and gross profit margin of our existing and newly added production facilities for each of the periods indicated. Existing production facilities represent those production facilities that had already commenced sales as of the first day of the year or period indicated and new production facilities represent those production facilities that commenced sales during the year indicated.

(a) Cement

	For the year ended December 31,			
	2018	2019	2020[(1)]	2020[(1)]
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue generated by:				
Existing production facilities	5,684,545.3	6,262,007.8	5,891,911.1	902,988.7
New production facilities	—	—	19,476.7	2,985.0
Total	5,684,545.3	6,262,007.8	5,911,387.8	905,973.7
Gross profit contributed by:				
Existing production facilities	2,011,437.7	2,244,966.2	1,952,792.2	299,283.1
New production facilities	—	—	3,307.1	506.8
Total	2,011,437.7	2,244,966.2	1,956,099.3	299,789.9
Gross profit margin for:				
Existing production facilities	35.38%	35.85%	33%	33%
New production facilities	—	—	17%	17%
Overall gross profit margin	35.38%	35.85%	33.09%	33.09%

Note:

(1) New production facilities for year ended December 31, 2020 represent Jingbian mixing station.

(b) Aggregates

	For the year ended December 31,			
	2018	2019[(1)]	2020[(2)]	2020[(2)]
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue generated by:				
Existing production facilities	23,723.6	65,055.9	105,640.8	16,190.4
New production facilities	—	6,515.6	23,025.2	3,528.8
Total	23,723.6	71,571.5	128,666.0	19,719.2
Gross profit contributed by:				
Existing production facilities	13,397.5	33,025.5	45,532.7	6,978.3
New production facilities	—	3,085.6	13,274.2	2,034.4
Total	13,397.5	36,111.1	58,806.9	9,012.7
Gross profit margin for:				
Existing production facilities	56.5%	50.8%	43.1%	—
New production facilities	—	47.4%	57.7%	—
Overall gross profit margin	56.5%	50.5%	45.7%	—

Notes:

(1) New production facilities for year ended December 31, 2019 represent production facilities located in Pucheng and Yang Quanshan.

(2) New production facilities for year ended December 31, 2020 represent production facility located in Weinan.

(c) Commercial concrete

	For the year ended December 31,			
	2018[1]	2019[2]	2020[3]	2020[3]
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue generated by:				
Existing production facilities	125,192.2	119,435.6	626,719.2	96,050.4
New production facilities	—	372,545.7	93,301.8	14,299.3
Total	125,192.2	491,981.3	720,021.0	110,349.7
Gross profit contributed by:				
Existing production facilities	22,242.8	23,352.8	122,069.2	18,708.2
New production facilities	—	72,178.5	25,284.2	3,875.0
Total	22,242.8	95,531.2	147,353.4	22,583.2
Gross profit margin for:				
Existing production facilities	17.8%	19.6%	19.5%	—
New production facilities	—	19.4%	27.1%	—
Overall gross profit margin	17.8%	19.4%	20.5%	—

Notes:

(1) New production facilities for year ended December 31, 2018 represent capacity of our non-wholly owned subsidiaries, namely, Shaanxi Fengshengdeyuan Industrial Co., Ltd., Shaanxi Xinyida Building Materials Industry Development Co., Ltd. and Shaanxi Xinyida Hengzhong Concrete Co., Ltd.

(2) New production facilities for year ended December 31, 2019 represent capacity of our subsidiaries including Moyu Yaobai Building Materials Co., Ltd, Hancheng Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd and Hanzhong Yaobai Leijin Energy Conservation and Environmental Protection Building Materials Co., Ltd.

(3) New production facilities for year ended December 31, 2020 represent capacity of our subsidiaries including Hanzhong Mianxian Yaobai Cement Co., Ltd, Tongchuan Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd, Hetian Yaobai Building Materials Co., Ltd., and Ankang Yaobai Energy Conservation and Environmental Protection Building Materials Co., Ltd.

Utilization rates for our production lines for the year ended December 31, 2020 are set forth in the table below.

Production Line	Utilization Rate for year ended December 31, 2020[1]
Danfeng	
Line 1	76.3%
Line 2	78.4%
Hancheng	60.8%
Fuping	87.1%
Jianghua	96.0%

Production Line	Utilization Rate for year ended December 31, 2020[1]
Pucheng	
Line 1	NA[2]
Line 2	109.2%
Lantian	
Line 1	44.1%
Line 2	56.4%
Luxin	120.6%
Mianxian	96.6%
Shifeng	84.1%
Xixiang	95.5%
Xunyang	51.6%
Yangxian	83.0%
Hetian	42.0%
Zhen'an	81.0%
Huaxi	74.6%
Yili	33.6%
Yaowangshan	
Line 1	51.5%
Line 2	38.9%
Mozambique	NA[3]
Moyu	NA[3]

Notes:

(1) The utilization rate is derived on the basis of actual production volume divided by pro-rata annual production capacity of each production line for the actual number of months in the year ended December 31, 2020 during which the production line was in operation. The annual cement production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.95. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive our cement production capacity.

(2) The production line was not utilized primarily because the utilization of production line 2 would be sufficient to satisfy market demand and there was a limit imposed by the local government plan in controlling overall coal consumption.

(3) The Moyu production line and Mozambique production line were commissioned in December 2020 and were not put into operation in 2020.

Our new production facilities increased our working capital requirements primarily in the form of inventories. The addition of new production facilities in 2018, 2019 and 2020 resulted in the increase of our inventories by approximately RMB55.0 million in 2018, RMB174.4 million in 2019, and RMB65.9 million (US$10.1 million) in 2020, which constituted the main portion of the working capital related to the new production facilities.

PRC Government Incentives

Our net profit is affected by the tax refunds, tax exemptions, financial subsidies and preferential tax treatments that we enjoy. We are entitled to VAT refunds for cement products that use a certain percentage of recycled materials as raw materials, such as slag and flyash. Some of our PRC subsidiaries are entitled to preferential enterprise income tax rates (as compared with the standard rate at 25%) under the applicable rules, for example, a preferential rate of 15% under the relevant notes relating to development of the western region in the PRC and a concession rate of 20% for small and micro enterprises in Shaanxi Province.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in conformity with IFRS issued by the International Accounting Standards Board, which requires us to make estimates and assumptions that affect the reported amounts of, among other things, assets, liabilities, revenue and expenses. We base our estimates on our own historical experience and on various other factors that we believe to be relevant under the circumstances. These estimates and assumptions are periodically re-evaluated by our management and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Some of our accounting policies require a higher degree of judgment than others in their application. We consider the policies discussed below to be critical to an understanding of our financial information as their application places the most significant demands on our management's judgment.

Revenue Recognition

We recognize revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;

- our performance creates or enhances an asset that the customer controls as we perform;

- the amount of revenue can be measured reliably; or

- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents our right to consideration in exchange for goods or services that we have transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents our unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Property, Plant and Equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalized in accordance with our accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When we make payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Except for mining assets (see Notes (a) and (b) below), depreciation is recognized so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The annual rates of depreciation for above items of property, plant and equipment, other than construction in progress and mining assets, are as follows:

Category of property, plant and equipment	Useful life
Buildings	20 years
Motor vehicles	8 years
Electronic and other equipment	5 years
Machinery	12 years

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Mining assets include primarily the following:

(a) Stripping costs

Stripping costs incurred during the production phase which provide improved access to ore is capitalized into property, plant and equipment as "mining assets" (before production begins) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as mining assets of which it forms part. Capitalized stripping costs are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

(b) Asset retirement obligation

We recognize provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mining properties and mining assets under property, plant and equipment when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognized as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the mining assets and the cost is depreciated as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The adjusted cost of the asset is depreciated prospectively over the economic life of the assets to which they relate. The unwinding of the discount is shown as finance costs in profit or loss.

Financial assets and liabilities

Financial assets and financial liabilities are recognized in the consolidated statement of financial position when our group entity becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss, or

FVTPL, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss

All financial liabilities including borrowings, trade and other payables, amount due to non-controlling shareholder of a subsidiary, senior notes and medium-term notes are subsequently measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liabilities and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalization rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGU(s)") or group of CGUs, that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs). On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When we dispose of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Mining Rights

The cost of acquiring rights for us to extract a mine over a certain period is capitalized and subsequently stated at cost less accumulated amortization and impairment loss. Amortization of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on the unit of production method.

Impairment Losses on Tangible and Intangible Assets (Excluding Goodwill)

At the end of the reporting period, we review the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, we estimate the recoverable amount of the CGU to which the asset belongs. In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGU.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, we compare the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognized in profit or loss immediately.

Inventories

Our inventories primarily consist of: (i) raw materials and consumables; (ii) work in progress; and (iii) finished goods. We state our inventories at the lower of cost and net realizable value. Cost of inventories are determined on a weighted average method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment of financial assets

We perform impairment assessment under expected credit loss, or ECL, model on financial assets (including trade and other receivables, loan receivables, other deposits, bank balances and restricted/pledged bank deposits) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL, or 12m ECL, represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on our historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. We always recognize lifetime ECL for trade receivables. For all other financial assets, we measure the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case we recognize lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Generally, the ECL is the difference between all contractual cash flows that are due to us in accordance with the contract and the cash flows that we expect to receive, discounted at the effective interest rate determined at initial recognition. Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information. For collective assessment, we take into consideration the following characteristics when formulating the grouping: past-due status, nature, size and industry of debtor and external credit ratings where available. We recognize an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and loan receivables where the corresponding adjustment is recognized through a loss allowance account.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

SELECTED ITEMS OF STATEMENTS OF PROFIT AND LOSS AND COMPREHENSIVE INCOME

Revenue

We derive substantially all of our revenue from sales of our cement products (including high grade cement, low grade cement and clinker). Our revenue was approximately RMB5,911.7 million, RMB7,247.4 million, RMB7,131.1 million (US$1,092.9 million) for the years ended December 31, 2018, 2019 and 2020, respectively.

Our revenue in any given period is determined by our sales volume and average selling price of our cement products. We sold approximately 18.2 million tons, 19.3 million tons, 19.9 million Tons of cement products for the years ended December 31, 2018, 2019 and 2020, respectively. The increases in our sales volume were mainly driven by our expansion into new markets, the increase in our capacity and the growth in railway and road infrastructure project construction in Shaanxi Province. Our annual cement production capacity increased from 29.2 million tons as of December 31, 2018 to 33.2 million tons as of December 31, 2020, allowing us to capture the growth in the demand for cement. The average selling price for our cement products was approximately RMB314, RMB333 and RMB301 per ton for 2018, 2019, 2020. The average selling prices during fluctuated over such period. The average selling prices in Central Shaanxi in general 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. During 2019, lower supply among all producers as a result of the occasional peak-shifting production halts during low season periods under the stringent environmental policy had led to the rising average selling prices in Shaanxi and Xinjiang Provinces. Due to the impact of the COVID-19 outbreak, the average selling prices in Southern Shaanxi, Central Shaanxi, Guizhou and Xinjiang Provinces decreased in 2020. We plan to continue to evaluate the market demand for our products and may from time to time adjust our product prices to meet market demand. Our revenue is also affected by our product mix. The table below sets forth our revenue, sales volume and average selling price for each category of cement products we sold and the average selling prices of cement and cement products we sold during the periods indicated:

	For the year ended December 31,											
	2018				2019				2020			
	Average selling price	Sales volume	% of total sales volume	Revenue(3)	Average selling price	Sales volume	% of total sales volume	Revenue(3)	Average selling price	Sales volume	% of total sales volume	Revenue(3)
	(RMB)	(Ton 000')		(RMB in million)	(RMB)	(Ton 000')		(RMB in million)	(RMB)	(Ton 000')		(RMB in million)
High grade cement	319	12,754.6	70.2	4,069.9	338	14,657.6	75.7	4,956.6	305	16,095.2	80.6	4,904.4
Low grade cement	302	5,341.6	29.4	1,614.7	314	4,163.2	21.5	1,305.4	283	3,552.7	17.8	1,007.0
Clinker	264	63.7	0.4	16.8	282	537.3	2.8	151.3	246	304.9	1.5	74.9
Total	314	18,159.9	100.0	5,701.3	331	19,358.1	100.0	6,413.3	300	19,952.8	100.0	5,986.3
Average selling price for cement(1)	314				333				301			
Average selling price for cement products(2)	314				331				300			

Notes:

(1) Average selling price for cement is calculated by dividing (i) our revenue derived from sales of high grade and low grade cement by (ii) the total sales volume of high grade and low grade cement. The average selling price is exclusive of VAT.

(2) Average selling price for cement products is calculated by dividing (i) our total revenue derived from sales of high grade cement, low grade cement and clinker by (ii) the total sales volume of these three products. The average selling price is exclusive of VAT.

(3) In addition to the revenue from cement products, our revenue also includes other revenue of RMB671.6 million, RMB834.1 million and RMB 1149.2 million for the years ended December 31, 2018, 2019 and 2020.

Our revenue derived from sales of high-grade cement increased from approximately RMB4,069.9 million in 2018 to approximately RMB4,956.6 million in 2019 and further increased to RMB4,904.4 million (US$751.6 million) in 2020. The increase in our revenue of high-grade cement was primarily due to increase in investment in infrastructure projects in Shaanxi Province.

Our revenue derived from sales of low grade cement decreased from approximately RMB1,614.7 million in 2018 to approximately RMB1,305.4 million in 2019 and further decreased to RMB1,007.0 million (US$154.3 million) in 2020, which was consistent with the trend in the decrease in sales volume during the same period. The decreases in sales volume of the low-grade cement during the three years ended December 31, 2020 were mainly attributable to the increasing need for high grade cement for infrastructure projects in Shaanxi Province.

Cost of Sales of Cement

	For the year ended December 31,											
	2018				2019				2020			
	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold	Cost	% of cost of sales	% of revenue	Cost per ton of cement products sold
	(RMB'000)			(RMB)	(RMB'000)			(RMB)	(RMB'000)			(RMB)
Raw materials	904,706	24.6%	15.9%	50.0	1,089,323	27.1%	17.4%	57.9	1,110,511.1	28.1%	18.8%	56.5
Coal	1,013,271	27.6%	17.8%	56.0	1,115,688	27.8%	17.8%	59.3	1,049,598.3	26.5%	17.7%	53.4
Electricity	579,012	15.8%	10.2%	32.0	624,351	15.6%	10.0%	33.2	607,490.6	15.4%	10.3%	30.9
Depreciation	615,200	16.7%	10.8%	34.0	566,806	14.1%	9.1%	30.1	606,606.1	15.3%	10.3%	30.9
Labor costs	235,224	6.4%	4.1%	13.0	281,787	7.0%	4.5%	15.0	256,488.8	6.5%	4.3%	13.1
Others	325,694	8.9%	5.7%	18.0	339,087	8.4%	5.4%	18.0	324,593.8	8.2%	5.5%	16.5
Total	3,673,108	100.0%	64.6%	203.0	4,017,042	100.0%	64.1%	213.4	3,955,288.7	100.0%	66.9%	201.3

Our cost of sales of cement primarily consists of raw materials, coal, electricity, depreciation, labor and other costs. The table above sets forth the major components of our cost of sales of cement (i) with each item expressed both as a percentage of cost of sales of cement and as a percentage of revenue from sale of cement, and (ii) by the cost per ton of cement products sold for the periods indicated. Our cost of raw materials primarily includes costs of limestone, gypsum, clay, flyash, pyrite cinder and slag. Our cost of raw materials was approximately RMB904.7 million, RMB1,089.3 million, and RMB1,109.1 million (US$170.0 million) for the years ended December 31, 2018, 2019 and 2020, respectively. We engage third party contractors to excavate limestone from our limestone mines. We pay a fixed excavation fee for each ton of limestone excavated by the contractors and generally adjust the excavation fee at the beginning of each year based on, among other things, the market price, the excavation cost at the time of the adjustment and the actual limestone purchase amount in the past year. Some agreements with the contractors contain an automatic price adjustment mechanism under which the excavation fee per ton is automatically adjusted upward if the increase in the costs of fuel exceeds a certain percentage. Of the limestone we used in our production in the years ended December 31, 2018, 2019 and 2020, approximately 15.0 million, 18.3 million and 19.1 million tons, respectively, was excavated from our mines. We purchased approximately 1.6 million tons, 1.0 million tons and 1.1 million tons of limestone from third party limestone suppliers in the years ended December 31, 2018, 2019 and 2020.

The average cost of limestone used in our production was RMB17.3, RMB16.6 and RMB17.5 per ton in 2018, 2019 and 2020, respectively. The average cost per ton we incurred for the limestone we excavated from our limestone mines for the years ended December 31, 2018, 2019 and 2020 was approximately RMB11.7, RMB11.5 and RMB12.4 per ton, respectively. Our average cost per ton for the limestone we excavated was higher in 2018 than in 2019 primarily because we used limestone excavated by third parties in 2018, which had a higher cost basis to us because it included third parties' profit margins. Our average cost per ton for the limestone we excavated decreased in 2019 because we relied on a wholly-owned subsidiary to excavate the limestone used in our production. The average cost per ton we incurred for the limestone we excavated increased in 2020 primarily as a result of the increasing costs of labor, fuel and transportation. The average cost per ton we incurred for the limestone we purchased on the market for the years ended December 31, 2018, 2019 and 2020 was approximately RMB27.6, RMB43.0 and RMB36.1 per ton, respectively. The fluctuations in the average cost per ton of our purchased limestone during the years ended December 31, 2018, 2019 and 2020 were primarily due to changes in the percentages that our limestone procurement from different geographical markets represent in our total purchase of limestone. For example, the average purchase price per ton of limestone in Xinjiang is significantly higher than that in Shaanxi province. In the year ended December 31, 2019, our limestone procurement from Xinjiang represented a significantly higher percentage of our total purchase of limestone than in the years ended December 2018 and 2020, resulting in the higher average cost of per ton we incurred for the limestone we purchased on the market for 2019 compared with 2018 and 2020.

Our raw material cost per ton of cement products sold was approximately RMB50.0, RMB57.9 and RMB56.5 for the years ended December 31, 2018, 2019 and 2020, respectively. The increase of the raw material cost per ton of cement products sold from 2018 to 2019 was primarily due to the increase in production cost due to tightening safety and environmental regulations on our suppliers. The decrease of the raw material cost per ton of cement products sold in 2020 was primarily due to the decrease in market demand due to impact of COVID-19, introduction of new suppliers and more active negotiation with suppliers based on our market research.

We endeavor to reduce our cost of sales by using recycled raw materials, which also reduce the impact of the increased prices of the raw materials on our result of operations. For example, we used fluoro gypsum to replace desulfurized gypsum in our production of cement, and construction waste to replace flyash. These measures provided us a total savings of approximately RMB33.3 million for the three years ended December 31, 2020.

Cost of coal and electricity

The cost of coal is one of the largest components of our cost of sales. The price for coal fluctuated during the three years ended December 31, 2020. Our cost of coal was approximately RMB1,013.3 million, RMB1,115.7 million and RMB1,048.2 million for the years ended December 31, 2018, 2019 and 2020, respectively, representing approximately 27.6%, 27.8% and 26.5% of our total cost of sales of cement of the same periods. In order to secure adequate coal supplies at competitive prices, we have established long-term relationships with various coal suppliers.

Our cost of coal per ton of cement products sold was approximately RMB56.0, RMB59.3 and RMB53.4 for the years ended December 31, 2018, 2019 and 2020, respectively. The changes in the cost of coal per ton of cement products primarily reflected the changes in our average purchase price for coal during the three years ended December 31, 2020, which was consistent with the changes in the market price of coal. While market price of coal in PRC remained relatively stable in 2019, coal costs decreased during 2020 as a result of the impact of the COVID-19 outbreak.

The cost of electricity is also one of the largest components of our cost of sales. Our average electricity purchase price per KWh was approximately RMB0.44, RMB0.46 and RMB0.45 for the years ended December 31, 2018, 2019 and 2020, respectively. Our cost of electricity was approximately RMB579.0 million, RMB624.4 million and RMB606.7 million for the years ended December 31, 2018, 2019 and 2020, respectively, representing approximately 15.6%, 15.6% and 15.4% of our total cost of sales of cement during those periods.

We began using residual heat recovery systems to generate electricity in October 2008. For the years ended December 31, 2018, 2019 and 2020, we generated approximately 360.6 GWh, 394.1 GWh and 422.4 GWh of electricity through the residual heat recovery systems, respectively. As a result, we achieved cost savings of approximately RMB91.5 million, RMB104.5 million and RMB108.8 million in the years ended December 31, 2018, 2019 and 2020, respectively, which was calculated by multiplying the electricity generated by the residual heat recovery systems by the difference between the average electricity price per KWh of the same period and the average cost of generating the electricity with the residual heat recovery systems. Due to the cost savings from using the residual heat recovery system, our cost of electricity for each ton of cement products sold for the years ended December 31, 2018, 2019 and 2020 was approximately RMB 0.40, RMB 0.41 and RMB 0.40, respectively.

We anticipate that our energy supply and raw material costs will continue to account for a substantial portion of our cost of sales.

Gross Profit and Gross Profit Margin

For the years ended December 31, 2018, 2019 and 2020, our total gross profit was approximately RMB1,985.8 million, RMB2,440.5 million and RMB2,342.5 million (US$359.0 million), respectively, and our gross profit margin was approximately 33.6%, 33.7% and 32.8%, respectively. Our gross profit margin slightly increased during the year ended December 31, 2019 primarily because of the increase in the average selling price for each ton of our products. Our gross profit margin slightly decreased during the year ended December 31, 2020 due to the decrease in the average selling price for each ton of our products.

Selling and Marketing Expenses

Our selling and marketing expenses primarily consist of staff costs, marketing expenses and transportation expenses. The primary duties of our sales personnel include pre-sales follow-up and information collection, support in settlement and payment collection, continuous after-sales follow-up and customer return visits. They need to meet monthly and annual sales targets and are also responsible for monitoring international and domestic market situation, handling customer complaints, conducting customer satisfaction surveys, and providing timely feedback.

Our selling and marketing expenses were approximately RMB54.1 million, RMB57.4 million and RMB63.4 million (US$9.7 million) for the years ended December 31, 2018, 2019 and 2020, respectively. As we expand our operations, we expect to strengthen our sales efforts and our selling and marketing expenses may increase accordingly. As a percentage of revenue, our selling and marketing expenses were approximately 0.9% in 2018, approximately 0.8% in 2019 and approximately 0.9% in 2020.

Administrative Expenses

Our administrative expenses primarily include staff costs, general administrative expenses, depreciation and amortization and government levies. Our administrative expenses were approximately RMB336.7 million, RMB360.3 million, RMB405.4 million (US$62.1 million) and for the years ended December 31, 2018, 2019 and 2020, respectively. Our administrative expenses as a percentage of revenue were approximately 5.7%, 5.0% and 5.7% for the years ended December 31, 2018, 2019 and 2020, respectively.

Other Income and Other Gains (Losses), net

The table below sets forth the breakdown of our other income and other gains (losses), net for the periods indicated.

	For the year ended December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Other income				
Tax refunds	316,183	269,634	246,635	37,799
Including release from deferred income	27,803	18,102	38,797	5,946
Others	—	17	44	7
Sub-total	343,986	287,753	285,476	43,752
Other Gains (Losses), net				
Fair value gain on investment in entrusted product	—	—	16,030	2,457
Net foreign exchange gains (losses)	(127,550)	(21,506)	(149,725)	(22,947)
Gain (loss) on disposal of property, plant and equipment	(6,777)	(37,662)	(18,909)	(2,898)
Loss on partial redemption of senior notes	(8,993)	(13,435)	—	—
Donations	(87,953)	—	—	—
Other gains (losses)	(2,555)	4,595	(59)	(9)
Sub-total	(233,828)	(68,008)	(152,663)	(23,397)
Total	110,158	219,745	132,813	20,355

Other income primarily includes tax refunds and government grants. We enjoy tax refunds for utilizing industrial waste as part of our production materials. These tax refunds are recurring in nature as we continue to use qualified recycled materials in our production. During the years ended December 31, 2018, 2019 and 2020, these tax refunds amounted to approximately RMB316.2 million, RMB269.6 million and RMB246.6 million (US$37.8 million), respectively. We submit our tax assessment and refund application on a monthly basis and the tax authority usually pays us the tax refunds by cash in the month following our application. Government grants are non-recurring in nature and primarily include employment stabilizing subsidies in terms of refund of contribution to unemployment insurance funds, subsidies for development of recycling industry and technology innovation which together amounted to approximately RMB27.8 million, RMB18.1 million and RMB38.8 million (US$5.9 million), respectively for the years ended December 31, 2018, 2019 and 2020. The "clean" project investment incentive primarily covers energy efficient and emission reduction technologies such as our residual heat recovery systems. Other gains (losses), net primarily include fair value gain on investment in entrusted product, net foreign exchange gains (losses), donation, and other gains (losses) and amounted to net loss of approximately RMB233.8 million, RMB68.0 million, RMB152.7 million (US$23.4 million) for the years ended December 2018, 2019 and 2020. During the years ended December 31, 2018 and December

31, 2019, we exercised our early redemption option and repaid the then outstanding senior notes of US$80.0 million (equivalent to RMB827.0 million) and US$120.0 million (equivalent to RMB533.0 million), respectively, together with the applicable redemption premium of US$2.0 million (equivalent to RMB13.4 million) and US$1.3 million (equivalent to RMB9.0 million). The remaining balance was due and repaid during the year ended December 31, 2019.

Interest Income

Interest income primarily includes interest income from loan receivables in connection with our financial leasing business and bank deposits. Our interest income was RMB140.6 million, RMB228.2 million and RMB195.8 million (US$30.0 million) for the years ended December 31, 2018, 2019 and 2020, respectively.

Finance Costs

Finance costs primarily include interest on bank loans, interest on MTN Notes and interest on other borrowings after adjusting for the capitalized interest on construction projects. Our finance costs were approximately RMB228.8 million, RMB187.1 million and RMB165.2 million (US$25.3 million) for the years ended December 31, 2018, 2019 and 2020, respectively. Capitalized interest was approximately RMB4.2 million, RMB10.3 million, RMB50.5 million (US$7.7 million) for the years ended December 31, 2018, 2019 and 2020.

Income Tax Expense

The table below sets forth our income tax expense for the periods indicated:

	For the year ended December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Current tax	442,310	453,530	336,951	49,914
Overprovision of PRC EIT	—	(45,253)	(81,321)	(12,046)
Deferred tax	9,338	(14,005)	8,864	1,313
Income tax expense	451,648	394,272	264,494	39,181

Our income tax expense primarily consists of provision for PRC current and deferred tax expenses. We recorded income tax expense of RMB451.6 million, RMB394.3 million and RMB264.5 million (US$40.5 million) respectively, for the years ended December 31, 2018, 2019 and 2020. Our effective income tax rates were approximately 27.7%, 17.6%, and 14.3 % for the years ended December 31, 2018, 2019 and 2020, respectively. The decreases in our effective income tax rates were due to the increase in the number of our subsidiaries entitled to concession tax rates over the same period. For example, we had two and eight additional subsidiaries entitled to concession tax rate of 15% under the Western Development Plan in 2019 and 2020, respectively.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated:

	For the year ended December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Revenue	5,911,744	7,247,389	7,131,052	1,092,898
Cost of sales	(3,925,988)	(4,806,905)	(4,788,586)	(733,894)
Gross profit	1,985,756	2,440,484	2,342,466	359,004
Other income	343,986	287,753	285,476	43,752
Impairment loss under expected credit loss mode, net of reversal	(8,387)	(36,517)	(128,408)	(19,680)
Selling and marketing expenses	(54,136)	(57,406)	(63,413)	(9,719)
Administrative expenses	(336,745)	(360,319)	(405,389)	(62,130)
Other expenses	—	(25,729)	(77,819)	(11,926)
Other gains and losses, net	(223,828)	(68,008)	(152,663)	(23,397)
Share of profit of an associate	23,683	22,388	16,628	2,548
Interest income	140,578	228,231	195,762	30,002
Finance costs	(228,796)	(187,076)	(165,184)	(25,316)
Profit before tax	1,632,111	2,243,801	1,847,456	283,138
Income tax expense	(451,648)	(394,272)	(264,494)	(40,536)
Other comprehensive expense				
Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of foreign operations	—	—	(3,552)	(544)
Other comprehensive expense for the year	—	—	(3,552)	(544)
Total comprehensive income for the year	1,180,463	1,849,529	1,579,410	242,058
Profit for the year attributable to				
Owners of the Company	1,159,449	1,801,281	1,560,480	239,158
Non-controlling interests	21,014	48,248	22,482	3,446
	1,180,463	1,849,529	1,582,962	242,604
Total comprehensive income attributable to attributable to:				
Owners of our Company	1,159,449	1,801,281	1,556,928	238,613
Non-controlling interests	21,014	48,248	22,482	3,446
	1,180,463	1,849,529	1,579,410	242,059
Basic earnings per share (RMB/share)[(1)]	0.213	0.331	0.287	0.04

Note:

(1) Basic earnings per share is calculated by dividing the profit attributable to owners of our Company by the weighted average number of ordinary shares in issue during the relevant period.

Year ended December 31, 2020 compared to year ended December 31, 2019

Revenue

Our revenue decreased by 1.6% from RMB7,247.4 million in 2019 to RMB7,131.1 million (US$1,092.9 million) in 2020. Cement sales volume increased by 4.3%, from approximately 18.8 million tons to approximately 19.6 million tons for the year ended December 31, 2020. Total sales volume including clinker sales in 2020 increased slightly to approximately 19.9 million tons from 19.3 million tons sold in 2019. Overall cement prices were lower than those in 2019, which has resulted in a decrease in revenue, while the average selling prices for cement for the year ended December 31, 2020 was RMB301 per ton as compared with RMB333 per ton in 2019. 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 (US$19.7 million) and RMB720.0 million (US$110.3 million), respectively, for the year ended December 31, 2020, which was primarily due to the increase in our production capacities and sales volumes.

Cost of Sales

Our cost of sales decreased by 0.4% from RMB4,806.9 million for the year ended December 31, 2019 to RMB4,788.6 million (US$733.9 million) for the year ended December 31, 2020. Coal prices decreased in China 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 RMB486.5 per ton for 2020 from approximately RMB525.6 per ton for 2019. In addition to the increase in efficiency gains from more efficient use of coal in our production process, this has resulted in a total cost decrease of approximately RMB5.8 per ton of total cement produced.

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, such as 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 December 31, 2020, respectively.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit decreased by approximately RMB98.0 million (US$15.0 million), or approximately 4.0%, from RMB2,440.5 million in 2019 to RMB2,342.5 million (US$359.0 million) in 2020. Due to the decrease in average selling prices as described above, our profit margins slightly decreased from 33.7% in 2019 to 32.8% in 2020.

Selling and Marketing Expenses

Our selling and marketing expenses increased by approximately 10.5% from approximately RMB57.4 million for 2019 to approximately RMB63.4 million (US$9.7 million) for 2020, primarily as a result of the increase in the scale of our commercial concrete operation and commencement of operations of our trading company in African. Our selling and marketing expenses as a percentage of revenue increased slightly from approximately 0.8% for 2019 to approximately 0.9% for 2020.

Administrative Expenses

Our administrative expenses increased by approximately 12.5% from approximately RMB360.3 million for 2019 to approximately RMB405.4 million (US$62.1 million) for 2020. Our administrative expenses as a percentage of revenue increased slightly from approximately 5.0% for 2019 to approximately 5.7% for 2020 primarily due to increase in the scale of our operations with 13 companies newly included in our consolidated accounts.

Other Income

Other income decreased by approximately 0.8%, from approximately RMB287.8 million for 2019 to approximately RMB285.5 million (US$43.8 million) for 2020 due primarily to the decrease in VAT refunds. The ratio of VAT refunds over revenue was 3.5% in 2020 compared to 3.7% in 2019 largely due to the decline in our average selling price. Lower average selling prices result in lower output VAT, which in turn results in lower net VAT and rebates.

Other Gains and Losses, Net

Other losses increased by approximately RMB84.7 million from approximately RMB68.0 million for 2019 to approximately RMB152.6 million (US$23.3 million) for 2020 due to the following factors. Firstly, there were net foreign exchange losses mainly relating to the translation of 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 (US$22.9 million) recorded in 2020 while there were such losses of RMB21.5 million in 2019 mainly related to the translation of senior notes from USD to RMB. Secondly, the loss on disposal of property, plant and equipment, or PPE, decreased to RMB18.9 million (US$2.9 million) for 2020 from RMB37.7 million for 2019 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 in 2020 and there was no such gain in 2019. Finally, the loss on partial redemption of Senior Notes of RMB13.4 million was recorded in 2019 as we early redeemed part of the then outstanding Senior Notes of US$120.0 million in June 2019 while there was no such loss in 2020.

Impairment losses under expected credit loss model, net of reversal

The balance increased by RMB91.9 million from RMB36.5 million for 2019 to RMB128.4 million (US$19.7 million) for 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 (US$13.2 million) for 2020 (as compared to RMB5.8 million in 2019) and RMB41.2 million (US$6.3 million) for 2020 (as compared to RMB7.5 million in 2019), 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 (US$5.0 million) from RMB228.2 million for 2019 to RMB195.8 million (US$30.0 million) for 2020. The decrease was mainly due to the decrease in the interest income arising from the loan receivables business to RMB184.0 million (US$28.2 million) recorded in 2020 as compared to RMB213.0 million for 2019 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 (US$3.4 million), or 11.7%, from RMB187.1 million for 2019 to RMB165.2 million (US$25.3 million) for 2020. The decrease was mainly due to the increase in capitalized interests as a result of the construction of the new plants during the year.

Profit Before Tax

As a result of the foregoing, our profit before income tax decreased by approximately 17.7%, from approximately RMB2,243.8 million for 2019 to approximately RMB1,847.5 million (US$283.1 million) for 2020.

Income Tax Expense

Income tax expenses decreased from RMB394.3 million for 2019 to RMB264.5 million (US$40.5 million) for 2020. Current income tax expense net of over provision decreased to RMB255.6 million for 2020 from RMB408.3 million for 2019, whereas deferred tax expenses increased by RMB22.9 million (US$3.5 million) to RMB8.9 million for 2020, as compared to deferred tax credit of RMB14.0 million for 2019. 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 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. As a result of the increase in the number of subsidiaries entitled to concession tax rates, our effective income tax rate decreased to 14.3% in 2020 as compared to 17.6% in 2019.

Profit Attributable to Owners of the Company and Basic Earnings per Share

As a result of the above, our net profit attributable to owners of the Company decreased by approximately RMB240.8 million (US$36.9 million), or approximately 13.4% from approximately RMB1,801.3 million for 2019 to approximately RMB1,560.5 million (US$239.2 million) for 2020. Accordingly, our basic earnings per share decreased from RMB0.331 for 2019 to RMB0.287 for 2020.

Year ended December 31, 2019 compared to year ended December 31, 2018

Revenue

Our revenue increased by 22.6% from RMB5,911.7 million for 2018 to RMB7,247.4 million (US$1,110.7 million) for 2019. Cement sales volume increased by 3.9%, from approximately 18.1 million tons to approximately 18.8 million tons during the year. Including clinker sales, total sales volume in 2019 amounted to approximately 19.3 million tons, compared to the 18.2 million tons sold in 2018. Overall cement prices were higher than those in 2018, and this has resulted in higher revenue. Cement average selling prices for the year ended December 31, 2019 were RMB333 per ton as compared with RMB314 per ton in 2018. Other than the above increase in cement sales volume and average selling prices, the revenue arising from the sales of aggregates and commercial concrete also increased from RMB23.7 million and RMB125.2 million, for 2018, respectively, to RMB75.2 million and RMB493.2 million, for 2019, respectively, which was primarily due to the increase in the production capacities and sales volumes.

Cost of Sales

Cost of sales increased by 22.4% from RMB3,926.0 million for 2018 to RMB4,806.9 million for 2019. The increase was primarily due to the increase in costs of coal, raw materials and staff of cement production mentioned below.

Coal costs were stable in the PRC during 2019. The average cost per ton of coal increased slightly by approximately 3.3% to approximately RMB525.6 per ton from approximately RMB508.0 per ton in 2018. This has resulted in a cost increase of approximately RMB3.2 per ton of total cement produced, with total coal costs increased by approximately 5.7% as compared with that of 2018. Raw materials costs were increasing as a result of the increase in transportation costs and suppliers prices under the more stringent environmental policy implemented and the increase in the number of such policies during the year. As a result, the costs increased by approximately RMB8.0 per ton of total cement produced, with total raw materials costs increased by approximately 16.0% as compared with that of 2018. We have reviewed and increased the staff salaries, which have been frozen for few years, as a result of the improving operating results, since the second half of 2018. This has resulted in a cost increase of approximately RMB2.4 per ton of total cement produced, with total staff costs increased by approximately 21.9% as compared with that of 2018. There have been no significant changes in the costs of electricity and depreciation during 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 276.0% and 290.0% to RMB37.6 million and RMB397.8 million, for 2019, respectively.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by approximately RMB454.7 million, or approximately 22.9%, from approximately RMB1,985.8 million for 2018 to approximately RMB2,440.5 million for 2019. Our gross profit margin slightly increased from approximately 33.6% for 2018 to approximately 33.7% for 2019.

The increase in gross profit and gross margin in 2019 were due primarily to increase in the average selling price of our products.

Impairment losses under expected credit loss model, net of reversal

The balance increased by RMB28.1 million from RMB8.4 million for the 2018 to RMB36.5 million for 2019. The increase was mainly due to the loss on impairment of amount due from non-controlling shareholder of a subsidiary of RMB22.0 million recorded in 2019 while there was no such loss for 2018. The amount was prepaid to the non-controlling interests of a subsidiary to coordinate for the acquisitions of various mining rights in prior years. However, the local government authority finally issued a notice that the respective mining rights would not be granted due to the rearrangement of local mining resources under the current stringent environmental policies, which led to the impairment loss recognized.

Selling and Marketing Expenses

Our selling and marketing expenses increased by approximately 6.1%, from approximately RMB54.1 million in 2018 to approximately RMB57.4 million in 2019. This increase was primarily due to the increase in staff salaries as a result of the improved operating results since the second half of 2018. Our selling and marketing expenses as a percentage of revenue decreased slightly from approximately 0.9% for 2018 to approximately 0.8% for 2019.

Administrative Expenses

Our administrative expenses increased by approximately 7.0% from approximately RMB336.7 million in 2018 to approximately RMB360.3 million in 2019 primarily due to increase in staff salaries as a result of the improved operating results since the second half of 2018. Our administrative expenses as a percentage of revenue decreased from 5.7% for 2018 to 5.0% for 2019.

Other Income

Other income decreased by approximately RMB56.2 million, or approximately 16.3%, from approximately RMB344.0 million for 2018 to approximately RMB287.8 million for 2019.

Other Gains and Losses, Net

Other losses decreased by approximately RMB165.8 million from approximately RMB233.8 million for 2018 to approximately RMB68.0 million for 2019. The net decrease was mainly due to the net effect of the following factors. Firstly, the net foreign exchange loss relating to our borrowings as a result of the depreciation of the RMB against the USD decreased to RMB21.5 million for 2019 as compared to RMB127.6 million in 2018. Secondly, the loss on disposal of PPE of RMB37.7 million was recorded for 2019 as compared to RMB6.8 million in 2018 as some obsolete PPE were disposed under the technology improvement of PPE to meet the tighten stringent environmental policy requirement. Thirdly, the redemption premium on partial redemption of Senior Notes of RMB13.4 million was recorded for 2019 as compared to RMB9.0 million for 2018 as we early redeemed Senior Notes of US$120 million in June 2019. Finally, the donation for 2019 of RMB3.7 million was reclassified to other expense while donation of RMB88.0 million was recognized in other losses for 2018, of which RMB80.0 million was donated by us upon the establishment of the Yaobai Education Assistance Foundation in 2018 to sponsor deprived students for college education.

Interest Income

Interest income increased by RMB87.6 million from RMB140.6 million for 2018 to RMB228.2 million for 2019. The increase was mainly due to the increase in the interest income arising from the growing loan receivables business of RMB213.0 million recorded for 2019 as compared to RMB127.8 million for 2018.

Finance Costs

Finance costs decreased by RMB41.7 million, or 18.2%, from RMB228.8 million for 2018 to RMB187.1 million for 2019. The decrease was mainly due to the early redemption of senior notes at the end of 2018 and in June 2019.

Profit Before Tax

As a result of the foregoing, our profit before income tax increased by approximately 37.5%, from approximately RMB1,632.1 million for 2018 to approximately RMB2,243.8 million for 2019.

Income Tax Expense

Income tax expenses decreased by RMB57.3 million, or 12.7%, from RMB451.6 million for 2018 to RMB394.3 million for 2019. Current income tax expense decreased by RMB34.1 million to RMB408.3 million, whereas deferred tax expense decreased by RMB23.3 million to deferred tax income of RMB14.0 million for 2019. The decrease in the current income tax was primarily due to the reversal of over provision made in prior years. The decrease in the deferred tax expense was mainly due to the net effect of the reversal of the withholding tax on undistributed profits of PRC subsidiaries after the payment of dividend in prior year and the increase in the utilization of the tax losses of prior years. The effective income tax rate decreased to 17.6% for 2019 from 27.7% for 2018 primarily due to the increase in the number of subsidiaries entitled to concession tax rates.

Profit Attributable to Owners of the Company and Basic Earnings per Share

As a result of the above, our net profit attributable to owners of the Company increased by approximately RMB641.8 million, or approximately 55.4%, from approximately RMB1,159.4 million for 2018 to approximately RMB1,821.3 million for 2019. Accordingly, basic earnings per share increased by 55.4% from RMB0.213 for 2018 to RMB0.331 for 2019.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The following table sets forth a summary of our net cash flow for the periods indicated.

	For the year ended December 31,			
	2018	**2019**	**2020**	**2020**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000)**
Net cash generated from operating activities	2,502,613	2,694,765	2,682,119	411,059
Net cash used in investing activities	(1,681,324)	(2,095,800)	(3,117,988)	(477,860)
Net cash generated from (used in) financing activities	(1,311,727)	(706,004)	322,040	49,356
Net (decrease) increase in cash and cash equivalents	(490,438)	(107,039)	(113,829)	(17,445)
Cash and cash equivalents at beginning of year/period	1,375,353	886,046	779,559	119,474
Effect of foreign exchange rate changes	1,131	552	(14,267)	(2,187)
Cash and cash equivalents at the end of year/period	886,046	779,559	651,463	99,843

Net cash generated from operating activities

The following table summarizes our cash flow from operating activities for the periods indicated.

	Year ended December 31,			
	2018	**2019**	**2020**	**2020**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000)**
Operating cash inflows before movements in working capital	2,639,026	3,115,140	2,951,098	452,282
Change in working capital — generated (used)	221,450	53,635	43,958	6,737
Cash generated from operations				
Income tax paid	(357,863)	(474,010)	(312,937)	(47,960)
Net cash generated from operating activities	2,502,613	2,694,765	2,682,119	411,059

Our net cash generated from operating activities was approximately RMB2,682.1 million (US$411.1 million) in 2020. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB1,847.5 million (US$283.1 million), (ii) the adjustment of depreciation of property, plant and equipment in the amount of approximately RMB864.9 million (US$132.6 million), (iii) net finance costs in the amount of approximately RMB165.2 million (US$25.3 million), (iv) unrealized exchange losses in the amount of RMB149.7 million (US$22.9 million) and (v) an increase in trade and other payables in the amount of approximately RMB378.1 million (US$57.9 million), which was partially offset by interest income of approximately RMB195.8 million (US$30.0 million), and an increase in trade and other receivables and prepayments in the amount of approximately RMB321.0 million (US$49.2 million).

Our net cash generated from operating activities was approximately RMB2,694.8 million in 2019. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB2,243.8 million, (ii) the adjustment of depreciation of property, plant and equipment in the amount of approximately RMB803.1 million and net finance costs in the amount of approximately RMB187.1 million and (iii) an increase in trade and other payables in the amount of approximately RMB449.5 million, which was partially offset by (i) interest income of approximately RMB228.2 million, (ii) an increase in trade and other receivables and prepayments in the amount of approximately RMB217.0 million (US$33.2 million) and an (iii) increase in inventories in the amount of approximately RMB174.4 million (US$26.7 million).

Our net cash generated from operating activities was approximately RMB2,502.6 million in 2018. This net cash inflow was primarily a result of (i) profit before income tax in the amount of approximately RMB1,632.1 million and (ii) the adjustment of depreciation of property, plant and equipment in the amount of approximately RMB764.8 million and net finance costs in the amount of approximately RMB228.8 million, (iii) unrealized exchange losses in the amount of RMB139.6 million and (iv) an increase in trade and other payables in the amount of RMB312.2 million, which was partially offset by interest income of approximately RMB140.6 million.

Net cash used in investing activities

Our net cash used in investing activities was approximately RMB3,118.0 million (US$477.9 million) in 2020, primarily reflecting (i) the purchase of property, plant and equipment of approximately RMB2,675.1 million (US$410.0 million), (ii) the placement of restricted bank deposits in the amount of approximately RMB1,031.5 million (US$158.1 million) and withdrawal of restricted bank deposits of approximately RMB661.8 million (US$101.4 million) and (iii) loans to third parties of approximately RMB249.8 million (US$38.3 million) (partially offset by repayments received for loans to third parties of approximately RMB204.4 million (US$31.3 million)). The acquisition of property, plant and equipment was primarily due to the construction of our new production facilities. The loans to third parties and repayments received for loans to third parties were related to our financial leasing business.

Our net cash used in investing activities was approximately RMB2,095.8 million in 2019, primarily reflecting (i) the purchase of property, plant and equipment of approximately RMB1,614.8 million, (ii) the purchase of structure deposits of approximately RMB534.3 million, (iii) the placement of restricted bank deposits in the amount of approximately RMB506.4 million and (iv) loans to third parties of approximately RMB460.5 million (partially offset by repayments received for loans to third parties of approximately RMB367.8 million. The acquisition of property, plant and equipment primarily related to construction of our new production lines and the purchase of related equipment. The fixed assets acquired included new cement production lines. The loans to third parties and repayments received for loans to third parties were related to our financial leasing business.

Our net cash used in investing activities was approximately RMB1,681.3 million in 2018, primarily reflecting (i) loans to third parties of approximately RMB1,393.8 million (partially offset by repayments received for loans to third parties of RMB525.7 million), (ii) the purchase of property, plant and equipment of approximately RMB749.1 million, and (iii) the placement of restricted bank deposits in the amount of approximately RMB127.2 million. The loans to third parties and repayments received for loans to third parties were related to our financial leasing business. The acquisition of property, plant and equipment primarily related to construction in progress related to construction of our production lines and the purchase of related equipment. The fixed assets acquired included new cement production lines.

Net cash generated from/used in financing activities

Our net cash generated from financing activities was approximately RMB322.0 million (US$49.3 million) in 2020, primarily due to (i) new borrowings raised in the amount of approximately RMB2,312.0 million (US$354.3 million, (ii) net proceeds from the issuance of the MTN Notes in the amount of approximately RMB700.0 million (US$107.3 million), partially offset by (i) repayments of borrowings in the amount of approximately RMB2,166.4 million (US$332.0 million), (ii) dividends paid in the amount of approximately RMB338.5 million (US$51.9 million) and (iii) interest paid in the amount of approximately RMB173.2 million (US$26.5 million). Our cash generated from financing activities was used primarily for working capital purposes in 2020.

Our net cash used in financing activities was approximately RMB706.0 million in 2019, primarily due to (i) repayments of senior notes including early redemption premium in the amount of approximately RMB2,257.8 million, (ii) repayment of borrowings in the amount of approximately RMB863.6 million, (iii) dividends paid in the amount of approximately RMB273.9 million and (iv) interest paid in the amount of approximately RMB193.9 million, partially offset by new borrowings raised in the amount of approximately RMB1,316.0 million, proceeds from issuance of syndicated loan in the amount of approximately RMB1,062.7 million and proceeds from issuance of medium-term notes in the amount of approximately RMB500.0 million.

Our net cash used in financing activities was approximately RMB1,311.7 million in 2018, primarily due to (i) repayments of borrowings in the amount of approximately RMB684.6 million, (ii) repayments of senior notes including early redemption premium in the amount of approximately RMB562.4 million, and (iii) repayments of short-term notes in the amount of approximately RMB400.0 million, partially offset by new borrowings raised in the amount of approximately RMB804.2 million.

Contingent liabilities

As of December 31, 2020, we had no material contingent liabilities.

Indebtedness

We have financed our operations primarily through cash flows from operations, short-term and long-term loans from banks and third parties and offerings of equity and debt securities. The table below sets forth our indebtedness as of the dates indicated. Most our borrowings are repayable within five years.

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Senior Notes	2,188,003	—	—	—
Medium-term notes	—	521,098	1,232,842	188,944
Borrowings:				
Within one year	863,571	1,126,000	1,878,894	287,958
More than one year but not more than two years	—	472,159	493,483	75,631
More than two years but not more than five years	—	717,430	—	—
Within a period of more than five years	—	—	107,065	16,409
Sub-total	863,571	2,315,589	2,479,442	379,997
Total	3,051,574	2,836,687	3,712,284	568,941

As of December 31, 2020, we had medium-term notes and borrowings of approximately RMB3,712.3 million (US$568.9 million), of which approximately RMB2,479.4 million (US$380.0 million) were borrowings inclusive of secured bank loans and unsecured syndicated loans. We had secured bank loans of approximately RMB2,301.0 million (US$352.6 million) which were primarily secured by fixed assets such as plant and equipment of our PRC-incorporated subsidiaries with carrying amount of approximately RMB2,815.9 million (US$431.6 million). For details of our bank borrowings and other borrowings, please refer to the section headed "Description of Other Material Indebtedness.".

Our Senior Notes due 2019 were denominated in US Dollars and MTN Notes are denominated in Renminbi. Our bank borrowings are denominated in the following currencies:

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
RMB	863,571	1,310,236	1,965,600	301,246
US$	0	1,005,353	406,777	62,342
Central African CFA france (XAF)	0	0	107,065	16,409
Total	863,571	2,315,589	2,479,442	379,997

The ranges of effective interest rates of our bank borrowings are set forth in the follow table for the periods indicated:

	As of December 31,		
	2018	2019	2020
Fixed rate borrowings	2.90% to 5.82%	2.90% to 6.12%	0.70% to 8.00%
Variable rate borrowings	5.46%	5.46% to 7.12%	4.65% to 6.83%

Since December 31, 2020, there has not been any material adverse change in our indebtedness and contingent liabilities. Shaanxi Yaobai registered an aggregate of RMB1,500.0 million medium-term notes with National Association of Financial Market Institutional Investors of the PRC (中國銀行間市場交易商協會). As of December 31, 2020, RMB1,200.0 million has been issued. As of the date of this offering memorandum, no further MTN notes may be issued pursuant to the above registration. Our MTN Notes and certain of our outstanding bank loans contain cross-default provisions. Such cross-default provisions generally provide that if any default of another material financial indebtedness has occurred or if any event of default shall cause any such indebtedness to be declared due prior to its maturity date, then an event of default is considered to have occurred under the facility which contains such cross-default provision. For more information, see "Description of Other Material Indebtedness."

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures include expenditures for property and plant, motor vehicles, electronic and other equipment, right-of-use assets, machinery, mining equipment, land use rights and mining rights. The table below sets forth capital expenditures for the year indicated.

	For the year ended December, 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Purchase of property, plant and equipment	749,056	1,614,768	2,675,120	409,986
Purchase of mining rights	88,627	42,650	67,880	10,403
Purchase of right of use assets	957	9,971	188,431	28,879
Purchase of intangible assets	(4,399)	1,624	10,420	1,597
Acquisition of subsidiaries net of cash acquired	(11)	—	22,199	3,402
Acquisition of subsidiaries	—	—	85,200	13,058
Total	843,028	1,669,013	3,049,250	467,325

Our capital expenditures during each year ended December 31, 2018, 2019 and 2020 primarily related to our business expansion and production facility upgrade, including construction of new production facilities, installation of residual heat recovery systems, upgrading of existing production facilities, purchases of mining rights and investment in subsidiaries.

We have historically funded our capital expenditures from internally generated cash and available banking facilities.

Capital Commitments

We have entered into production facility construction contracts as well as equipment purchase agreements. The table below sets forth the total amount of our commitments as of the indicated dates of our consolidated statements of financial position.

	As of December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	127,384	2,298,051	1,942,054	297,637

Our capital commitments as of December 31, 2018 primarily related to the construction of new aggregates production facilities and upgrading of existing production facilities. Our capital commitments as of December 31, 2019 increased significantly compared to that as of December 31, 2018 and primarily related to the construction of new production facilities and the upgrading of existing production facilities. Our capital commitments as of December 31, 2020 decreased from that as of December 31, 2019 and primarily 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.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. We do not have any variable interests in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

MARKET RISKS

Foreign Exchange Risk

We conduct our sales and purchases almost exclusively in Renminbi. Our exposure to foreign exchange risk is principally due to our U.S. dollar-denominated debt and transactions in foreign currencies, including U.S. dollars and the Central African CFA franc ("XAF"). As of December 31, 2020, we had U.S. dollar-denominated debt and bank borrowings totaling RMB178.5 million (US$27.4 million). As of the same date, we had aggregate cash and bank balances, restricted bank deposits for borrowings and structured deposits of RMB1,475.3 million (US$226.1 million), of which RMB133.1 million (US$20.4 million)were denominated in U.S. dollars and RMB27.6 million (US$4.2 million) were denominated in other currencies.

We recognize foreign exchange gain or loss on our income statement due to changes in value of assets and liabilities denominated in foreign currencies during the relevant accounting period. Appreciation of the Renminbi against the U.S. dollar generally results in a gain arising from our U.S. dollar-denominated debt and a loss arising from our bank deposits in U.S. dollars and other currencies. A depreciation of the Renminbi against the U.S. dollar would have the opposite effect. In addition, a depreciation of Renminbi would negatively affect the value of dividends paid by our PRC subsidiaries, which may in turn affect our ability to service foreign currency-denominated debts.

Fluctuations in the foreign exchange rate have had and will continue to have an impact on our business, financial condition and results of operations. See "Risk Factors — Risks Relating to the Notes — We may be subject to risks presented by fluctuations in exchange rates between the Renminbi and other currencies, particularly the U.S. dollar." As of the date of this Offering Memorandum, we have not entered into any transaction to hedge against any fluctuation in foreign currency.

Commodity Price Risk

We consume coal and raw materials including gypsum, flyash, pyrite cinder and slag in the production of our cement products. We are exposed to fluctuations in the prices of the aforesaid materials which are influenced by global as well as regional supply and demand conditions. Fluctuations in the prices of coal and other raw materials could adversely affect our business, financial condition and results of operations. Historically, we have not entered into any commodity derivative instruments to hedge the potential commodity price changes.

Interest Rate Risk

Our business is sensitive to fluctuations in interest rates. Our exposure to changes in interest rates is mainly attributable to our debt and borrowings, especially long-term debt and borrowings. Borrowings at variable rates expose us to cash flow interest rate risk. Borrowings at a fixed rate expose us to fair value interest rate risk. As of December 31, 2020, we had floating rate borrowings of RMB788.5 million (US$120.8 million) and fixed rate borrowings of RMB1,691.0 million (US$259.2 million). As of the date of this offering memorandum, we have not used any interest rate swap to hedge our exposure to interest rate risk.

Higher interest rates may lead to higher borrowing costs and thus adversely affect our revenue and profits. The PBOC benchmark one-year lending rates in China as of December 31, 2018 and 2019 and 2020 were 4.35%, 4.35% and 4.35% per annum, respectively. As of December 31, 2020, the one-year lending Loan Prime Rate, or LPR, in China was 3.85% per annum. Since March 1, 2020, the benchmarking interest rate adopted by financial institutions in China has switched from the PBOC benchmark lending rates to LPR. We cannot assure you that the PBOC will not further raise lending rates or the LPR will not further increase in the future or that our business, financial condition and results of operations will not be adversely affected as a result of these adjustments. See ''Risk Factors — Risks Relating to Our Business — We have a substantial amount of bank borrowings and some of our bank loans have floating interest rates and an increase in the interest rate may have an adverse effect on our financial performance.''

Liquidity Risk

Our management aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of available financial resources, including short-term and long-term bank loans and offerings of equity and debt securities. Due to the dynamic nature of our business, our finance department strives to maintain flexibility in funding by maintaining an adequate amount of cash and cash equivalents and having available sources of financing.

In order to enable us to meet our liabilities when they become due and to carry on our business in normal course in the foreseeable future, we have reached a number of agreements to extend our current borrowings and obtain new loan facilities.

The table below sets forth an analysis of our financial liabilities based on remaining maturity period as of December 31, 2018, 2019 and 2020, respectively:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total undiscounted cash flow	Carrying amount
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
At December 31, 2018						
Trade and other payables	1,051,072	—	—	—	1,051,072	1,051,072
Borrowings	885,333	—	—	—	885,333	863,571
Senior Notes (including related interest)	2,340,700	—	—	—	2,340,700	2,188,003
	4,277,105	—	—	—	4,277,105	4,102,646

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total undiscounted cash flow	Carrying amount
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
At December 31, 2019						
Trade and other payables	1,638,245	—	—	—	1,638,245	1,638,245
Borrowings	1,212,047	399,292	927,847	—	2,539,186	2,315,589
Medium-term notes (including related interest)	37,500	37,500	518,750	—	593,750	521,098
	2,887,792	436,792	1,446,597	—	4,771,181	4,474,932
At December 31, 2020						
Trade and other payables	2,623,319	—	—	—	2,623,319	2,623,319
Amount due to non-controlling shareholder of a subsidiary	—	1,138,506	—	—	1,138,506	1,138,506
Borrowings	1,916,711	532,416	25,449	135,474	2,610,050	2,479,442
Dividend payables	8,000	—	—	—	8,000	8,000
Medium-term notes (including related interest)	127,833	567,750	736,750	—	1,432,333	1,232,842
	4,675,863	2,238,672	762,199	135,474	7,812,208	7,482,109

Inflation and Deflation Risk

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 102.1%,102.9% and 102.5% in the years ended December 31, 2018, 2019 and 2020, respectively. As of the date of this offering memorandum, we had not been materially affected by any inflation or deflation.

Credit Risk

Our credit risk is primarily attributable to our trade and other receivables, bank balances and cash and restricted bank deposits. We have adopted a policy of only dealing with what we believe to be creditworthy counterparties. In respect of our financial leasing business, we would examine and verify the credit risk of all lessees and counterparties that we have financial leasing, factoring, entrusted loan and small loan arrangements with. In respect of our main cement business, we would carry out credit assessment before entering into contracts with our customers and build credit records of our customers, in order to mitigate credit risk and reduce the overdue receivables. We believe the credit risk relating to trade receivables is low. Our customers' default rate has been low in the past. Our credit risk exposure is spread among a large number of customers. As such, we believe we have no significant concentration of credit risk. Ongoing credit evaluation is performed on the financial condition of trade receivables and loan receivables. We do not hold any collateral for trade receivables.

NON-GAAP FINANCIAL MEASURES

We use certain non-GAAP data, such as EBITDA, to provide additional information about our operating performance as we believe that it is a useful measure for certain investors to assess our operating performance, operating cash flow and historical ability to meet debt service and capital expenditure requirements. EBITDA is defined as profit before tax plus finance costs, depreciation and amortization, share-based payments, impairment losses under expected credit loss model, net of reversal and net foreign exchange gains/(losses) less interest income.

EBITDA is not a standard measure under IFRS and should not be considered as an alternative to cash flow from operating activities, a measure of liquidity or an alternative to profit and total comprehensive income as indicators of our operating performance or any other measures of liquidity, profitability or cash flows derived in accordance with IFRS. Investors should also note that EBITDA as presented herein may be calculated differently from Consolidated EBITDA as defined and used in the Indenture governing the Notes. Interest expense excludes amounts capitalized.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit and total comprehensive income for the period. We operate in a capital intensive industry. We use EBITDA in addition to profit and total comprehensive income for the period because profit and total comprehensive income for the period includes many accounting items associated with capital expenditures, such as depreciation and amortization. These accounting items may vary between companies depending on the method of accounting adopted by a company. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our profit and total comprehensive income attributable to owners of the Company under IFRS to our definition of EBITDA for the periods indicated.

	For the year ended December 31,			
	2018	2019	2020	2020
	(RMB'000)	(RMB'000)	(RMB'000)	(US$'000)
Profit for the period	1,180,463	1,849,529	1,582,962	242,603
Add:				
Finance costs	228,796	187,076	165,184	25,316
Income tax expense	451,648	394,272	264,494	40,536
Share-based payments	1,037	264	—	—
Total depreciation and amortization	788,059	837,028	901,783	138,206
Impairment losses under expected credit loss model, net of reversal	8,387	36,517	128,408	19,680
Deduct:				
Net foreign exchange losses from consolidated statement of cash flows	(139,643)	(20,954)	(149,725)	(22,947)
Interest income	(140,578)	(228,231)	(195,762)	(30,002)
EBITDA	2,637,455	3,097,409	2,996,794	459,286

You should not consider our definition of EBITDA in isolation or construe it as an alternative to profit for the periods indicated or as an indicator of operating performance or any other standard measure under IFRS. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

This industry overview section contains some information and statistics concerning the national and regional PRC cement industry that we have derived partly from official government and industry sources. The information in these sources may not be consistent with information compiled by other institutions within or outside China. Due to the inherent time-lag involved in collecting any industry and economic data, some or all of the data contained in this section may only present facts and circumstances being described at the time such data was collected. As such, you should also take into account subsequent changes and developments in our industry and the PRC economy when you evaluate the information contained in this section.

We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Initial Purchasers or any of their respective affiliates or advisors, nor have any other parties involved in this offering independently verified such information or statistics. No representation is given as to the accuracy of such information.

INTRODUCTION

Cement is a basic and essential building material and Portland cement is the most common type of cement. Various types of Portland cement are produced by mixing and grinding clinker with different composite materials such as gypsum, blast furnace slag and other additives. In the PRC, Portland cement is graded by its degree of compressive strength as measured in MPa, a British standard.

Clinker is an intermediate product produced in the cement manufacturing process. Clinker is ground down and mixed with gypsum and anhydrite, among other materials, to produce cement.

Concrete is formed when cement is mixed with water and aggregates, such as gravel and sand.

Types of Cement

The common types of cement are Ordinary Portland Cement (P●O), Slag Portland Cement (P●S) and Composite Portland Cement (P●C). The common grades are 32.5R, 42.5R and 52.5R which differ in their compression strength.

Ordinary Portland Cement is a quick hardening cement with relatively strong initial compressive strength and is more resistant to abrasion. Typically, this type of cement is used in construction projects, such as roads and bridges, which have to be completed within a short period of time.

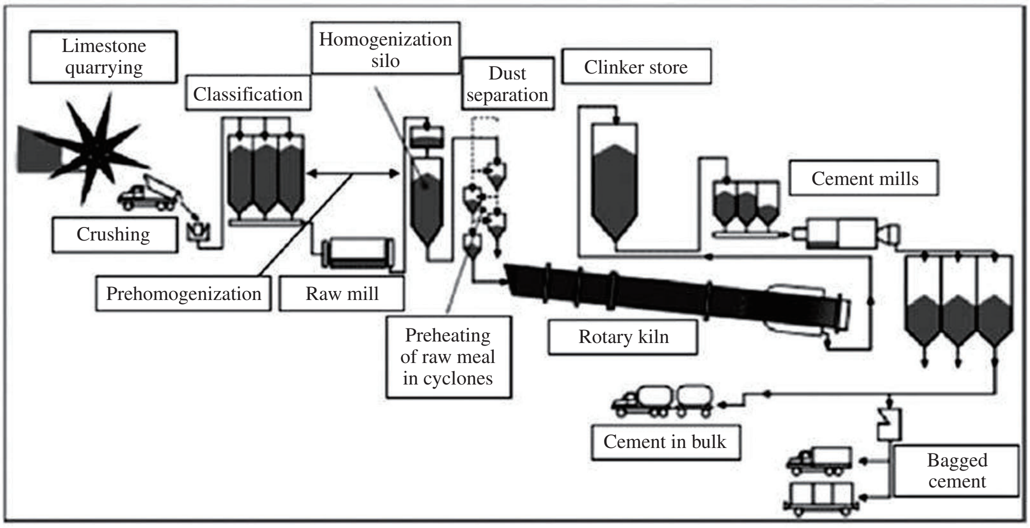
Slag Portland Cement is produced by mixing clinker with blast furnace slag and other additives. Slag Portland Cement has lower initial strength and less stable coagulate time than Ordinary Portland Cement. It has better heat resistance and adheres well to steel bars. This type of cement is used widely in underground buildings and in underwater and sea construction.

Composite Portland Cement is made of Ordinary Portland Cement and 15% to 50% of its composition is made up of aggregates, such as flyash, which is waste material derived from power stations. Composite Portland Cement is less expensive than Ordinary Portland Cement and Slag Portland Cement. It also has a lower compressive strength than Ordinary Portland Cement and is commonly used for general industrial and civil buildings.

CEMENT PRODUCTION AND TECHNOLOGY

The Production Process

The diagram below illustrates the cement production process.



There are four key stages in the production process of cement: (1) crushing of raw materials; (2) calcining and blending of raw materials; (3) sintering of clinker; and (4) grinding and blending of clinker to produce cement.

Crushing of Raw Materials

After extracting limestone from our quarries and purchasing other raw materials, such as gypsum, clay, flyash, pyrite cinder and slag, from suppliers, we transport these raw materials to our crushing installations, where they are refined into a fine compound.

The quarried limestone is reduced in size to a maximum of about three inches by crushers capable of handling pieces as large as an oil drum.

Calcining and Blending of Raw Materials

The next stage can be either a wet or dry process. In the wet process, crushed raw materials mixed in a certain proportion are ground with water to form a mud-like mixture of slurry before being transferred into a kiln. In the dry process, crushed raw materials mixed in a certain proportion are ground and mixed without water to form a raw meal before being transferred into a kiln. The slurry or raw meal will then be fed into the kiln system for calcinations.

In a huge cylindrical steel kiln lined with special firebrick and placed horizontally at a slight angle, the slurry or raw meal will be heated to about 2,700 degrees Fahrenheit (or about 1,450 degrees Celsius). The slurry or raw meal is then fed into the higher end of the kiln, and as it approaches the lower end, a roaring blast flame, which is produced by burning either coal, oil or gas, heats and chemically alters it.

Sintering of Clinker

As the material moves through the kiln, certain elements dissipate in the form of gas. After a series of complex physical and chemical reactions, the remaining elements unite to form a new substance the size of a marble called clinker, the main content of which is calcium silicate.

Clinker is discharged from the lower end of the kiln and generally is brought down to handling temperature in various types of coolers. The heated air from the coolers is returned to the kilns, a process that saves fuel and increases burning efficiency.

Grinding and Blending of Clinker to Produce Cement

In order to produce cement, clinker is ground in a finishing mill to a fine powder and mixed with, among other raw materials, gypsum, a key addition which adjusts the setting time of the cement when cement is eventually used in the production of concrete.

Based on the type of cement to be produced, the clinker and other aggregates will be mixed together in an appropriate proportion. The mixture will then be fed into the cement grinding mill to be ground to the required fineness for cement production. The cement is then stored in silos and delivered to customers or distributors.

The cement manufacturing process consists of many simultaneous and continuous operations using some of the largest moving machinery in manufacturing. Several hundred sensors and computers allow the entire operation to be controlled by many operators from a central control room at the production sites.

Comparison between the Wet and Dry Process used in Cement Production

There are two different processes, namely wet and dry, used in cement production. In the wet process, the raw materials, properly proportioned, are ground and thoroughly mixed with water to form slurry and fed into the kiln. In the dry process, raw materials are ground, mixed, and fed to the kiln in a dry state. The dry process is more fuel-efficient and less polluting. In other respects, the two processes are essentially the same. The raw materials, mixed under either wet or dry process are then heated through the kiln to form a new substance with new physical and chemical characteristics, clinker.

Comparison between the Rotary and Vertical Kilns used in Cement Production

There are two types of kilns, vertical kilns and rotary kilns. The traditional production technologies use vertical kilns, which are less energy efficient and produced lower quality clinker. On the other hand, rotary kilns employ more advanced technology, such as NSP technology, and produce better quality clinker. Rotary kilns can be used in the wet, dry, or semi-dry process, while vertical kilns can only be used in the semi-dry process.

Comparison between NSP technology and non-NSP technology in Cement Production

The major characteristic of NSP technology is the pre-heating of raw materials for production of clinker before they are mixed and fed into the rotary kiln. In non-NSP technology production process, the raw materials are crushed and mixed to form a raw meal and fed into the rotary kiln without pre-heating. In contrast, the NSP technology requires pre-heating of the raw materials such that the raw materials are substantially decomposed prior to their mixing and feeding into the rotary kiln. This pre-heating process greatly enhances the efficiency of calcination and formation of clinker in the rotary kiln and reduces the energy consumption in the production of clinker. To the best knowledge of our directors, NSP technology is commonly adopted in the cement production process in China and other developed countries.

The following table shows a comparison between rotary kilns and vertical kilns:

	Technology	Product quality	Production efficiency	Pollution
Rotary kilns				
Wet process	Old	High	High	Low
Semi-dry process	New	High	High	Low
Dry process — NSP	Latest	Highest	Highest	Lowest
Vertical kilns	Old	Low	Low	High

Prior to 2000, most cement production lines in the PRC used vertical kilns to produce cement, while rotary kilns adopting NSP technology, which generally discharges fewer harmful emissions and produces better quality cement, accounted for approximately 14.1% of cement production capacity in the PRC in 2001. With the intention to control pollution and industry waste, government policies encourage the use of NSP technology. Rotary kilns with NSP technology are now the most common method of cement production in the PRC.

The increasing adoption of NSP technology is partially attributable to the significant investment cost savings after the PRC manufacturers mastered the manufacturing of NSP technology equipment and produced it locally. The higher production efficiency and more reliable cement quality resulting from the use of NSP technology as compared to non-NSP technology and rising energy costs have also contributed to the adoption of NSP technology.

CEMENT MARKET IN THE PRC

The PRC economy experienced steady growth in recent years. The total GDP of the PRC increased from approximately RMB82.7 trillion in 2017 to approximately RMB101.6 trillion in 2020, representing a CAGR of 7.1%, rendering the PRC one of the fastest growing economies in the world. In 2020, to respond to the impact of COVID-19, the PRC government implemented a series of policies including increasing government investment expenditure, tax rebates and waiver of government levies, which resulted in a steady and positive development of the PRC economy. China's GDP reached RMB101.6 trillion in 2020 with a growth rate of 2.3% from 2019. Accompanying continuous economic growth is the demand for building and construction of infrastructure and other fixed assets. Between 2017 and 2020, after adjustment of calculation methodology, China's total FAI, excluding rural families, experienced a steady growth with CAGR of 6.8% and reached RMB51.9 trillion in 2020. The cement industry uses the traditional production-to-sale model, which means China's cement consumption volume is the same as its production volume. China's total cement consumption volume amounted to approximately 237.7 million tons in 2020, representing a CAGR of 0.5% from 2017.

In 2020, supply of cement in China continued to grow. According to the National Bureau of Statistics, total cement production in China increased by 1.6% in 2020, reaching 237.7 million tons compared with approximately 234.0 million tons in 2017, representing a CAGR of 0.5%. The growth rate in 2020 represents an increase of 1.6 percentage points from the growth rate in 2019.

The table below sets forth the amounts and growth rates of GDP, FAI and cement production in the PRC for the periods indicated.

	For the year ended December 31,				CAGR (%)
	2017	2018	2019	2020	2017–2020
GDP:					
RMB (in trillion)	82.7	90.3	99.1	101.6	7.1
Growth rate (%)	6.9	6.6	6.1	2.3	—
FAI*:					
RMB (in trillion)	63.2	63.6	55.1	51.9	6.8
Growth rate (%)	7.2	5.9	5.4	2.9	—
Cement Production:					
Tons (in millions)	234.0	216.0	233.0	237.7	0.5
Growth rate (%)	(3.4)	3.0	6.1	1.6	—
Cement Consumption:					
Tons (in millions)	234.0	216.0	233.0	237.7	0.5
Growth rate (%)	(3.4)	3.0	6.1	1.6	—

* *Excluding rural families. The calculation methodology was adjusted by the National Bureau of Statistics in 2019.*

Source: National Bureau of Statistics, Digital Cement Net

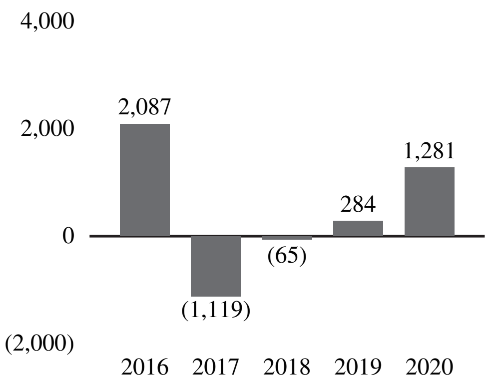
In 2020, the cement industry in terms of demand and selling price was negatively affected by the outbreak of COVID-19 in the first half but recovered significantly in the second half. In 2020, the annual cement production and clinker production in China reached 237.7 million tons and 157.9 million tons, respectively, representing an increase of 1.6% and 3.1%. In 2020, the cement industry recorded a profit of RMB183.3 billion, which was similar to the level of 2019. China maintained strict control on capacity expansion, and continued the task of eliminating obsolete capacity, both of which played an important role in the improvement of demand and supply dynamics of the cement industry. There was only a slight increase in the number of new production lines and production capacity nationwide in 2020. By the end of 2020, there were 1,609 NSP cement production lines with daily capacity above 700 tons, excluding suspended and demolished production lines, in China with planned annual clinker production capacity of 18.3 billion tons.

With steady growth in market demand and decline in growth of new production capacity, the supply-and-demand condition of the cement industry saw continuous improvement. Energy conservation, emission reduction and sustainable growth will be the major tasks for future development of the cement industry. Meanwhile, we expect the effective elimination of obsolete capacity, tightening of emission controls and stringent approval of capacity expansion to continue to improve the supply and demand dynamics, which is conducive to the healthy long-term development of the industry.

The PRC cement industry is heavily influenced by, among other things, overall economic development, PRC government policies in general, the real estate industry in particular and the scale of infrastructure investment. We have benefitted from China's fast-growing economy, large infrastructure development projects, including those under the Western Development Plan and the PRC government policies to phase out obsolete cement production capacity and promote environment protection under the National 14th Five-Year Plan. We also expect to benefit from the PRC government's plan to develop national comprehensive transport network reaching 700,000 kilometers by 2035. However, the PRC government in recent years has taken various measures to control the overheating of the real estate sector and has shown signs of being more prudent in investing in and developing infrastructure, such as express railway projects. These measures and changes may decrease or slow down the investment in the real estate sector and infrastructure projects, which in turn may decrease the demand for cement and may negatively impact China's cement industry. Due to the factors set forth above, which are beyond our control, the demand for, and the average selling prices of, our cement products have historically been volatile in the three years ended December 31, 2020 and may continue to be volatile in the future.

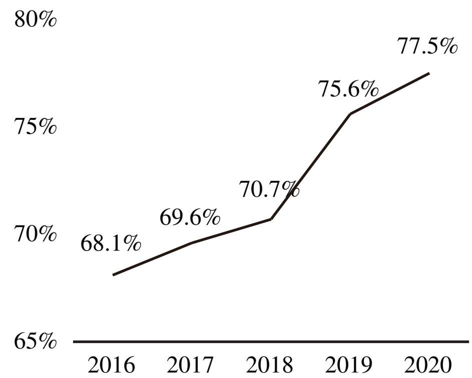
The following charts indicate certain metrics which we believe are relevant for the understanding of the development of the cement market in China in recent years:

1. Net increase in Clinker Capacity (10,000 Tons)



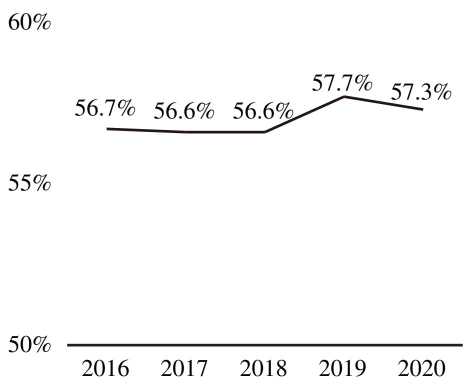
Source: Digital Cement

2. Clinker Capacity Utilization Rate (%)



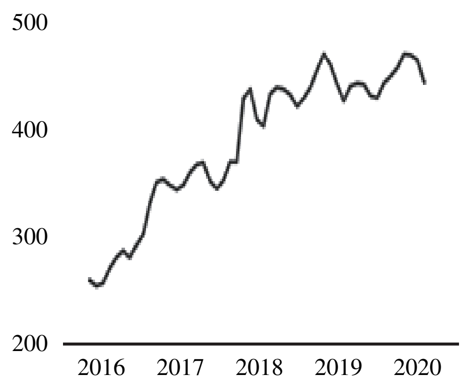
Source: Digital Cement

3. Concentration of Top 10 Players by Clinker Capacity (%)



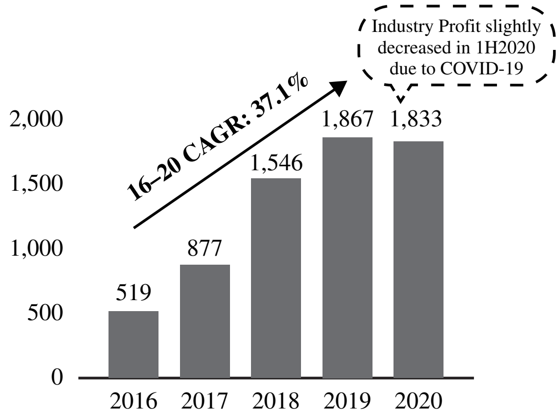
Source: Digital Cement

4. PO42.5 High-grade Bulk Cement Price (RMB/Ton incl. VAT)



Source: Digital Cement

5. Annul Cement Industry Profit (RMB 100MM)



Source: MIIT, by profits of cement enterprises above designated size

SHAANXI PROVINCE CEMENT MARKET OVERVIEW

The low value-to-weight ratio of cement raw material and finished products deters long distance transportation. The production and sale of cement tends to be regionally concentrated. Cement production is unevenly spread across the PRC, with concentration in the Eastern, Central and Southern regions. Shaanxi Province, ranked 16th in terms of cement production in 2020, accounted for only approximately 2.9% of the national cement production volume.

Shaanxi Province together with its provincial capital Xi'an, located in the middle of the PRC, has historically been considered the nation's "gateway to the west." It is a strategic transportation hub, linking northwest and southern China. Shaanxi Province is also part of the Western Development Plan implemented in 1999 with the aim to boost economic development in western China. Enterprises located in western China enjoy a preferential enterprise income tax rate of 15% as part of the Western Development Plan. The PRC government and various local governments in western China have also mandated a large number of infrastructure e projects under the Western Development Plan. As part of this Western Development Plan, the State Council of the PRC approved the establishment of the "Guanzhong-Tianshui Economic Zone Development Plan" (關中天水經濟區發展規劃) in 2009. Encompassing the Shaanxi Province regions of Xi'an, Xianyang, Tongchuan, Weinan, Baoji Regions as well as some counties of Shangluo Region, the Guanzhong-Tianshui Economic Zone is one of three key economic development zones in Western China with significant planned infrastructure construction, including highways, railways, power plants and industrial parks, and urbanization initiatives within or in proximity to our core markets in Southern Shaanxi Province and Weinan and Xi'an Regions between 2009 and 2020. Furthermore, the State Council designated the Xi-Xian New Area, covering 882 square kilometers, as a national development new area in January 2014 to accelerate the development of Xi'an, the provincial capital, and surrounding urban areas. This initiative is designed to promote the construction of social and transportation infrastructure, as well as a number of New Eco-Cities, as part of the urbanization and renovation of the Xi'an Metropolitan area. In 2020, the Xi-Xian New Area has recorded a total investment of RMB156.8 billion for 235 key infrastructure projects and RMB54.4 billion for 39 city-level projects.

Under the further guidance of the PRC Government's "Silk Road Economic Belt Development" policy, in July 2014, the Shaanxi Province National Development and Reform Commission decided to accelerate approvals for infrastructure construction as part of the Xi-Xian New Area development. In 2012, Shaanxi Provincial Party Committee and Provincial Government promulgated the "Opinions on the Joint Construction by Provinces and Cities of Great Xi'an and Accelerate the Construction of New Regions" (關於省市共建大西安加快推進創新型區域建設的若干意見) in light of the "Silk Road Economic Belt Development" policy, pursuant to which the budget for construction projects in the Great Xi'an Area reached RMB12.0 billion in the next five years. In February 2018, the Ministry of Housing and Urban-Rural Development of the PRC and the National Development and Reform Commission issued the "Guanzhong Plain Urban Agglomeration Development Plan" (關中平原城市群發展規劃) and Xi'an became the 9th National Central City, which has led to more infrastructure projects in the relevant areas which are our core markets. In addition, in May 2020, the State Council issued the "Guiding Opinion on Promoting the Development of the West to Form a New Pattern in the New Era" (關於新時代推進西部大開發形成新格局的指導意見) which provides that the infrastructure development and accessibility in Western China should be largely similar to Eastern China by 2035;

and in the strategic planning for Western Development Plan 3.0, it is proposed that the central government will support Shaanxi Province to fully utilize its advantages in historic and cultural aspects and contribute to the Silk Road Economic Belt development. The Shaanxi Province National Development and Reform Commission announced that there were 600 provincial-level key projects in 2020 with a total investment size of RMB3,400.0 billion, including 188 newly launched projects, of which seven were railway projects and five were expressway projects. The above economic policies contribute to the development of Central and Southern Shaanxi Province as a key area for urbanization and industrialization, with the accompanying transportation and infrastructure development to promote this development and urban renewal.

Infrastructure projects

Against the background of urbanization and industrialization, a number of major infrastructure projects are expected to be launched, which will drive the demand for cement in Shaanxi province:

	Name of project (relevant location)	Planned construction period
1	Xi'an-Hancheng Intercity Railway (Central Shaanxi)	TBC
2	Yanliang-Xianyang International Airport Intercity Railway (Central Shaanxi)	TBC
3	Xi'an-Famen Intercity Railway (Central Shaanxi)	TBC
4	Lanzhou-Hanzhong-Shiyan Railway (Southern Shaanxi)	2023–2026
5	Xi'an-Ankang Railway (Southern Shaanxi)	2021-TBC
6	Xi'an-Wuhan Railway (Southern Shaanxi)	2021–2024
7	Meixian-Fengxiang Expressway — Central Shaanxi Circuit (Central Shaanxi)	2021-TBC
8	Kangxian-Lueyang Expressway (Southern Shaanxi)	2021–2025
9	Yangxian-Xixiang Expressway (Southern Shaanxi)	2022–2024
10	Danfeng-Ningshan (Southern Shaanxi)	2021-TBC
11	Cangxi-Bazhong Expressway (Southern Shaanxi)	2021–2024
12	Beijing-Kunming Expressway Expansion (Central Shaanxi)	2021–2023
13	Yan'an East Ring Expressway (Central Shaanxi)	TBC
14	Luoyang-Lushi Expressway (Southern Shaanxi)	2021–2023
15	Wuxi-Yunyang-Kaizhou Expressway (Southern Shaanxi)	2021–2024
16	Chengkou-Kaizhou Expressway (Southern Shaanxi)	2021–2024
17	Hengkou Reservoir (Southern Shaanxi)	2021-TBC
18	Guxian Reservoir (Central Shaanxi)	2023–2031
19	Shanxi Yellow River Bridge (Central Shaanxi)	2021-TBC

Shaanxi Province's GDP maintained at upper-middle level among 31 provinces in China for the last five years. Shaanxi Province GDP growth outpaced the national GDP growth rate in 2017 and 2018 and was at similar level compared with the national level in 2019 and 2020. Accompanying the GDP growth, FAI in Shaanxi Province also increased by approximately 4.1% in 2020. In contrast, the national total FAI growth for the same period was approximately 2.9%. The continued growth of the total FAI in Shaanxi Province is underpinned by the PRC government's investment growth policy to maintain GDP as well as by the increased wealth of the general public of Shaanxi Province. Shaanxi Province's cement consumption decreased from approximately 74.8 million tons for 2017 to approximately 68.0 million tons for 2020, representing a CAGR of (3.1%), compared with a CAGR of 0.5% for China as a whole during the same period.

The table below sets forth the amounts and growth rates of GDP, FAI, cement production and cement consumption in Shaanxi Province and the PRC for the periods indicated.

	Year ended December 31,				CAGR
	2017	2018	2019	2020	2017–2020
GDP: RMB (in billions)					
Shaanxi	2,189.9	2,443.8	2,579.3	2,618.2	6.1%
GDP Growth rate:					
Shaanxi	8.0%	8.3%	6.0%	2.2%	—
China	6.9%	6.6%	6.1%	2.3%	—
FAI: RMB (in billions)					
Shaanxi	2,346.8	2,590.9	2,655.7	2,764.5	5.6%
FAI Growth rate:					
Shaanxi	14.4%	10.2%	2.4%	4.1%	—
China	7.2%	5.9%	5.4%	2.9%	—
Cement Production: Tons (in millions)					
Shaanxi	74.8	62.7	66.2	68.0	(3.1%)
Cement Production Growth rate:					
Shaanxi	(1.7%)	0	5.6%	2.7%	—
China	(3.4%)	3.0%	6.1%	1.6%	—
Cement Consumption: Tons (in millions)					
Shaanxi	74.8	62.7	66.2	68.0	(3.1%)
Cement Consumption Growth rate:					
Shaanxi	(1.7%)	0	5.6%	2.7%	—
China	(3.4%)	3.0%	6.1%	1.6%	—

Source: National Bureau of Statistics, Shaanxi Provincial Bureau of Statistics, Digital Cement Net

Shaanxi Province's cement market decreased in recent years. Total cement production in Shaanxi Province decreased from approximately 74.8 million tons in 2017 to approximately 68.0 million tons in 2020, representing a CAGR of -3.1% compared with 0.5% nationwide. The table below sets forth the top ten regions with highest CAGR for cement production volume in the PRC between 2010 and 2020.

2010–2020 CAGR of Cement Production Volume

Rank	Province or Region	2010–2020 CAGR
1	Inner Mongolia	17.3%
2	Guizhou	11.3%
3	Yunnan	17.7%
4	Gansu	8.8%
5	Anhui	6.8%
6	Fujian	6.1%
7	Xinjiang	5.3%
8	Shanxi	5.3%
9	Guangxi	5.0%
10	Jiangxi	5.0%

Source: Digital Cement Net, National Bureau of Statistics

This growth in production volume capacity is designed to meet the significant growth in demand expected over the next decade as a result of the development policies in Shaanxi Province described above, as well as to replace the obsolete and backward production capacity that is being phased out due to environmental and energy efficiency policies. There has been increasing consolidation and concentration by market players in recent years under different policies and measures including "De-Capacity Action Plan of Cement Industry" (水泥行業去產能行動計劃) by China Cement Association which advocated the top 10 companies to control 70% of the clinker production capacity; and the target to reduce total energy consumption and CO_2 emission in China by 13.5% and 18%, respectively, with cement industry being designated as the key industry for emission reduction as part of the National 13th Five Year Plan. The formal elimination of P●C 32.5R grade cement in late 2019 has also resulted in reduced levels of cement supply, which together with other environmental policies and the possibility of further consolidation, are expected to continue industrial upgrading and industrial self-discipline.

Regional Cement Market Overview within Shaanxi Province

The cement market is generally regional because transportation costs are high relative to the value of the product. Shaanxi Province is divided into ten regions, namely, Ankang, Baoji, Hanzhong, Shangluo, Tongchuan, Weinan, Xi'an, Xianyang, Yan'an and Yulin, as indicated on the map below.

Xi'an is the largest cement market and accounts for about 30–40% of the demand in Shaanxi Province. Cement producers in Shaanxi Province are located close to limestone reserves. There is a lack of limestone in Northern Shaanxi, namely Yulin and Yan'an regions, and therefore little clinker production in Northern Shaanxi. Demand in Northern Shaanxi is satisfied by imports of clinker for local grinding mills or cement from Central Shaanxi Province, Ningxia Province or the Inner Mongolia Autonomous Region. Most of the limestone resources as well as the cement producers are located in Baoji, Xianyang, Tongchuan, and Weinan, which together supply more than 75% of Shaanxi Province's cement output.

Southern Shaanxi

The Southern Shaanxi area is dominated by the Qingling Mountain range, an area with limited limestone supplies. Our core markets in Southern Shaanxi, namely, Shangluo, Ankang and Hanzhong Regions, have had relatively little new cement capacity built up over the past few years, due to the limited limestone supply having all been taken up by existing cement plants. Obsolete production facilities were further shut down. This geological factor has resulted in a relatively isolated cement market in Southern Shaanxi, with a stable supply side and very limited imports of cement or clinker due to long transportation distances from cement plants in Central Shaanxi and Northern Sichuan. In addition, measures to encourage the closure of inefficient and polluting cement producers have remained a prime focus of the central government and have been particularly effective in Southern Shaanxi. For example, 250,000 tons of cement production capacity was closed down in 2018 in the Tongchuan Region alone. The demand side in Southern Shaanxi has remained steady over the past 12 months, supported by infrastructure development in general, and railway construction in particular, which combined with the stable supply has resulted in higher average selling prices in Southern Shaanxi than those in other areas of Shaanxi Province. For example, the Lushi to Luanchuan Expressway (盧氏至欒川高速公路) and the Ningshan to Shiquan Expressway (寧陜至石泉高速公路) commenced from 2019 and 2018, respectively, have been important demand drivers. The demand from other infrastructure projects including the Wuxi to Zhenping Expressway (巫溪至鎮平高速公路), the Xixia to Xichuan Expressway (西峽至淅川高速公路) in 2020 has also been increasing. Our Company dominates the market with 60% to 100% market shares by cement product capacity in each region, namely, Hanzhong, Ankang and Shangluo of Southern Shaanxi market and has strong pricing power as a stable supplier. Our overall market share in Southern Shaanxi in terms of cement production capacity (totaling 13.0 million tons per year) as of December 31, 2020 was around 74.6%, followed by Sinoma International Engineering Co., Ltd. accounting for 16.9% and others accounting for 8.5%.

Central Shaanxi

In Central Shaanxi, no new capacity has been built in the past few years since the capacity construction in the period between 2010 and 2014. However, the effects of this build out are still being reflected through lower cement average selling prices in Central Shaanxi, including Xi'an and Weinan. Continuation of occasional peak-shifting production halts during low season periods under the stringent environmental policy helped maintain supply-side balance and led to a sound supply structure, with top 3 players accounting for 71.3% in total capacity.

Demand in Central Shaanxi markets has remained low in recent years but received continued support from the industrial development, metropolitan development and urbanization trends in the Xi'an Metropolitan Area, Xianyang and Weinan regions. The Xi'an Metro System has been the centerpiece of urban renewal in Xi'an City and a major source of demand for cement in the Xi'an Metropolitan Area. Line 8 is under construction and is expected to be completed in 2025. In addition, the construction of Central Shaanxi Inter-City Rail System with a total length of 403 kilometers connecting five cities and 10 counties and three regions in Shaanxi Province has begun in December 2017 and the construction of the Mei to Fengxiang County Line is expected to commence in 2021. The Xi-Xian New Area, which was designated by the State Council as a national development new area in January 2014, is expected to remain as an important medium-term growth driver for cement demand in Central Shaanxi. In 2020, the Xi-Xian New Area has recorded a total investment of RMB156.8 billion for 235 key infrastructure projects and RMB54.4 billion for 39 city-level projects. In the first quarter of 2021, the FAI growth rate in Xi'an was 32.9% and the infrastructure investment expenditure in Xi'an has recorded a growth of 68.2% on a year-on-year basis. In February 2021, the State Council promulgated the "Outline for National Comprehensive Transport Network Planning" (國家綜合立體交通網規劃綱要) that Xi'an is recognized as a core city in the Silk Road Economic Belt development and will be developed as a hub for international transport including freight and railway between 2021 and 2035. It is expected that this will greatly benefit the infrastructure development in Shaanxi Province and thus the local cement market. Our Company has three plants in proximity to Xi'an market, which accounts for 30% to 40% of total demand across the province with a dominant market position and we expect to benefit from the increased construction activities related to infrastructure and urbanization projects under the relevant policies.

Our overall market share in Central Shaanxi in terms of cement production capacity (totaling 64.3 million tons per year) as of December 31, 2020 was around 21.2%, while our competitors including Tangshan Jidong Cement Co., Ltd (唐山冀東水泥股份有限公司), Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司), Shengwei Cement Co., Ltd. (聲威水泥建材集團有限公司) and others accounted for 27.1%, 23.0% 14.3% and 14.5%, respectively.

Competitive landscape

In Shaanxi Province, raw materials and cement are typically transported by road. There is no water transportation system and the rail network coverage is not extensive, nor is it cost-effective for the transportation of cement. The high transportation costs have thus hindered the transport of cement from other provinces to Shaanxi Province, and also hinder the transport of cement within different regions of Shaanxi Province. However, in Northern Shaanxi, due to its lack of limestone resources and cement and clinker output, cement and clinker is usually purchased from Central Shaanxi, Ningxia Province or the Inner Mongolia Autonomous Region for local consumption in the case of cement or grinding at the limited local grinding mills in the area. Accompanying the build out of new capacity between 2010 and the first half of 2014, the cement industry in Shaanxi Province has also experienced significant consolidation through mergers and acquisitions of smaller plants and companies by the larger groups in the province. There has also been no new capacity built in central Shaanxi Province since then. As of December 2020, over 80% of production capacity owned by the four largest producers in Shaanxi Province, namely, Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), Shengwei Cement

Co., Ltd. (聲威水泥建材集團有限公司), Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司) and our Company. The below table sets forth the top 5 players in terms of clinker capacity in Shaanxi Province as of December 31, 2020:

Ranking	Company	Clinker capacity	Clinker capacity as % of Shaanxi Province
		(million tons)	
1	Our Company	14.9	27.0%
2	Tangshan Jidong Cement Co., Ltd.	11.9	21.6%
3	Anhui Conch Cement Company Limited	10.7	19.3%
4	Shengwei Cement Co., Ltd.	7.3	13.2%
5	Shaanxi Shengtai Cement Co., Ltd.	2.8	5.0%

Our production capacity is concentrated in our core markets of Shangluo, Ankang and Hanzhong Regions in Southern Shaanxi and Weinan and Xi'an Regions in Central Shaanxi. Most of our competitors' capacity is concentrated in Tongchuan, Xianyang and Baoji Regions where we do not operate or have limited operations. The table below set forth our clinker production capacity and market share in each market in Shaanxi Province as of December 2020 in terms of NSP production capacity.

	Xi'an	Baoji	Xianyang	Tongchuan	Weinan	Shangluo	Ankang	Hanzhong	Yulin & Yan'an
The Group	1,550	—	—	1,550	5,425	1,652	2,325	2,325	—
Total Production Capacity ('000 ton)	1,550	10,447	9,300	13,640	9,920	1,652	3,317	3,875	3,100
Market Share	100%	—	—	11.4%	54.7%	100%	70.1%	60.0%	—

Source: Company's data

According to Wind's recorded cement production volume for 2020 in Shaanxi and our volume of cement production in the corresponding period, our production accounted for approximately 23.9% of all cement produced in Shaanxi for 2020 and we ranked first in terms of market share by production volume for the last five years. The below table sets forth our annual cement production and market share in Shaanxi province over the last 5 years:

Year	Cement production volume	Market share
	(in million tons)	
2016	14.8	20.4%
2017	15.7	21.4%
2018	15.0	23.9%
2019	15.7	23.7%
2020	16.3	23.9%

Substitutes to cement product mainly refer to using new type of building materials such as using steel structure and aluminum alloy to replace cement in construction. However, the cost of replacement is extremely costly and it is not common for users to switch to substitutes.

OTHER CEMENT MARKETS

Hetian District, Xinjiang Province

Hetian District has a total estimated production capacity of approximately 3.6 million tons in 2020. We have two production lines in Hetian District with a total capacity of 2.6 million tons, including 600,000 tons in Hetian City and 2.0 million tons in Yutian County. The FAI in Hetian District is expected to return to growth in 2021 compared to 2020 driven by new infrastructure projects, including Hetian Ruoqiang Railway, Hetian Xinhai Future City Development, Ruoqiang Minfeng Highway and affordable housing development projects in Hetian.

Yili District, Xinjiang Province

Yili District has a total estimated production capacity of approximately 7.0 million tons in 2020. The FAI in Yili District grew by 32% in 2020 and is expected to maintain a similar growth rate in 2021 driven by infrastructure projects including the Kuitun Dongjiao Reservoir, Yining-Akesu Railway Project and the construction activities in connection with urbanization and industrialization in the new Khorgos Special Economic Zone. Our production line with a total capacity of 1.5 million tons is located close to the Khorgas Special Economic Zone bordering the Republic of Kazakhstan, an area that is an important component of the Silk Road Economic Belt Development Policy with significant trade and transport connections to Central Asia.

Guiyang, Guizhou Province

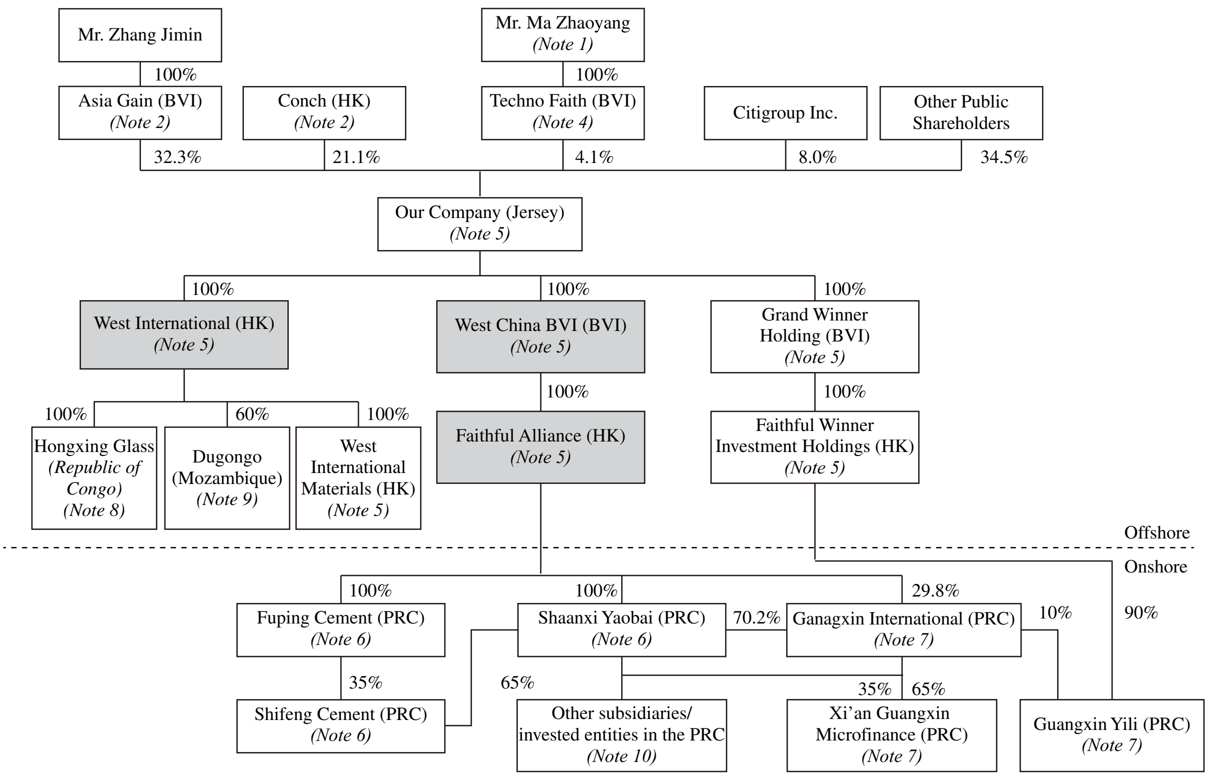
Guiyang has a total estimated production capacity of approximately 9.3 million tons in 2020. Infrastructure construction and urbanization have been key initiatives of the Guizhou provincial government, in order to promote economic parity with the eastern seaboard and create a south-western urban hub in Guiyang City. Development plans have been accelerated in 2014, resulting in strong cement demand and favorable pricing and margins in the area. Our new production line in Guiyang is located close to Guiyang City and within one of the new development areas approved by the State Council in January 2014. We expect it will be able to capitalize on the infrastructure development and urbanization in the area. Planned and ongoing infrastructure projects in the area include the Gui'an Hengli Industrial Park, Guiyang Airport Phase 3 Development and Guiyang-Gulin Highway. The FAI in Guiyang is expected to grow at 6% or above in 2021.

Mozambique

In south Mozambique, Maputo, Matola, Gaza, and Inhambane are regarded as our core market. The total annual cement demand from the core market is about 2 million tons and the annual cement production is 1.2 million tons, resulting in a gap of 800,000 tons. Transportation in south Mozambique is convenient and infrastructure construction projects are concentrated in the area with a high demand for civil-use cement. In central Mozambique, Beira, Sofala and Tete are regarded as our target market. The demand for cement is supported by large and medium-sized national development projects. There are also projects undertaken by PRC-based companies. The annual cement demand from civil and key projects in the target market is about 800,000 tons and the annual cement production is 600,000 tons, resulting in a gap of 200,000 tons. In north Mozambique, Nacala, Nampula and Pemba are regarded as our target market. However, there is strong competition from local producers and small grinding stations and higher transportation cost involved from delivering products from our Mozambique plant located in Maputo. The annual cement demand in the target market is about 700,000 tons and the annual cement production is 500,000 tons, resulting in a gap of 200,000 tons.

CORPORATE STRUCTURE

Below is the simplified corporate structure chart of our Group, which does not show certain immaterial subsidiaries as of the date of this offering memorandum. Entities shaded in grey will be the Subsidiary Guarantors.



Notes:

(1) Mr. Ma Zhaoyang is a non-executive director.

(2) The principal business activity of Asia Gain is investment holding.

(3) Conch is beneficially and wholly-owned by Anhui Conch Cement Co., Ltd., which is owned as to approximately 36.4% by Anhui Conch Cement Group Ltd. 安徽海螺集團有限責任公司 and which is in turn indirectly controlled by China Conch Venture Holdings Limited.

(4) The principal business activity of Techno Faith Investments Limited (科信投資有限公司) is investment holding.

(5) The principal business activity of each of our Company, West International, West China BVI, Grand Winner Holdings, West International Materials, Faithful Alliance, Faithful Winner Investment Holdings and is investment holding.

(6) The principal business activity of each of these companies is production and sales of cement.

(7) The principal business activity of each of these companies is finance lease business.

(8) The principal business activity of Hongxing Glass is production and sale of glass.

(9) The principal business activity of Dugongo is production and sale of cement and related materials.

(10) The equity rights of Xiushan Yaobai, Mianxian Yaobai and Guizhou Linshan Cement have been pledged to China Minsheng Bank Corp., Ltd., Xi'an branch. As of the date of this offering memorandum, Shaanxi Yaobai is in the process of increasing the registered capital of Tongchuan Yaobai and the registration of such capital increase with the SAMR has not completed.

(11) Further details relating to our other principal subsidiaries are set out in the table below:

Name of entity	% of ownership interest/voting power held by our Company	Principal business
1. Xi'an Lantian Yaobai Cement Co., Ltd (西安藍田堯柏水泥有限公司)	100%	Production and sale of cement
2. Ankang Yaobai Cement Co., Ltd (安康市堯柏水泥有限公司)	100%	Production and sale of cement
3. Hanzhong Yaobai Cement Co., Ltd (漢中堯柏水泥有限公司)	100%	Production and sale of cement
4. Hanzhong Mianxian Yaobai Cement Co., Ltd (漢中勉縣堯柏水泥有限公司)	100%	Production and sale of cement
5. Xi'an Yaobai Material Co., Ltd (西安市堯柏物資有限公司)	100%	Purchase and sale of raw materials
6. Hanzhong Xixiang Yaobai Cement Co., Ltd (漢中西鄉堯柏水泥有限公司)	100%	Production and sale of cement
7. Shangluo Yaobai Longqiao Cement Co., Ltd (商洛堯柏龍橋水泥有限公司)	100%	Production and sale of cement
8. Shangluo Yaobai Xiushan Cement Co., Ltd (商洛堯柏秀山水泥有限公司)	100%	Production and sale of cement
9. Ankang Yaobai Jianghua Cement Co., Ltd (安康堯柏江華水泥有限公司)	100%	Production and sale of cement
10. Hancheng Yaobai Yangshanzhuang Cement Co., Ltd (韓城堯柏陽山莊水泥有限公司)	80%	Production and sale of cement
11. Hetian Luxin Building Materials Co., Ltd (和田魯新建材有限公司)	100%	Production and sale of cement
12. Hetian Yaobai Cement Co., Ltd (和田堯柏水泥有限公司)	100%	Production and sale of cement
13. Guizhou Linshan Cement Co., Ltd (貴州麟山水泥有限責任公司)	100%	Production and sale of cement
14. Yili Yaobai Cement Co., Ltd. (伊犁堯柏水泥有限公司)	100%	Production and sale of cement
15. Tongchuan Yaowangshan Ecology Cement Co., Ltd (銅川藥王山生態水泥有限公司)	100%	Production and sale of cement
16. Xi'an Zhonggang Intelligent Logistics Co., Ltd (西安中港智慧物流有限公司)	100%	Transportation
17. Pucheng Yaobai Special Cement Co., Ltd (蒲城堯柏特種水泥有限公司)	100%	Production and sale of cement
18. Shaanxi Fuda Mining Engineering Co., Ltd (陝西富達礦山工程有限公司)	100%	Production and sale of cement
19. Shaanxi Fengsheng Deyuan Shiye Co., Ltd (陝西豐盛德遠實業有限公司)	55%	Production and sale of cement
20. Shaanxi Xinyida Jiancai Construction Materials Development Co., Ltd. (陝西新意達建材產業發展有限公司)	60%	Sale of cement and related material

OVERVIEW

We are one of the leading cement producers in Shaanxi Province, with a leading market position in Southern Shaanxi and Eastern-Central Shaanxi and a growing presence in Xinjiang and Guizhou Provinces as well as Mozambique, Africa. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads, as well as residential buildings. According to Shaanxi Province Cement Association (陝西水泥協會), we ranked first in Shaanxi Province in terms of NSP production capacity as of December 31, 2020. According to ccement.com (中國水泥網), we ranked first in Shaanxi Province in terms of clinker production capacity in 2020. Our cement products primarily include Ordinary Portland Cement, which has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above and Composite Portland Cement, which has a 28-day compressive strength of 42.5 MPa, or 425 kg/cm^2, or above. Ordinary Portland Cement has relatively strong initial compressive strength and more resistance to abrasion and is typically used in construction projects, such as roads and bridges. Composite Portland Cement has a lower compressive strength than Ordinary Portland Cement and is commonly used for general industrial and civil buildings. We also produce high quality and special cement products such as Pozzolanic Portland Cement, masonry cement and oil well cement tailored to our customers' needs. Our shares have been listed on The Stock Exchange of Hong Kong Limited since August 2010.

As of December 31, 2020, we had 22 NSP cement product lines with a total annual production capacity of 33.2 million tons, including 23.3 million tons in Shaanxi Province, 6.1 million tons in Xinjiang Province, 1.8 million tons in Guizhou Province and 2.0 million tons in Mozambique, Africa. In addition, we had total annual production capacities of 15.1 million tons of aggregates and 9.8 million cubic meters of commercial concrete as of December 31, 2020. In 2018, we commissioned four aggregates production lines in Shangluo city and Hanzhong city in Shaanxi Province with total annual production capacities of 7.0 million tons. In September 2019, we entered into a cooperation agreement to establish a joint venture for investment and construction of cement production line in Mozambique, Africa. In 2020, we built a production line with a daily production capacity of 4,500 tons of clinker cement in Moyu in Xinjiang Province. In December 2020, we commissioned two new production facilities each in Xinjiang Province and Mozambique, which have a total planned annual production capacity of 7.0 million tons. After the full operation of the new production facility in Moyu, Xinjiang Province, our existing production lines in Hetian and Luxin will cease operation and our total annual production capacity is expected to be 30.6 million tons by the end of 2021.

For the years ended December 31, 2018, 2019 and 2020, respectively, we sold 18.2 million, 19.3 million and 19.9 million tons of cement and clinker. Our revenue increased from approximately RMB5,911.7 million for the year ended December 31, 2018 to approximately RMB7,247,4 million for the year ended December 31, 2019 and then to approximately RMB7,131.1 million (US$1,092.9 million) for the year ended December 31, 2020. Our profit before tax increased from approximately RMB1,632.1 million for the year ended December 31, 2018 to approximately RMB2,243.8 million for the year ended December 31, 2019 and decreased to approximately RMB1,847.5 million (US$283.1 million) for the year ended December 31, 2020. Our profit for the year attributable to owners of the Company increased from approximately RMB1,159.4 million for the year ended December 31, 2018 to approximately RMB1,801.3 million for the year ended December 31, 2019 and before decreasing slightly to approximately RMB1,560.5 million (US$239.2 million) for the year ended December 31, 2020. The decreases in our profit before tax and profit for the year attributable to owners of the Company in 2020 were mainly attributable to the 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, and in the case of profit for the year attributable to owners of the Company, the decrease in income tax expenses.

Limestone is the principal raw material used in our production of cement. We have obtained mining rights to a number of limestone quarries in Shaanxi, Xinjiang and Guizhou provinces, most of which are located near our production facilities. Our mining rights are for periods ranging from one to 27 years, with expiration dates between June 2021 and July 2038. Our convenient access to limestone reserves provides us with a secure and stable supply of limestone at low transportation costs. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 56 years, based on the amounts of our limestone reserves in 16 quarries and the amount of limestone we extracted in 2020. We use coal as fuel in our production process, and it represents one of the largest components of our cost of sales. We have convenient access to large coal mines or producers in Shaanxi, Xinjiang and Guizhou provinces, which ensures that we have an abundant supply of coal at low transportation costs. For the years ended December 31, 2018, 2019 and 2020, our raw materials, which primarily included limestone, gypsum, clay, flyash, pyrite cinder and slag, represented approximately 24.6%, 27.1% and 28.1% of our cost of sales, respectively, coal represented approximately 27.6%, 27.8% and 26.5% of our cost of sales of cement, respectively, and electricity represented approximately 15.8%, 15.6% and 15.4% of our cost of sales of cement, respectively.

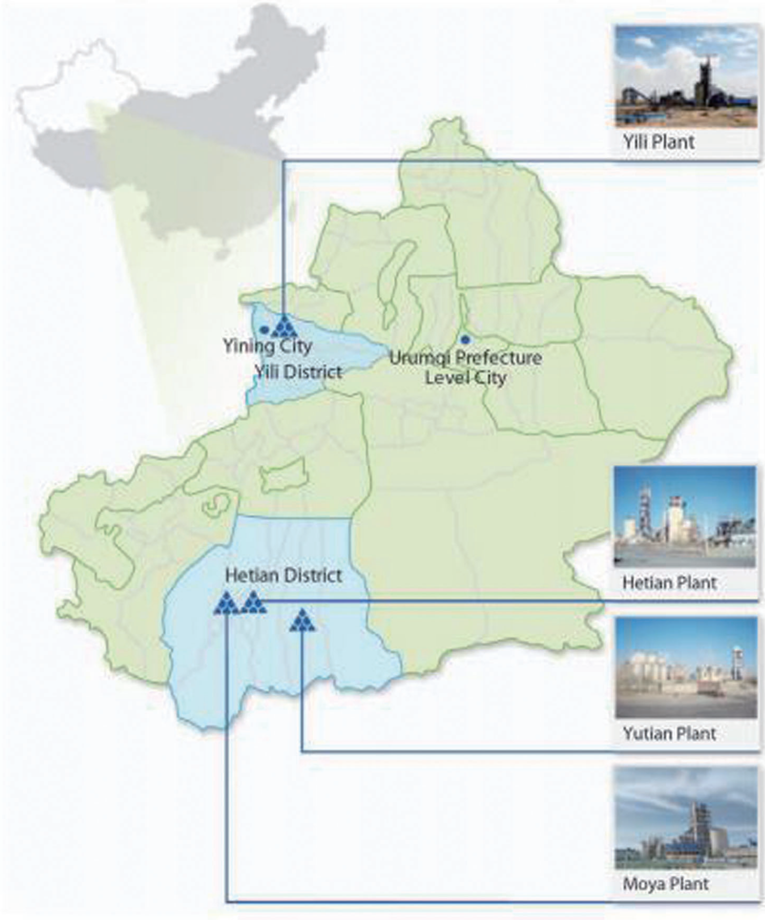
Energy conservation and emission controls have become increasingly important in the cement industry in China. We have continued to develop environmental protection solutions. Our technology includes residual heat recovery systems, NSP technology and recycling of industrial by-products, industrial waste and construction waste. Our residual heat recovery systems collect residual heat from the cement production process to generate power that can be used in the production process, thereby lowering electricity costs. As of December 31, 2020, we had residual heat recovery systems installed at 14 of our 22 production lines. These systems reduce our production lines' electricity consumption by approximately 30% and reduce Carbon dioxide, or "CO_2", emissions by approximately 22,000 tons per million tons of cement production. Most of our facilities are located in close proximity to limestone quarries and, at many of the plants, limestone conveyor belt systems are used in order to minimize emissions from road transportation. All of our production facilities employ NSP technology. We were the first cement producer in Shaanxi Province to use desulfurized gypsum and construction waste as raw material inputs into some of its cement products, and regularly recycle flyash from power plants as well as slag from iron and steel plants as raw material inputs into some of our cement products. We also completed the installation of De-nitration, or De-NOx, equipment at all of our plants in Shaanxi, Xinjiang and Guizhou Provinces. This equipment reduces nitrous oxide, NOx, emissions by approximately 60% per ton of clinker produced, bringing NOx emissions to within the new standards stipulated by the Cement Industrial Air Pollution Emissions Standards. We have completed modifications of production lines to meet particulate matter, or PM, emission standards, and as a result, all of our plants now meet the new PM emission standards as well. Moreover, we have effectively reduced the emission of dust through the technical renovation of the kiln-head and kiln-end dust collectors and also further reduced the emission of nitrogen oxide and the consumption of ammonia water through the implementation of de-nitration spray guns and automated technological innovation in five plants.

The use of industrial by-products, industrial waste and construction waste in our production process lowers our cost of production and also entitles us to VAT refunds from the PRC government.

Most of our customers are currently located in Shaanxi, Xinjiang and Guizhou provinces. We conduct our sales primarily through our sales offices in Shaanxi, Xinjiang and Guizhou provinces. We have 16 sales offices (covering Central, South and Southeast Shaanxi) in Shaanxi Province, four in in Xinjiang Province and one in Guizhou Province. Our major customers include railway construction companies, real estate developers and concrete manufacturers. We primarily sell our cement either directly to government infrastructure projects and ready-mix concrete stations or to distributors, which then resell our cement to retail purchasers.

The maps below indicate the locations of our production facilities in Shaanxi, Xinjiang and Guizhou provinces as of the date of this offering memorandum:

Xinjiang Province



Guizhou Province

* *In 2020, we completed the construction of the new production line in Moyu, Xinjiang Province with a planned annual production capacity of 2.0 million tons and the production lines was commissioned in 2020.*

OUR MILESTONES

The below table summarizes the key events and achievements in the history of our Group:

Year	Event	Year end cement capacity (million tons)
2004	Our first NSP production facility commenced construction at Pucheng in 2003, which was commissioned in February 2004	1.4
2006	We were listed on the London Stock Exchange AIM market, raising GBP22 million	1.4
2007	Our second production facility was built at Lantian, Xi'an, and two production lines were commissioned in May and August, respectively	3.6
2009	● Our Ankang Xunyang production facility commenced commission in January ● Our first acquisitions of Zhen'an and Danfeng plants in Shangluo was completed in August and December	8.5
2010	● Two production lines at Yangxian and Mianxian plants in Hanzhong were commissioned in January and July, respectively; Weinan Pucheng Line 2 was commissioned ● We acquired Ankang Jianghua plant ● We were delisted from AIM and successfully listed on the main board of the Hong Kong Stock Exchange, raising HK$1.6 billion	12.5
2011	● We established our first production base in Xinjiang through acquisition of Hetian Plant in Hetian Region, and announced the construction of Yutian Plant in Hetian, Xinjiang ● We completed a US$400 million 5-year senior notes offering	16.2
2012	● We acquired Weinan Shifeng plant, Weinan Fuping plant and Guizhou Huaxi plant ● Yutian plant in Hetian, Xinjiang was commissioned	23.7
2014	● We completed Phase I of Lantian Cement Kiln Waste Sludge Treatment Facility, the first of such facilities in Northwest China ● We completed a US$400 million 5-year senior notes offering to redeem senior notes issued in 2011	23.7
2015	● We completed construction of Xinjiang Yili plant (cement capacity of 1.5 million tons) and Guiyang Huaxi plant (cement capacity of 1.8 million tons) and commenced full operation ● Conch cement subscribed for new shares in our Company, holding 16.7 of our then issued shares	29.2
2016	Fuping Municipal Waste Treatment Facility was commissioned in March	29.2
2017	Mianxian Solid Waste Treatment Facility was commissioned in October	29.2
2018	Four aggregates production lines with total capacity of 7 million tons were commissioned	29.2
2019	● Our production capacities of aggregates and commercial concrete increased to 15.1 million tons and 4.55 million cubic meters, respectively ● We signed the cooperation agreement to establish a joint venture in Mozambique to invest in cement production line	29.2
2020	● Xinjiang Moyu plant was commissioned in December ● Mozambique plant was commissioned in December ● Our production capacity of commercial concrete increased to 9.8 million cubic meters	33.2

OUR STRENGTHS

We believe that the following competitive strengths distinguish us from our competitors and will continue to contribute to our success in the future:

We are a leading cement producer in western China with a dominant market position in Shaanxi Province, and we continuously benefit from favorable supply and demand dynamics in our core markets.

We are the largest cement producer in Shaanxi Province as measured by NSP production capacity as of December 31, 2020, according to Shaanxi Province Cement Association (陝西水泥協會) and have dominant position in Central and Southern Shaanxi. As of December 31, 2020, our NSP production capacity within Shaanxi Province is as follows:

Region	Hanzhong	Ankang	Shangluo	Baoji	Xi'an	Weinan	Xiangyang	Tongchuan	Yulin & Yan'an
Total NSP production capacity (million tons)	5.5	4.2	3.3	15.8	2.9	12.5	13	19	3.6
Our Group's NSP production capacity (million tons)	3.3	3.1	3.3	—	2.9	8.5	—	2.2	—

According to ccement.com (中國水泥網), in terms of clinker production capacity in Shaanxi Province, we had clinker capacity of approximately 14.9 million, ranking 1st with 27.0% market share in 2020 and we have over 20% market share for over 5 years. In terms of annual cement production and market share in Shaanxi, we had 23.9% of market share in 2020 and ranked 1st in the last 5 years.

Over the years, our industry-leading position has been recognized by local governments and industry associations in China. We received the recognition as one of the Reliable Products in China in 2015 from China Association for Quality Inspection. Our cement products sold under the trademark "堯柏" (Yao Bai) were recognized by the General Office of the People's Government of Shaanxi Province as one of the 2017 well-known brand products in Shaanxi Province and our oil well cement received certification from the American Petroleum Institute in 2018. In 2018, we were recognized as one of the "Top 10 Foreign Investment Enterprises" by the People's Government of Xi'an Municipality. In 2019, we were recognized as a "Top 500 China Construction Materials Enterprise" (中國建材企業500強) by China Construction Materials Enterprises Management Association. In 2020, we were recognized as a "Top 30 World Cement Enterprise" (全球水泥企業30強) by China Cement Association.

Our cement production facilities in Southern Shaanxi are strategically located to benefit from growth opportunities presented by national and local government economic development policies, such as the Western Development Strategy 3.0 and the Guanzhong-Tianshui Economic Zone Development Plan, and our production facilities in Xi'an and Weinan Regions are well-positioned to capture market shares in the Xi'an Metropolitan Area and the Xi-Xian New Area. According to the Guiding Opinions on Promoting Formation of a New Pattern in China Western Development published by the CPC Central Committee and the State Council in May 2020, by 2035, western regions will roughly keep up with eastern regions in infrastructure accessibility. It sets out a high target for infrastructure construction in western regions, implying the acceleration of infrastructure construction. China Western Development Strategy 3.0 stated that, "Shaanxi shall be encouraged to make use of its advantages to develop into gateways of inland opening-up and development", and "the historical and cultural strengths of Shaanxi shall be fully leveraged, and its functions as major routes and stops on the Silk Road Economic Belt shall be fulfilled.

The addition of new cement production capacity is expected to be continually under tight control under the government policies including the focus on building green cycle and environmental protection amid economic development in Shaanxi Province. Our core markets are in Shangluo, Ankang and Hanzhong Regions in Southern Shaanxi, where we have market shares ranging from 60% to 100% in 2019. As the weight and bulky nature of cement makes it expensive to transport, the cement industry is localized by nature, and high transportation barriers to entry for our competitors have enabled us to establish a dominant market position in these regions. Demand for cement products from infrastructure projects in our core markets in Southern Shaanxi has remained strong, among which 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, the Tuxikou Reservoir, while the Lushi to Luanchuan Expressway and the Ningshan to Shiquan Expressway have been particularly important demand drivers. the Except for Ankang to Langao Expressway, the above-mentioned projects are on-going in 2021. We won several tender bids in 2020 for key infrastructure projects including Xi'an Metro Line No. 8 and Hanzhong to Bazhong to Nanchong Intercity. In Central Shaanxi, we supply cement to projects such as 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. For further details of the infrastructure projects, see section headed "Highlights of Infrastructure Projects" in this Business section and "Infrastructure Projects" in Industry Overview section. In addition, we observe that local governments in China have increased infrastructure investment, sped up infrastructure development projects in addition to other government stimulus policies in response to COVID-19 in 2020. We expect that market demand for our products in our core markets will continue to increase against such background.

We believe that with our leading market position in our core markets, strong government support for regional development and well-known brand name, we are well-positioned to capture opportunities in the fast-growing construction industry in Shaanxi Province and our other geographical markets.

We benefit from the effective supply side reform in the PRC cement industry, which creates a positive macro environment with optimized supply conditions and steady demand

We believe that the supply side reform in the PRC cement industry will continue to lead to further industry consolidation, more stringent government control over production capacity, and, together with increased emission controls, will help to reduce redundant production capacity, alleviate oversupply in Shaanxi Province and lead to increasingly stable and disciplined markets.

Following a period of production capacity expansion between 2010 and 2014, the cement industry in Shaanxi Province has experienced significant consolidation through mergers and acquisitions of smaller producers by larger ones, which resulted in close to 80% of production capacity being owned by the four largest producers in Shaanxi Province. In response to environmental protection needs, government policies and guidance including "Guidance Catalogue for Phasing Out of Obsolete Production Capacity in Building Industry" (建材行業淘汰落後產能指導目錄), "Further Notice on Cement Peak-shifting Production Halts" (關於進一步做好水泥錯峰生產的通知), "Further Notice on Normalization of Cement Peak-shifting Production Halts" (關於進一步做好水泥常態化錯峰生產的通知) and "Q&A on Production Capacity Replacement Implementation Measures for Cement and Glass Industry" (水泥玻璃行業產能置換實施辦法操作問答) have been implemented in China, which have led to a reduction in cement supply in Shaanxi Province and China as a whole in recent years. The absence of any further incremental supply, coupled with possible supply reductions as a result of the formal abolition of P.C 32.5R grade cement in 2019 and other environmental policies, as well as the possibility of further industry consolidation, are expected to lead to an increasingly tight and disciplined group of cement suppliers in Shaanxi Province, particularly in Central Shaanxi, in 2021 and beyond.

We believe that our large production scale and leading market position in Shaanxi Province allow us to benefit from the current PRC government policies to support large cement manufacturers and encourage consolidation within the cement industry. We expect that strong government support will help us to access resources and capitalize on market opportunities. For example, in 2016, the "Guiding Opinions of the General Office of the State Council on Promoting the Stable Growth, Structure Adjustment and Increasing Efficiency of the Building Materials Industry" (國務院辦公廳關於促進建材工業穩增長調結構增效益的指導意見) provided that the capacity of cement clinker producers should be compressed by 2020 to ensure that capacity utilization rate can return to reasonable levels and the top 10 enterprises should have a concentration of 60% of the total market share. In January 2020, the "Q&A on Implementation Measures on Capacity Replacement of Cement and Glass Industries" (Implementation Measures)" released by the Ministry of Industry and Information, or MIIT, specified capacity replacement measures including that for projects located in non-environmental sensitive environment, constructing one ton of new production capacity requires reducing 1.25 tons of existing capacity and the ratio should be 1.5:1 for environmental sensitive areas. In December 2020, MIIT sought public opinion for strengthening control over production capacity, including increasing the above replacement ratio to 2:1 for projects in key areas of air pollution control designated by the nation, and 1.5:1 for non-key areas of air pollution control.

In addition, in terms of eliminating obsolete capacities, in July 2017, the China Cement Association released the "Action Plan for Reducing Excess Capacities of Cement Industry" to require that by 2020, cement industry should reduce clinker capacities by 393 million tons and CR-10 level by clinker capacity should reach 70% or above. The "Guidance Catalogue for Phasing Out of Obsolete Production Capacity in Building Industry" (建材行業淘汰落後產能指導目錄) promulgated by China Building Material Council in November 2019 requires that the cement industry should eliminate clinker production lines of capacity at 2,000 tons/day or below in provinces that have a utilization rate of 70% or below by the end of 2020 and the elimination of clinker production lines of capacity at 2,500 tons/day or below by the end of 2021.

Policies relating to peak-shifting production halts have also been implemented across China over the years in recent years. Such policies were first introduced in 2014–2015 in certain locations in China. In November 2015, MIIT and Ministry of Environmental Protection, or MEP released "Notice of Piloting Peak-shifting Cement Production Halts in Winter in Heating Supply Areas in Northern China" to expand the scope of peak-shifting production halts to heating supply areas in Northern China and further expanded the scope to 15 provinces in Northern China in October 2016 according to "Notice of Further Strengthening Peak-shifting Cement Production Halts". In November 2017, steel and coking enterprises were required to make emergency emission reduction via production halts or restriction during heavy pollution warning periods, and the scope covers Beijing, Tianjin, Hebei and surrounding areas according to "Notice of Peak-shifting Cement Production Halts of Raw Materials Industries in "2 +26" Cities in Autumn and Winter of 2017–2018". In June 2018, the State Council released the "Notice of Three-year Action Plan for Winning Blue Sky Defense War" and required all regions in China to formulate plans for peak-shifting production halts and perform differentiated management regarding industries with high emissions. Between 2018 and 2019, differentiated peak-shifting production halts were promoted across the country. Different provincial industry and information technology departments, environmental protection departments and local industrial associations in Southern China issued the notices of peak-shifting production halts. In December 2020, MIIT and Ministry of Ecology and Environment published the "Notice of Further Strengthening Regular Peak-shifting Cement Production Halts to promote regular peak-shifting production halts in different regions across the country. In March 2021, Shaanxi province released the "Notice of Regular Peak-shifting Cement Production Halts" to launch regular peak shifting production halts from December 1 every year to March 10 in the following year since 2021.

Following the effective supply side reform and various government policies above, we observe a more positive macro environment in various aspects. For example, in terms of clinker capacity in China, according to Digital Cement, following a net increase of approximately 20.9 million tons in 2016, there were decreases of 11.2 million tons and 0.7 million tons in 2017 and 2018, respectively, and modest increases of 2.8 million tons and 12.8 million tons in 2019 and 2020, respectively. In terms of clinker capacity utilization rate, according to Digital cement, the utilization rate gradually increased from 68.1% in 2016 to 69.6% and 70.7% in 2017 and 2018, respectively, and further increased to 75.6% and 77.5% in 2019 and 2020. In terms of industry concentration, according to Digital Cement, the top 10 players by clinker capacity overall slightly improved from 56.7% in 2016 to 57.3% in 2020. In terms of cement price, the average price per ton including VAT of PO42.5 high-grade bulk cement price increased from below RMB262.1 per ton in 2016 to RMB433.5 per ton in 2020, according to Digital Cement. Total profit of the cement industry including profits of cement enterprises above designated size has generally increased from RMB519 billion to 1,833 billion in 2020, representing a CAGR of 37.1%, according to MIIT.

Our diversified operations enable robust growth with strategic presence in China and abroad and extension along value chains

We have diversified our operations by extending our business to cover upstream and downstream parts of the value chain as well as expanding our presence to strategic locations beyond Shaanxi Province. As of December 31, 2020, we had total annual production capacities of 15.1 million tons of aggregates and 9.80 million cubic meters of commercial concrete. Our sales volume of aggregates and commercial concrete has increased significantly between 2018 and 2020: sales of aggregates increased from 51,000 tons for the year ended December 31, 2018 to 198,000 tons and 344,000 tons for the years ended December 31, 2019 and 2020, respectively; and sales of commercial concrete increased from 25,000 cubic meters for the year ended December 31, 2018 to 90,000 cubic meters and 157,000 cubic meters for the years ended December 31, 2019 and 2020, respectively. The revenue contributed by sales of aggregates and commercial concrete increased significantly from approximately RMB148.9 million for 2018 to RMB848.7 million (US$130.1 million) for 2020, representing 11.9% of our total revenue for the year ended December 31, 2020.

We have also successfully expanded our operations beyond Shaanxi Province. As of December 31, 2020, we had a total annual cement production capacity of 6.1 million tons in Xinjiang Province, 1.8 million tons in Guizhou Province and 2.0 million tons in Mozambique, Africa. As of December 31, 2020, revenue from sales to Xinjiang and Guizhou provinces accounted for 16.3% of our total revenue and 23.8% of our total cement capacity. In 2020, we built a production line with a daily production capacity of 4,500 tons of clinker cement in Moyu in Xinjiang Province. In December 2020, we commissioned two new production facilities in Xinjiang Province and Mozambique, Africa, which have a total planned annual production capacity of 7.0 million tons. After the full operation of the new production facility in Moyu, Xinjiang Province, our existing production lines in Hetian and Luxin will cease operation and our total annual production capacity is expected to be 30.6 million tons by the end of 2021. Our presence in these strategic locations enables us to capture opportunities in the relevant markets, diversifies our risk exposure and leads to stable future growth. For further information about the opportunities presented in Guizhou, Xinjiang and Mozambique, please refer to the sections headed ''Our Business Strategies — maintain and strengthen market leadership in Shaanxi Province and increase our investment returns in other geographical markets'' in Business and ''Other Cement Markets'' in Industry Overview.

We have industry-leading cost advantage underpinned by abundant limestone resources in core markets, steady raw materials and various cost control measures

Limestone is the principal raw material used in the production of clinker, which in turn is the base of all cement products. Due to environmental protection policies and more comprehensive town planning, the government has tightened its control over mining of natural resources and ordered the cessation of mining at small-scale limestone quarries. As a result, the supply of limestone has become more limited and the market price has increased. Our core market, Shaanxi province, has abundant limestone resources and ranks top in China in terms of limestone resources. Having access to stable supply of limestone is critical to the operations of cement producers. We have obtained mining rights to limestone quarries that are located close to 18 of our production facilities in Shaanxi, Xinjiang and Guizhou provinces with convenient access to public roadways. Many of our production facilities have also installed belt conveyors connecting the mines and our facilities to deliver limestone directly to our production lines, thus decreasing transportation costs. We had estimated limestone reserves of approximately 1.1 billion tons in 2020. These quarries provide our production facilities with a secure and stable supply of high quality limestone at low transportation costs and the reserves are sufficient to meet the current production requirements of our existing production lines for at least 56 years based on the amounts of our limestone reserves in 16 quarries and the amount of limestone we extracted in 2020, with self-sufficiency ratio of 94%. Overall, we are able to maintain our average cost of limestone at a relatively stable level, which was RMB17.3 per ton, RMB16.6 per ton and RMB17.5 per ton in 2018, 2019 and 2020, respectively.

Coal represents one of the largest components of our cost of sales. Our core market, Shaanxi province, has abundant coal resources and ranks top in China in terms of annual coal production volume. We are located close to several large coal mines in Shaanxi, Xinjiang and Guizhou Provinces operated by various suppliers including Shaanxi Province Coal Transportation and Sales (Group) Co., Ltd. Huangling Branch (陝西省煤炭運銷 (集團)有限責任公司黄陵分公司), Shangdong Energy Group Coal Sale (Shaanxi) Co., Ltd. (山東能源集團煤炭營銷(陝西)有限公司), Shaanxi Future Energy and Chemicals Co., Ltd. (陝西未來能源化工有限公司), Shenmu County Longde Mining Co., Ltd. (神木縣隆德礦業有限責任公司), Xinjiang Dawei Coal Co., Ltd. (新疆達煒煤業有限公司), Yulin Xiangyu Tongdao Supply Chain Co., Ltd. (榆林象嶼同道供應鏈有限公司), Yili Yongning Coal Industry Chemical Co., Ltd. (伊犁永寧煤業化工有限公司). The relevant coal mines have an estimated reserve level in the range of 20 to 100 years with high quality coal supply which satisfies our production needs. Our geographic proximity to these coal mines reduces our transportation costs for coal and increases our profit margin as a result. Overall, we are able to maintain our average cost of coal at a relatively stable level, which was RMB508 per ton, RMB525 per ton and RMB486 per ton in 2018, 2019 and 2020, respectively.

In addition, we are able to control our cost of electricity by the use of residual heat recovery system installed in 80% of our production facilities, which reduced 30% of electricity consumption. Our average electricity cost remained stable at RMB0.40/kWh, RMB0.41/kWh, and RMB0.40/kWh in 2018, 2019 and 2020, respectively.

We believe we are among the first cement producers in Shaanxi Province to use desulfurized gypsum and construction waste as additives in cement products. In addition, we recycle industrial by-products such as flyash from power stations, slag from steel factories, pyrite cinder from sulfuric acid factories and limestone tailings and use them as raw materials in our production. These by-products and waste materials are readily available at low cost. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us from our competitors. In addition, pursuant to the Notice of the Ministry of Finance and State Administration of Taxation on Catalog of Value-Added Tax Rebates on Products Made Through Comprehensive Utilization of Resources and Labour Service promulgated by the Ministry of Finance and the State Administration of Taxation (財政部，國家稅務總局關於資源綜合利用產品和勞務增值稅優惠目錄的通知), we enjoy VAT refunds for cement products that utilize a certain percentage of waste material. For the years ended December 31, 2018, 2019 and 2020, such VAT refunds amounted to approximately RMB316.2 million, RMB269.6 million and RMB246.6 million (US$37.8 million), respectively, representing 5.3%, 3.7%, and 3.5% of our revenue during the same periods.

We are an active practitioner of "CO_2 neutralization" (碳中和) goal with strong energy-saving and emission-reduction capabilities

Energy conservation and emission controls have become increasingly important in the cement industry in China. At a macro-level, China proposed its carbon emission reduction target: to reach peak emissions by 2030 and carbon neutrality by 2060 and one of the targets of the National 14th Five-year Plan is to reduce energy consumption per unit of GDP by 13.5%, and CO2 emissions per unit of GDP by 18%. Cement industry will be a key industry in carbon emission reduction. Carbon emission performance will be evaluated in the environmental impact assessment for cement projects, and cement industry will be prioritized for inclusion into China's national emissions trading scheme. We have been actively engaged in developing environmental protection solutions. Our technology includes NSP technology, residual heat recovery systems as well as recycling of industrial by-products, industrial waste and construction waste.

All of our production lines employ NSP technology, which requires less energy to produce cement and is more environmentally friendly than non-NSP technologies. Our residual heat recovery systems reuse the heat generated during the clinker production process, which enables us to reduce energy consumption, achieve higher production efficiency, minimize pollution and improve product quality. We have installed residual heat recovery systems in most of our production lines accounting for 80% of our production capacity, as a result of which we achieved approximately RMB91.5 million, RMB104.5 million and RMB108.8 million (US$16.7 million) in electricity cost savings for the years ended December 31, 2018, 2019 and 2020 and decreased our CO_2 emissions by approximately 22,000 tons per year per million tons of cement production, representing a reduction of 26% if residual heat recovery systems were not installed.

We have installed denitration (De-NOx) equipment at all our production lines in Shaanxi, Xinjiang and Guizhou Provinces, reducing nitrous oxide emissions by approximately 60% per ton of clinker produced, bringing NOx emissions to within new environmental protection emission standards, we have also installed particulate matter reduction equipment on all these production lines. We have invested in other waste treatment business, including Yaobai Environmental in particular. Following the disposal of our 20% indirect interest in Yaobai Environment, we continue our cooperation with it in relevant aspects and will continue to identify suitable investment opportunities. For details, please refer to "Our Business Strategies — Continue to develop environmental protection solutions" below.

We have a stable financial performance, which practically reduces financial risks

Our financial performance has remained strong in recent years. Our total revenue increased from RMB5,911.7 million for the year ended December 31, 2018 to RMB7,131.1 million (US$1,092.9 million) for the year ended December 31, 2020, representing a CAGR of 9.8%. We maintained a high level of profitability and our gross profit ratios were 33.6%, 33.7% and 32.8% for the years ended December 31, 2018, 2019 and 2020, respectively, with EBITDA margin of 44.6%, 42.7% and 42.0% for each of the corresponding period. Our operating cash flow continued to increase from RMB2,502.6 million in 2018 to RMB2,694.8 million in 2019 and remained stable at RMB2,682.1 million (US$411.0 million) in 2020. As of December 31, 2018, 2019 and 2020, (i) our operating cash flow to capital expenditure ratio was 3.3, 1.7 and 1.0, respectively; (ii) interest coverage ratio was 11.4, 15.8 and 15.1, respectively and (iii) net debt to EBITDA ratio was 0.7, 0.5 and 0.7, respectively, and therefore we believe we have a low debt level and strong debt-servicing ability. Operating cash flow to capital expenditure ratio is defined as net operating cash flow divided by capita expenditure. Net debt to

EBITDA ratio is defined as total bank borrowings plus medium term notes, minus (i) bank balances, (ii) cash, (iii) restricted/mortgage deposits, (iv) structured deposits, divided by EBITDA. Interest coverage ratio is defined as EBITDA divided by total interest expenses.

Our solid financial performance enables us to sustain our operations and support our growth as the cement industry is capital intensive and it requires a substantial amount of capital to build our production facilities, purchase production equipment and develop and implement new technologies in our new and existing facilities. With our strong financial resources, we believe that we are well-positioned to expand our operations and further grow our business.

We have a stable, experienced and professional management team

The majority of the members of our senior management team have been with us for more than nine years. They possess solid industry knowledge, extensive operational experience and have a proven track record of generating rapid growth for us. In particular, our chairman, Mr. Zhang, has over 36 years of experience in business management relating to cement production. Mr. Zhang is currently the chairman of the Shaanxi Province Cement Association (陝西水泥協會) and was a vice chairman of the China Cement Association (中國水泥協會). Other members of our senior management team also have significant experience in key aspects of our operations, including production management, sales and distribution, research and development and logistics. We believe the industry knowledge and technical expertise of our management team as well as our other experienced staff have been, and will continue to be, important assets and will continue to contribute to our results of operations.

OUR BUSINESS STRATEGIES

We intend to focus on increasing returns from our market-leading operations in Shaanxi Province, strengthen our market positions in Xinjiang and Guizhou provinces and expand further into the African market. To achieve these goals, we plan to pursue the following strategies:

Maintain and strengthen market leadership in Shaanxi Province and increase our investment returns in other geographical markets

According to the report by the China National Radio News on December 7, 2020, during the National 13th Five-Year Plan of China, the urbanization rate of Shaanxi Province increased from 53.6% to 59.4%, and its per capita housing area of urban residents increased from 31.3 square meters to 38.8 square meters. It is expected that construction activities in Shaanxi Province, especially those relating to infrastructure and urbanization, will continue to grow in the foreseeable future. At a macro-level, the PRC central government has set a target to achieve an urbanization rate of 65.0% by 2025 as part of the National 14th Five-Year Plan of China, as compared with 57.3%, 58.5%, 59.6% and 60.6% in 2016, 2017, 2018 and 2019, respectively. The Shaanxi Province National Development and Reform Commission has also set the target to develop four major town belts in Longhai, Baomao, South Shaanxi and Changcheng and provision of more affordable housing supply. The Shaanxi Province, especially its provincial capital Xi'an, is a strategic transport hub linking western China with the rest of the country. Various government initiatives, including the "Western Development Plan 3.0", the designation of the Xi-Xian New Area and the "Silk Road Economic Belt Development Policy" target continued development of Shaanxi Province and Xi'an as a regional hub for transportation and industries. These development policies have led to the commencement of a number of significant infrastructure projects in or close to our core market areas, including 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-Baishui-Huanglong Expressway, the Hancheng to Huanglong Expressway, the Heyang to Tongchuan Expressway, the Ankang to Langao Expressway, and the Xianyang Airport in our core markets in Eastern-Central Shaanxi. We plan to participate in the tendering processes for key projects including Xi'an to An'kang High Speed Railway and Xi'an to Shiyan High Speed Railway in 2021. We expect to be granted approvals for further projects in 2021 as part of the Western Development Plan 3.0 initiative. With the urbanization and transportation projects we are involved in, including the construction of Xi-Xian South Circuit Expressway, Ningshan-Shiquan Expressway, Luluan Expressway, Hancheng-Huanglong Expressway, Chengwei Expressway and Wuxi-Zhenping Expressway, which are expected to consume a total of 800,000 tons of cement products in 2021, and the accompanying urban renewal project in Xi'an, we expect increasing demand for cement products and believe that we are well-positioned to benefit from this growth in construction activities.

We intend to maintain our market leadership position and continue to benefit from relatively stable average selling prices and margins in our Southern Shaanxi market. Our core markets of Shangluo, Ankang and Hanzhong Regions, where we have a market leading position and command market shares of between 60% and 100% as of December 31, 2020 according to Shaanxi Provincial Building Materials Association (陝西省建築材料聯合會), have already begun to show the characteristics of disciplined and efficient markets. As infrastructure demand has maintained reasonably strong in recent years, we have been able to benefit from higher average selling prices in Southern Shaanxi as compared with the rest of the Shaanxi Province. We expect that the strategic deployment of our network of production facilities in Southern Shaanxi, and the long transportation distances from other cement markets, will help to alleviate price volatility in Southern Shaanxi.

Our goals in Eastern-Central Shaanxi are to benefit from the expected increase in construction activities and to promote a more disciplined and efficient supply side. While our capacity in Eastern-Central Shaanxi and Xi'an does not enjoy comparable barriers to entry as Southern Shaanxi, our production facilities in Eastern-Central Shaanxi are well located to benefit from the increasing demand from the expected acceleration of infrastructure construction in the Xi-Xian New Area. We command a market share of about 54.7% in the Weinan Region as of December 31, 2020 based on our planned production capacity over the total planned production capacity in the region. Weinan Region is in close proximity to the Xi'an metropolitan market, which accounts for 30% to 40% of demand in the province. We expect our production facilities that are close to Xi'an to benefit from the increased construction activities resulting from the continued urbanization trends and infrastructure projects led by government initiatives under the Xi-Xian New Area Development Plan.

Although our operations in provinces outside of Shaanxi Province represent a relatively small portion of our revenue at present, we believe our production facilities in Xinjiang and Guizhou provinces and overseas represent an important future growth opportunity for us. Similar to Shaanxi Province, Xinjiang and Guizhou are both beneficiaries of the "Western Development Plan" and "Silk Road Economic Belt Development" policy. We currently have a total of 6.1 million tons of production capacity in Xinjiang Province, of which 2.0 million tons of new capacity is contributed by Moyu plant commissioned in December 2020. In Guizhou Province, we have a production facility with 1.8 million tons of production capacity, which is located in the "Guiyang-Anshun New Area" (the "Gui-An New Area"), a state level "New Areas" approved by the State Council in January 2014. We believe we are well-positioned to meet ongoing infrastructure demand in the area driven by government policies.

In Xinjiang Province, we intend to continue to establish our brand and presence in anticipation of further development policies and increasing infrastructure construction. Hetian Region is a key energy and resource supply zone, with significant coal, oil, natural gas and mineral deposit at low-cost. We have 2.6 million tons of capacity in Hetian Region, representing close to a 50% market share as measured by NSP production capacity as of December 31, 2020 according to Digital Cement Net, and we expect to benefit from increased levels of FAI in the future as resource extraction and transportation links in Hetian District are developed. The 1.5 million ton Yili production facility in Northern Xinjiang is situated next to the Khorgas Special Economic Zone, an area that is an important component of the "Silk Road Economic Belt Development Policy", with significant trade and transport connections to Central Asia. The Moyu Plant is a capacity replacement project used 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 our strategic layout in western China. Furthermore, 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, we have seen a more stable market of the cement industry with increased average selling price since then. In Guizhou Province, our 1.8 million ton Huaxi production facility, which was commissioned in April 2015, is located within the Gui-An New Area and close to Guiyang city center. Infrastructure construction and urbanization have been key focuses of the Guizhou provincial government and, as with the Xi-Xian New Area in Shaanxi Province, and development plans have resulted in strong cement demand in the area. We plan to leverage on our locational advantage and benefit from continued demand from infrastructure projects in 2021 and beyond.

Our production facility in Mozambique was commissioned in December 2020. The proved reserve level of natural gas in Mozambique is 200 trillion cubic feet and the commencement of large-scale drilling of gas mine will promote infrastructure investment and drive the demand for special cement. The Mozambique production facility is a new dry process cement clinker production line with a daily capacity of 5,000 tons. It is also a key project to implement our strategy to "open up Africa and develop into the world" to accelerate our coverage in the continent. In addition, we have established subsidiaries in other African countries including Mauritius, the Republic of Congo and Ethiopia, and plan to engage in business lines such as logistics, the manufacture and sales of glass as well as the production and sale of cement in these countries in the second half of 2021. The real estate construction commenced operation in May 2021, and we believe that these countries have significant market demand for construction materials, logistics and real estate due to their stable political environment, strong economic growth, increasing rate of urbanization and fast-growing population base.

Focus on operational and financial positioning to benefit from further industry consolidation

We believe that continued stringent production capacity controls, possible capacity reductions as a result of rigorous emission controls and further industry consolidation will continue as a main theme in the PRC cement industry in the next few years. All of these trends are strongly encouraged by the PRC government.

Between 2010 and 2014, there was a production capacity expansion in the cement industry in Shaanxi Province, which resulted in oversupply in Shaanxi Province. Since then, there has been increasing consolidation and concentration of market players in recent years under different policies and measures including "De-Capacity Action Plan of Cement Industry" (水泥行業去產能行動計劃) by China Cement Association which advocated the top 10 companies to control 70% of the clinker production capacity. The formal elimination of P.C 32.5R grade cement in late 2019 has also resulted in reduced levels of cement supply. We believe that there may be further consolidation over the next few years.

We believe that the competitive pressure in Central Shaanxi might lead to further consolidation which we believe will be of benefit to the Central Shaanxi market as a whole, irrespective of who participates. We therefore believe that possible future consolidation, combined with capacity controls, will eventually result in an increasingly disciplined market in Central Shaanxi.

Although we carefully monitor the situation and would see any possible consolidation activity by producers in Central Shaanxi as beneficial to the Shaanxi Province market as a whole, we currently do not have any definitive plans in this respect. We focused on a strategy of constructing new production facilities beyond Shaanxi province and commencing capacity replacement projects due to local government requirements or our operation needs over the past two years, and we plan to continue to work towards prudent capital expenditure and the strengthening of our balance sheet to be well prepared for any eventuality. However, we expect to selectively pursue acquisitions if the right opportunities arise. Our criteria for evaluating possible acquisitions in Shaanxi Province have been and will continue to be based on factors such as protecting our existing core markets and expanding market share in areas in close proximity to our current core markets, as well as the quality and price of the potential targets. We assess each opportunity on a case-by-case basis and will manage any potential capital expenditure with consideration given to our cash flow and financial resources.

Continue to develop environmental protection solutions

While we have completed the upgrades at all our production facilities to meet new emission control standards, we intend to continue with our efforts on environmental protection solutions and waste treatment investment.

In January 2014, we completed phase I of the Lantian Plant Cement Kiln Waste Sludge Treatment Facility with annual capacity of 31,500 tons of waste which we believe was the first cement kiln waste sludge treatment facility in Shaanxi Province and northwest China. We believe this marked an important milestone in our on-going efforts in environmental protection. The facility uses the high temperature emitted from the cement kiln at Lantian production facility to burn waste sludge with gasses and ashes generated from this incineration process absorbed and solidified, thus producing no secondary pollution. We used this facility to treat industrial and municipal waste from Xi'an and Xianyang metropolitan areas. We completed the construction of Phase II and the entire facility has been in full operations since 2015 with a total annual capacity of 81,000 tons of waste.

After the joint investment and formation of Yaobai Environmental with Wuhu Conch Investment Ltd. and Red Day Limited in November 2015, we agreed it will be the platform for treatment of our dangerous and hazardous waste. Our plants have been cooperating with Yaobai Environmental's operations and the cooperation continues notwithstanding the disposal of our 20% indirect interest in Yaobai Environmental in June 2021. Yaobai Environmental currently owns the Lantian Plant Cement Kiln Waste Sludge Treatment Facility and completed construction of Fuping Municipal Waste Treatment Facility which was commissioned in March 2016 with annual capacity of 100,000 tons and Mianxian

Solid Waste Treatment Facility which was commissioned in October 2017 with annual capacity of 16,500 tons. Yaobai Environmental has also established relationships with sizeable companies in vehicle manufacturing, petrochemical and energy sectors based in Shaanxi Province.

Further strengthen our sales and marketing capabilities

We plan to continue to strengthen our sales and marketing capabilities. We conduct our sales through our 16 sales offices (covering Central, South and Southeast Shaanxi) in Shaanxi Province, four in Xinjiang Province and one in Guizhou Province. We intend to deploy additional sales personnel based on the demand for our products and customer mix in different geographical markets. We believe that these local and regional offices will enhance our ability to develop, penetrate and control our target markets. We plan to strengthen our customer relationship management and use product experts to better serve our customers, particularly in relation to major construction projects.

We intend to build mutually beneficial relationships with selected distributors. We plan to enhance the distributor selection process to better ensure the quality and performance of the distributors. We plan to engage selected distributors that have strong financial background and established sales networks in our target markets. We intend to build long-term relationships with these distributors, support their development and work with them closely, which we believe will further improve the stability of our sales network.

We plan to continue to provide high quality services to our customers, including visiting our customers and collecting their feedback, timely addressing their inquiries and providing comprehensive after-sale services. In addition, we plan to promote our "堯柏" (Yao Bai) brand and establish our reputation as a producer of high quality cement in our target markets. We expect these measures will have a positive impact on our results of operations.

Continue to enhance our cost structure through our research and development efforts

Our primary focus in our research and development efforts is to increase the percentage of additives in our clinker, thus lowering our cost of sales. We intend to conduct research and experiments on various materials, such as construction waste, shale, tailings and other new materials, and their use and compatibility as additives in clinker. In addition to our own research and development efforts, we continue to leverage our cooperative relationships with leading research institutions, such as Hebei University of Technology (河北工業大學) which we cooperated with to establish a 3D printing research center for building materials in 2018. Our research and development capabilities have been widely recognized by external parties. For example, we obtained the Second Prize for Technological Reform and Improvement in Building Materials Industry in China (全國建材行業技術革新獎技術改造類二等獎) in 2018 and approval as Research Center for Special Cement and Cement Infrastructure Materials and Engineering Technology and Technology Center for Municipal-level Enterprise in Xi'an (西安市特種水泥及水泥基新材料工程技術研究中心和市級企業技術中心) in 2019. We also obtained the First Prize for Technological Improvement in Building Materials Industry in Shaanxi Province for our four technology innovations. Furthermore, in recent years, we have implemented a number of cost-cutting measures to control cost of sales and selling, general and administrative expenses, including administrative and head office costs cuts and adjustment of staff incentives to promote efficient use of raw materials and resources.

Continue to build a strong management team with qualified personnel

With our rapid expansion in recent years, we have experienced an increasing need for qualified personnel, particularly in the areas of production technology, research and development, accounting and finance. To ensure our sustained growth and development, we plan to hire qualified personnel and strengthen our team.

We plan to continue to train our existing employees and hire additional qualified personnel. We plan to continue to sponsor our employees to attend training classes in key aspects of our business, such as powder technology, sales and marketing and production management. We plan to establish an evaluation and performance incentive system to encourage the growth and development of our employees. We also plan to hire qualified personnel with relevant technological and management experience from other companies or from universities and research institutions. We believe that a strong team with qualified personnel will help ensure our long-term and sustained growth.

Highlights of Infrastructure projects

The following table sets forth the key infrastructure projects in which we have involved in recent years:

	Name of project	Descriptions of projects	Status and our involvement
1	Xixian Expressway-Southern Section	The southern section of Xi'an Outer Ring Expressway starts from Guziwei, Huyi District, and ends at the east of eastern Lantian flyover of Shanghai-Shaanxi Expressway in Lantian County. The total length is approximately 70.1km.	Construction commenced in 2018 with total demand of 1 million tons of cement. We supplied 386,000 tons in 2020 and expect to supply 100,000 tons in 2021
2	Ningshan-Shiquan Expressway	Ningshi Expressway, or Ningshan-Shiquan Expressway, is a linking-up road of Shaanxi Province's "2367" Expressway Network Planning. Starting from Tongchewan Town, Ningshan County in the north, it connects to G5 Beijing-Kunming Expressway. Passing through Ningshan County and Shiquan County, it connects to Shiyan-Tianshui Expressway, spanning approximately 51.0km	Construction commenced in 2018 with total demand of 400,000 tons of cement. We supplied 161,000 tons in 2020 and expect to supply of 150,000 tons in 2021
3	Lushi-Luanchuan Expressway	Starting from Lianghekou near Yingxiong Village, Miaozi Town, Luanchuan County, it connects to Luoluan Expressway in the east and ends at Lushi County. The total length is approximately 75.3km, with 50.7km in Luanchuan	Construction commenced in 2019 with total demand of 550,000 tons of cement. We supplied 258,000 tons in 2020 and expect to supply 250,000 tons in 2021
4	Hancheng-Huanglong Expressway	Starting from Xue Village, Xizhuang Town, Hancheng City, it connects to Xiyu Expressway and ends at Erdaoyao, Huanglong County, Yan'an City. Spanning approximately 75.2 km, the project has 7 sections. We supplied cement to sections 1–3	Construction commenced in 2019 with total demand of 400,000 tons of cement. We supplied 4,000 tons in 2020 and expect to supply 100,000 tons in 2021
5	Chengcheng-Weizhuang Expressway	Starting from Chengcheng County, Shaanxi Province and ending at Weizhuang, it spans 37.1 km and is a major component of Chengshang Line of Shaanxi Expressway	Construction commenced in 2020 with total demand of 400,000 tons of cement. We supplied 64,000 tons in 2020 and expect to supply 100,000 tons in 2021
6	Wuxi-Zhengping Expressway	Chongqing Section of Wuxi-Zhengping Expressway starts from Wuxi County, and passes through Dahe, Lianghekou and Zhongba in the north, and exits at Maozimiao, Chongqing-Shaanxi cross-border tunnel, and connects to Ankang-Zhengping Expressway in Shaanxi. The total length is approximately 50.0km, with total investment of approximately RMB9.9 billion	Construction commenced in 2019 with total demand of 1 million tons of cement. We supplied 3,000 tons in 2020 and expect to supply 100,000 tons in 2021

The following table sets forth the other infrastructure projects in which we have involved in recent years:

	Name of project (relevant location)	Planned construction period
1	Xi'an-Yan'an High-speed Railway (Central Shaanxi)	2020-TBC
2	Hanzhong-Bazhong-Nanchong Intercity Railway (Southern Shaanxi)	2020–2024
3	Yan'an-Huanglong Expressway (Central Shaanxi)	2018–2021
4	Heyang-Tongchuan Expressway (Central Shaanxi)	2017–2021
5	Pucheng-Baishui-Huanglong Expressway (Central Shaanxi)	2018–2021
6	Ankang-Langao Expressway (Southern Shaanxi)	2017–2022
7	Xixia-Xichuan Expressway (Southern Shaanxi)	2020–2021
8	Micangshan Avenue Project (Southern Shaanxi)	2020–2025
9	Chengkou Transportation Projects (Southern Shaanxi)	2020-TBC
10	Dongzhuang Reservoir (Central Shaanxi)	2013–2022
11	Xunyang Hydropower Station (Southern Shaanxi)	2017–2022
12	Han River-Wei River Water Diversion (Sanhekou) (Southern Shaanxi)	2016–2021
13	Han River-Wei River Water Diversion (Huangjinxia) (Southern Shaanxi)	2018–2021
14	Yuehe Hydropower Station (Shannan Region)	2017–2023
15	Tuxikou Reservoir (Shannan Region)	2020-TBC
16	Xi'an Metro/Municipal Projects (Central Shaanxi)	2014-Long term
17	Xianyang Airport (Central Shaanxi)	2020–2024

OUR PRODUCTS

Our principal product is cement. Our cement is sold under the trademarks "堯柏" (Yao Bai) and "堯柏水泥" (Yaobaishuini) and is primarily used in the construction of infrastructure projects such as highways, bridges, railways and roads as well as in residential buildings. We produce different types of cement by mixing different proportions of gypsum, clay, flyash, pyrite cinder, slag and other additives to clinker, a semi-finished product produced from limestone through a rotary kiln process.

Our principal products are set forth in the following table:

Product/Grade	National Standards	Characteristics	Application	Target Customers
Ordinary Portland Cement • P • O42.5; • P • O42.5R; • P • O52.5; • P • O52.5R.	Loss ⩽ 5.0% (all); SO_3 ⩽ 3.5% (all); MgO ⩽ 5.0% (all); Cl^- ⩽ 0.06% (all); 3-day compressive strength ⩾ 17MPa (P • O42.5), ⩾ 22MPa (P • O42.5R), ⩾ 23MPa (P • O52.5), ⩾ 27MPa (P • O52.5R); 28-day compressive strength ⩾ 42.5MPa (P • O42.5 and P • O42.5R), ⩾ 52.5MPa (P • O52.5 and P • O52.5R); 3-day fractural load ⩾ 3.5MPa (P • O42.5), ⩾ 4.0MPa (P • O42.5R and P • O52.5), ⩾ 5.0MPa (P • O52.5R); 28-day fractural load ⩾ 6.5 MPa (P • O42.5 and P • O42.5R), ⩾ 7.0 (P • O52.5 and P • O52.5R).	High strength; high hydration heat; low dry shrinkage; high corrosion-resistance; high carbonization-resistance	Construction of structures such as roads and bridges. It is also used for the construction of high rise buildings and production of commercial cement	Civil uses, ready-mix concrete stations and key infrastructure projects including highways and railways
Composite Portland Cement • P • C42.5	SO_3 ⩽ 3.5%; MgO ⩽ 6.0%; Cl^- ⩽ 0.06%; 3-day compressive strength ⩾ 10MPa; 28-day compressive strength ⩾ 32.5MPa ; 3-day fractural load ⩾ 2.5MPa; 28-day fractural load ⩾ 5.5MPa	High strength at the initial phase; rapid setting and hardening; dry shrinkage performance similar to ordinary Portland Cement	Industrial, agricultural hydraulic and civil construction projects	Civil uses, ready-mix concrete stations and key infrastructure projects including highways and railways
Moderate Heat Portland Cement • P • MH42.5	Loss ⩽ 3.0% ; SO_3 ⩽ 3.5%; MgO ⩽ 5.0%; 3-day compressive strength ⩾ 12.0MPa; 7-day compressive strength ⩾ 22.0MPa; 28-day compressive strength ⩾ 42.5MPa; 3-day fractural load ⩾ 3.0MPa; 7-day fractural load ⩾ 4.5MPa; 28-day fractural load ⩾ 6.5MPa; 3-day Heat of Hydration ⩽ 251 kj/kg; 7-day Heat of Hydration ⩽ 293 kj/kg	Low hydration heat; relatively high sulphuric acid resistance; good abrasion resistance and low dry shrinkage	For construction projects in complicated environments such as changing water level requiring high abrasion resistance and freeze-resistance which include dams and bridges	Construction projects in particular for hydropower power station, reservoir and dams
Masonry Cement • M32.5	SO_3 ⩽ 3.5%; Cl^- ⩽ 0.06%; 3-day compressive strength ⩾ 10.0MPa; 28-day compressive strength ⩾ 32.5MPa; 3-day fractural load ⩾ 2.5MPa; 28-day fractural load ⩾ 5.5MPa	High moisture retention	For plastering and adding as layer.	Civil uses, ready-mix concrete stations and key infrastructure projects, including highways and railways

Product/Grade	National Standards	Characteristics	Application	Target Customers
Oil Well Cement ● G-HSR	Loss ⩽ 3.0%; SO_3 ⩽ 3.5%; MgO ⩽ 6.0%; 15min–30min consistency ⩽ 30BC; 90min ⩽ thickening time ⩽ 120min; compressive strength under 38°C, normal pressure, and 8h curing condition ⩾ 2.1MPa; compressive strength under 60°C, normal pressure, and 8h curing condition ⩾ 10.3MPa	Rapid setting and hardening; high impermeability and corrosion resistance; proper density and setting time, as well as low consistency allowing the ready-mix well concrete to possess great anti-settling properties and pumpability	For oil and gas well cementing projects	Oil and gas wells

We seek to introduce new products that meet evolving customer needs. For example, we have developed sulphoaluminate clinker which targets producers based in Henan and Shanxi Provinces and high alumina clinker which targets fire-resistance materials producers in China. Our oil well cement and calcium aluminate cement were first exported to overseas market in Africa in 2019 and 2020, respectively.

PRODUCTION FACILITIES

As of December 31, 2020, we had 22 NSP cement product lines and a total annual production capacity of 33.2 million tons, with 23.3 million tons in Shaanxi Province, 6.1 million tons in Xinjiang Province, 1.8 million tons in Guizhou Province and 2.0 million tons in Mozambique, Africa. In addition, we had total annual production capacities of 15.1 million tons of aggregates and 9.80 million cubic meters of commercial concrete. In 2018, we commissioned four aggregates production lines in Shangluo city and Hanzhong city in Shaanxi Province with total annual production capacities of 7.0 million tons. In September 2019, we entered into a cooperation agreement to establish a joint venture for investment and construction of cement production line in Mozambique, Africa. In 2020, we built a production line with a daily production capacity of 4,500 tons of clinker cement in Moyu in Xinjiang Province. In December 2020, we commissioned two new production facilities in Xinjiang Province and Mozambique, which have a total planned annual production capacity of 4.0 million tons. After the full operation of the new production facility in Moyu, Xinjiang Province, our existing production lines in Hetian and Luxin will cease operation and our total annual production capacity is expected to be 30.6 million tons by the end of 2021.

All of our production lines are strategically located close to our end markets. 12 of our production lines are located near our limestone quarries and many of our production facilities have also installed belt conveyors connecting the limestone quarries and our facilities to deliver limestone directly to our production lines, thus decreasing transportation costs. All of our production lines in Shaanxi, Guizhou and Xinjiang Provinces employ the advanced NSP technology, which is energy efficient and environmentally friendly. We also employ residual heat recovery systems in most of our production lines accounting for 80% of our annual capacity, which allows us to achieve electricity cost savings.

Details of our production lines in Shaanxi Province as of December 31, 2020 are set forth in the table below.

Production Lines	Location	Commencement of Operations	NSP Technology	Residual Heat Recovery Systems
Danfeng				
Line 1	Danfeng County	December 2009[(1)]	Yes	Yes
Line 2	Danfeng County	April 2012	Yes	Yes
Hancheng	Weinan City	June 2011[(1)]	Yes	No
Fuping	Weinan City	June 2012[(1)]	Yes	Yes
Jianghua	Ankang City	December 2010[(1)]	Yes	No
Pucheng				
Line 1	Pucheng County	February 2004	Yes	Yes
Line 2	Pucheng County	September 2010	Yes	Yes
Lantian				
Line 1	Lantian County	May 2007	Yes	Yes
Line 2	Lantian County	August 2007	Yes	Yes
Mianxian	Mianxian County	July 2010	Yes	Yes
Shifeng	Weinan City	April 2012[(1)]	Yes	Yes
Xixiang	Hanzhong County	May 2011	Yes	Yes
Xunyang	Xunyang County	January 2009	Yes	Yes
Yangxian	Yangxian County	January 2010	Yes	Yes
Yaowangshan				
Line 1	Tongchuan City	December 2015	Yes	Yes
Line 2	Tongchuan City	December 2015	Yes	No
Zhen'an	Zhen'an County	August 2009	Yes	Yes

Note:

(1) Refers to the date when we acquired a majority interest in such production line.

Details of our production lines in Xinjiang Province as of December 31, 2020 are set forth in the table below.

Production Lines	Location	Commencement of Operations	NSP Technology	Residual Heat Recovery Systems
Luxin	Hetian District	May 2011[(1)]	Yes	No
Hetian	Hetian District	August 2012	Yes	Yes
Yili	Yili City	April 2015	Yes	No

Note:

(1) Refers to the date when we acquired such production line.

Details of our production line in Guizhou Province as of December 31, 2020 are set forth in the table below.

Production Lines	Location	Commencement of Operations	NSP Technology	Residual Heat Recovery Systems
Huaxi	Guiyang City	April 2015	Yes	Yes

The table below sets forth the annualized production capacity, actual production volume and utilization rate of our production lines during the years ended December 31, 2018, 2019 and 2020:

	Annualized Production Capacity as of December 31,[1]			Actual Cement Production Volume for the year ended December 31,			Utilization Rate for the year ended December 31,[2]		
Production Lines	2018	2019	2020	2018	2019	2020	2018	2019	2020
				(in million tons, except for percentages)					
Danfeng									
Line 1	0.2	0.2	0.2	0.1	0.1	0.2	55.3%	55.7%	76.3%
Line 2	2.4	2.4	2.4	1.5	1.5	1.9	62.6%	63.9%	78.4%
Hancheng	2.0	2.0	2.0	1.3	1.2	1.2	62.6%	62.1%	60.8%
Fuping	2.0	2.0	2.0	1.5	1.5	1.7	76.0%	76.9%	87.1%
Jianghua	1.1	1.1	1.1	1.5	1.4	1.1	140.2%	127.7%	96.0%
Pucheng									
Line 1	1.2	1.2	1.2	—	—	—	—	—	—
Line 2	1.3	1.3	1.3	1.2	1.4	1.4	91.7%	105.2%	109.2%
Lantian									
Line 1	1.5	1.5	1.5	0.6	0.6	0.6	41.5%	40.5%	44.1%
Line 2	1.5	1.5	1.5	0.6	0.6	0.8	43.7%	39.0%	56.4%
Luxin	0.6	0.6	0.6	0.4	0.4	0.7	69.1%	74.9%	120.6%
Mianxian	1.1	1.1	1.1	1.0	1.1	1.1	95.1%	100.8%	96.6%
Shifeng	2.0	2.0	2.0	1.5	1.6	1.7	73.4%	82.5%	84.1%
Xixiang	1.1	1.1	1.1	1.1	1.2	1.1	103.5%	107.1%	95.5%
Xunyang	2.0	2.0	2.0	0.9	1.2	1.0	44.1%	61.9%	51.6%
Yangxian	1.1	1.1	1.1	0.8	1.0	0.9	70.7%	89.8%	83.0%
Hetian	2.0	2.0	2.0	0.7	0.9	0.8	35.6%	42.7%	42.0%
Zhen'an	0.7	0.7	0.7	0.6	0.5	0.6	79.8%	76.1%	81.0%
Huaxi	1.8	1.8	1.8	1.4	1.3	1.3	78.6%	71.6%	74.6%
Yili	1.5	1.5	1.5	0.5	0.5	0.5	35.8%	32.5%	33.6%
Yaowangshan									
Line 1	1.1	1.1	1.1	0.6	0.4	0.6	53.2%	39.7%	51.5%
Line 2	1.1	1.1	1.1	0.2	0.3	0.4	19.5%	23.8%	38.9%
Mozambique	—	—	2.0	—	—	—	—	—	—
Moyu	—	—	2.0	—	—	—	—	—	—

Notes:

(1) The annualized production capacity figures are calculated on the basis of a 310-day year at a clinker/cement ratio of 0.7. Each type of cement has its specific chemical features and therefore a different clinker/cement ratio ranging from 0.25 to 0.95. The commonly used industrial benchmark average ratio is 0.7, and we have been using 0.7 clinker/cement ratio to derive our cement production capacity. The above table does not include a grinding mill at our Lantian production facility which increases the annualized production capacity at our Lantian production facility by 0.7 million tons.

(2) The utilization rate is derived on the basis of actual production volume divided by pro-rata production capacity of each production line for the actual number of months in a year during which the production line was in operation.

During the three years ended December 31, 2020, we improved our production process technology through continuous research and development efforts, which enabled us to achieve relatively high production efficiency and utilization rates for our production facilities. If the design and construction capacity exceeds NDRC's approval, it may constitute non-compliance; if the actual production volume exceeds the design capacity, there may exist hidden risks with regard to the safety and environment. However, our directors are of the view that although the utilization rates at certain of our production facilities exceeded 100%, there were no material adverse impact on safety in our production facilities and we were not aware of any material non-compliance matters in this regard.

After the joint investment and formation of Yaobai Environmental with Wuhu Conch Investment Ltd. and Red Day Limited in November 2015, we agreed it will be the platform for treatment of dangerous and hazardous waste of our group. Our plants have been cooperating with Yaobai Environmental's operations. Yaobai Environmental currently owns the Lantian Plant Cement Kiln Waste Sludge Treatment Facility with a total annual capacity of 81,000 tons of waste which was in full operations since 2015 and has completed construction of Fuping Municipal Waste Treatment Facility with annual capacity of 100,000 tons and Mianxian Solid Waste Treatment Facility with annual capacity of 16,500 tons.

ACQUISITIONS IN RECENT YEARS

On May 2, 2018, we acquired a 55% controlling equity interest in Shaanxi Fengsheng by an agreed capital injection of RMB30.0 million to Shaanxi Fengsheng Deyuan Industrial Limited Company, or Shaanxi Fengsheng. Shaanxi Fengsheng is principally engaged in production and sales of concrete and other cement products in Shaanxi Province, China. We made the acquisition with the primary objective of further improving our presence in the local market. We have fully paid the consideration for this acquisition.

On September 30, 2019, we entered into a cooperation agreement with CIF-MOZ S.A. ("CIF-MOZ"), Oceanic Star Ventures Limited ("Oceanic Star") and Guhava Serviços, S.A. ("Guhava"), pursuant to which we agreed to form a joint venture company in Mozambique for the investment and construction of a cement production line in Mozambique by making a capital contribution of approximately RMB6.6 million and providing shareholders loan of approximately RMB348.8 million. Pursuant to the cooperation agreement, Moçambique Dugongo Cimentos, S.A. ("Dugongo") was incorporated in 2020 and we hold 60% of its equity capital, with the remaining 21%, 14% and 5% held by CIF-MOZ, Oceanic Star and Guhava, respectively. Through Dugongo, we constructed our Mozambique plant with a total annual production capacity of 2.0 million tons of cement, and the plant was commissioned in December 2020. We provided the shareholders loan to Dugongo in batches as and when needed. As a result of the above investment, we established our presence in Mozambique, Africa.

On March 31, 2020, we acquired the entire equity interest in Hongxing Glass Congo SARL ("Hongxing Glass") for a cash consideration of RMB43.0 million. Hongxing Glass is principally engaged in the manufacture and sales of glass. As of December 31, 2020, the manufacture plant was under construction. We made the acquisition to diversify our business and have fully paid the consideration.

On July 31, 2020, we entered into share purchase agreements to acquire a 97.5% equity interest of Kangding Paomashan Cement Ltd ("Kangding Paomashan") for an aggregate consideration of RMB729.4 million. During the year ended December 31, 2020, we had paid deposits of RMB62.5 million for the acquisition of Kangding Paomashan. We entered into this acquisition to expand our main cement business into Ganzi Prefecture in Sichuan province and its neighboring regions. The acquisition was not completed as of December 31, 2020.

We financed all these acquisitions with cash generated from our operations.

PLANNED CAPACITY EXPANSION

As of the date of this offering memorandum, we have three production lines still in pre-production. The Tongchuan production line, which is located in Tongchuan City in Shaanxi Province, has a planned annual production capacity of 3.0 million tons. The Moyu production line, which has a planned annual production capacity of 2.0 million tons, is located in Moyu district in Xinjiang Province. The Mozambique production line, which has a planned annual production capacity of 2.0 million tons, is located in Maputo, the capital city of Mozambique. We have substantially completed the construction of Moyu and Mozambique new production lines in December 2020 and they are currently being commissioned. Details of our new production lines are set forth in the table below.

Production Lines Under Construction	Location	Planned Annual Production Capacity	Target Production Commencement Date
		(in million tons)	
Tongchuan	Tongchuan, Shaanxi	3.0	August 1, 2021
Moyu	Moyu, Xinjiang	2.0	May 31, 2021
Mozambique.	Maputo, Mozambique	2.0	December 31, 2020
Total.		7.0	

In respect of capital expenditures to be incurred for our new production facilities in Toungchuan, Shaanxi Province and Moyu District, Xinjiang Province and Maputo, Mozambique, we intend to fund with cash generated from our operations and external financing.

PRODUCTION PROCESS

There are four key stages in the production of cement: (1) crushing of raw materials; (2) calcining and blending of raw materials; (3) sintering of clinker in a kiln; and (4) grinding and blending of clinker to produce cement. Each of our production lines includes all four stages. For a detailed description of the cement production process, please see the section headed "Industry Overview — Cement Production and Technology — The Production Process" in this offering memorandum.

Limestone and clay are first extracted from quarries using a blasting and ripping process. They then refined into a fine compound in crushing installations. The crushed materials are homogenized on blending beds before they are dried and mixed into roller grinding mills. These materials are mixed at different consistencies, depending on the type of cement being produced. After the raw materials are ground, they are placed in a raw meal silo. After that, the materials are burned in a kiln in a sintering process to produce clinker. The clinker is then cooled down in clinker silos and placed in ball mills or roller presses. Based on the type of cement to be produced, the clinker and other aggregates will be mixed together in an appropriate proportion. The mixture will then be fed into the cement grinding mill to be ground to the required fineness for cement production. After that, the cement is stored in silos, before being delivered to customers.

RAW MATERIALS

The primary raw materials used in our cement production are limestone, gypsum, clay, flyash, pyrite cinder and slag. For the years ended December 31, 2018, 2019 and 2020, the costs of raw materials accounted for approximately 24.6%, 27.1% and 28.1%, respectively, of our total cost of sales of cement.

Limestone

The principal raw material used in the production of cement is limestone. Most of the limestone that we use for cement production is sourced from quarries which we have obtained licenses to excavate. We have sufficient reserves of limestone to meet the current production requirements of our existing production facilities for at least 56 years, based on government surveyors' reports on the amounts of our limestone reserves, the annual excavation limits specified in our mining licenses and our current production requirements. We have entered into cooperation mining agreements with independent third-party contractors to excavate limestone. The agreements are for terms between one year to 10 years and the contractors are required to excavate different minimum amounts of limestone per year. We pay a fixed excavation fee for each ton of limestone excavated by the contractors and generally adjust the excavation fee at the beginning of each year based on, among other things, the market price, the excavation cost at the time of the adjustment and the actual limestone purchase amount in the past year. Some agreements with the contractors contain automatic price adjustment mechanism under which the excavation fee per ton is automatically adjusted upward if the increase in the costs of explosives and fuel exceeds a certain percentage. Under our agreements with the contractor, the contractors are responsible for excavating limestone with its own equipment and employees, and are liable for its employees' personal injuries. The contractors are required to comply with applicable laws and regulations for excavation of limestone at our quarries. All limestone excavated by the contractors must be supplied to us and the contractors are not allowed to supply such limestone to any other third party. The supply of limestone will be in accordance with our production arrangement. We ensure that our contractors are in compliance with the relevant PRC laws and regulations by requiring it to provide us with the applicable licenses and renewal certificates as well as conducting safety inspections at the quarries on a monthly basis. However, we may still be held liable by the regulatory authorities if our contractors fail to comply with relevant PRC laws and regulations. Contractors for limestone excavation are readily available in Shaanxi and Xinjiang provinces while in Guizhou provinces we engage contractors to assist drilling and blasting process in limestone excavation from time to time. The average cost of limestone used in our production was RMB17.3, RMB16.6 and RMB17.5 per ton in 2018, 2019 and 2020, respectively.

All of the limestone produced from our limestone quarries is used for our cement production. We have not made any external sales of limestone.

For the years ended December 31, 2018, 2019 and 2020, we excavated approximately 15.0 million, 18.3 million and 19.1 million tons of limestone, respectively. We purchased approximately 1.6 million tons, 1.0 million tons and 1.1 million tons of limestone from third party limestone suppliers in the years ended December 31, 2018, 2019 and 2020, respectively.

The mining rights obtained by us in relation to our limestone quarries in Shaanxi, Xinjiang and Guizhou provinces are as follows:

Name of Quarry	Location	Period of Validity[1]	Area	Maximum Annual Excavation Volume Per Mining License	Reserves as of December 31, 2020[2]
			(km^2)	(tons in thousands)	(tons in thousands)
Taibaishan (太白山)	Fuping County, Shaanxi Province	July 3, 2020– July 3, 2025	0.9	3,900.0	72,385.7
Baofengsi (寶峰寺)	Fuping County, Shaanxi Province	June 29, 2020– June 29, 2021[3]	3.7	2,000.0	149,100.0
Yaowangshan (藥王山)	Pucheng County, Shaanxi Province	December 20, 2018– November 20, 2023	0.8	1,500.0	74,250.0
Dongdashan (東大山)	Dafeng County, Shaanxi Province	January 31, 2019– January 31, 2022	0.3	500.0	14,800.0
Laohugou (老虎溝)	Luonan County, Shaanxi Province	August 17, 2018– August 17, 2021	2.5	500.0	8,750.0
Longtanzi (龍潭子)	Zhen'an County, Shaanxi Province	January 31, 2019– January 31, 2022	0.1	450.0	2,950.0
Dalingliang (大嶺梁)	Yang County, Shaanxi Province	September 6, 2013– September 6, 2033	0.7	1,230.0	137,040.0
Gaixiansi (蓋仙寺)	Xixiang County, Shaanxi Province	October 25, 2013– October 25, 2021	0.2	1,080.0	20,350.0
Dengzhanwo (燈盞窩)	Mian County, Shaanxi Province	June 24, 2013– June 24, 2023	0.2	1,100.0	20,550.0
Qingshanzhai (青山寨)	Xunyang County, Shaanxi Province	March 25, 2020– March 25, 2025	0.4	1,750.0	43,669.9
Yangquanshan (楊泉山)	Yaozhou District, Tongchuan City	September 6, 2019– September 6, 2027	1.1	2,000.0	164,104

Name of Quarry . . .	Location	Period of Validity[1]	Area	Maximum Annual Excavation Volume Per Mining License	Reserves as of December 31, 2020[2]
			(km^2)	(tons in thousands)	(tons in thousands)
Nangang (南崗).	Yining City, Yili Prefecture	June 16, 2017– June 16, 2022	0.0	150.0	1,847.0
Tunshang (屯上).	Huaxi District, Guiyang City	May 19, 2016– May 19, 2026	0.6	1,440.0	16,433.8
Tiejike (鐵基克)	Yutian County, Hetian District	November 1, 2019– November 1, 2021	0.8	500.0	3,400.0
Daganqu (大幹渠)	Moyu County, Hetian District	November 1, 2019– November 1, 2021	2.1	3,500.0	330,000.0
Dinghe (丁河) . .	Ankang City, Shaanxi Province	July 9, 2020– November 9, 2021	2.0	150.0	6,153.9

Notes:

(1) According to Procedures for Classification and Management of Mining of Mineral Resources (礦產資源開採等級管理辦法) issued by the State Council on February 12, 1998, and amended on July 29, 2014 the mining license period will be based on the scale of the quarry: large-scale quarries can have a maximum 30-year mining license period, medium-scale quarries can have a maximum 20-year mining license period and small-scale quarries can have a maximum 10-year mining license period. The qualifications for "large-scale", "medium-scale" and "small-scale" quarries are specified in the Notice Regarding the Standard for Sizes of Natural Resources and Reserves (《關於印發礦產資源儲量規模劃分標準》的通知) issued by the Ministry of Land and Resources in the PRC on April 24, 2000. According to such notice, "large-scale" limestone quarries have a reserve of over 80 million tons, "medium-scale" limestone quarries have a reserve between 15 to 80 million tons, and "small-scale" limestone quarries have a reserve of less than 15 million tons.

(2) The limestone reserve figures are extracted from compiled data, project approval documents issued by relevant government authorities, and documents issued by a government appointed expert committee and an asset appraisal firm engaged by us.

(3) We are in the process of renewing the validity period of the mining permit.

As of the date of this offering memorandum, we have not yet obtained certain mining licenses for quarries in Tongchuan, Zhen'an and Danfeng, respectively. The estimate reserve for quarry in Tongchuan is to be confirmed while the estimate reserve level of quarries in Zhen'an and Danfeng is 115.9 million and 59.3 million tons, respectively. We expect to receive the mining license for the quarry in Zhen'an by the end of June 2021. As the application for mining license for quarries in Tongchuan and Danfeng is at the preliminary stage, the timing of receiving the license is to be confirmed.

Other raw materials

Our other raw materials primarily include gypsum, clay, flyash, pyrite cinder and slag. Gypsum is used to regulate the setting time of cement. We source gypsum from Datang Lueyang Electricity Co., Ltd. (大唐略陽發電有限責任公司), Huaneng Tongchuan Zhaojin Coal Power Co., Ltd. (華能銅川照金煤電有限公司), Shaanxi Daqin Environmental Technology Co., Ltd. (陝西大秦環保科技有限公司), Shaanxi Ganchuang Technology Trading Co., Ltd. (陝西乾創科工貿有限公司), Shaanxi Tiandiyuan Logistic Co., Ltd. (陝西天地源物流有限公司) and Shaanxi Zhengcheng Business Trading Co., Ltd. (陝西正誠商貿有限責任公司). Clay is another principal ingredient in cement production. We purchase clay from third-party suppliers that are located close to our production facilities. Flyash is a by-product of the electric power generating process. We purchase flyash from local coal power stations and its price has been stable over the past three years. Pyrite cinder is an industrial by-product of the production process of sulfuric acid. We source pyrite cinder from Shaanxi Qinneng Resources and Technology Development Co., Ltd. (陝西秦能資源科技開發有限公司. Slag is industrial waste that can be added to clinker to produce slag cement. We source slag from Shaanxi Longmeng Steel Co., Ltd. Environmental Protection Industry Branch (陝西龍門鋼鐵有限責任公司環保產業分公司) and Shaanxi Steel Group Hanzhong Steel Co., Ltd. (陝鋼集團漢中鋼鐵有限責任公司).

All of the above-mentioned suppliers are independent third parties. Our agreements with our major suppliers are generally for one year. Under the current arrangements with our suppliers of other raw materials, our suppliers generally provide the corresponding amount of the respective raw materials based on our order and need. We generally settle the purchase prices of such raw materials with our suppliers on a monthly basis or by prepayment. Most of the other raw materials are readily available in the market.

We believe that there is an adequate supply of limestone, gypsum, clay, flyash, pyrite cinder and slag and other raw materials for our production either from our own reserves or on the market and we do not foresee any difficulty in obtaining any of these raw materials for our production requirements in the near future.

ENERGY SUPPLY

Coal

Coal is used as fuel in our cement production. We obtain our supply of coal for our production facilities in Shaanxi, Guizhou and Xinjiang Provinces from several large coal mines in the respective areas operated by various suppliers including Shaanxi Province Coal Transportation and Sales (Group) Co., Ltd. Huangling Branch (陝西省煤炭運銷(集團)有限責任公司黃陵分公司), Shangdong Energy Group Coal Sale (Shaanxi) Co., Ltd. (山東能源集團煤炭營銷(陝西)有限公司), Shaanxi Future Energy and Chemicals Co., Ltd. (陝西未來能源化工有限公司), Shenmu County Longde Mining Co., Ltd. (神木縣隆德礦業有限責任公司), Xinjiang Dawei Coal Co., Ltd. (新疆達煒煤業有限公司), Yulin Xiangyu Tongdao Supply Chain Co., Ltd. (榆林象嶼同道供應鏈有限公司), Yili Yongning Coal Industry Chemical Co., Ltd. (伊犁永寧煤業化工有限公司).We have supply contracts with all of the above coal suppliers for terms of one year. We believe that our existing suppliers are capable of meeting our demand for coal and alternative sources of supply are considered unnecessary. The purchase price is determined when we place each purchase order with reference to the prevailing market price. We are usually able to obtain competitive prices from our coal suppliers due to our long-term relationships with them. We are required to make full payment in advance for the coal we purchase. Coal is delivered to our production facilities by means of road transportation. All the above-mentioned coal suppliers are independent third parties.

Coal constituted approximately 27.6%, 27.8% and 26.5% of our total cost of sales of cement for the years ended December 31, 2018, 2019 and 2020, respectively. Our average purchase prices of coal were approximately RMB508.0, RMB525.6, and RMB486.5 per ton for the years ended December 31, 2018, 2019 and 2020, respectively. The price for coal remained relatively stable in 2019 but declined modestly in 2020 due to reduced demand as a result of the impact of the COVID-19 outbreak.

Electricity

Electricity costs constituted approximately 15.8%, 15.6% and 15.4% of our total cost of sales of cement for the years ended December 31, 2018, 2019 and 2020, respectively. We obtain our electricity supply from local branches of State Grid Corporation of China and the Electricity Supply Bureau in the regions where we operate. We pay standard rates. We have not in the past experienced any disruption in our operations due to an insufficient supply of electricity and do not anticipate any significant interruption in electricity supply that would have a material impact on our business. We pay for our electricity expenses at the end of each month based on actual consumption. The average purchase price for electricity used in our production remained stable at RMB0.40, RMB0.41 and RMB0.40 per KWh in 2018, 2019 and 2020, respectively.

We have installed residual heat recovery systems in most of our production lines accounting for 80% of our total annual capacity. The residual heat recovery systems collect residual heat from the cement production process to generate power that can be used in the production process. The average cost of electricity produced through these generators is significantly lower than our average electricity purchase price. For example, the average cost of electricity produced through these generators is RMB0.20 per KWh in 2020 compared to an average price of RMB0.40 per KWh for the electricity we purchased in 2020. For the years ended December 31, 2018, 2019 and 2020, we generated approximately 360.6 GWh, 394.1 GWh, and 422.4 GWh of electricity through the residual heat recovery system, respectively. As a result, we achieved cost savings of approximately RMB91.5 million, RMB104.5 million and RMB108.8 million in the years ended December 31, 2018, 2019 and 2020, respectively, which was calculated by multiplying the electricity generated by the residual heat recovery systems by the difference between the average electricity price per KWh of the same period and the average cost of generating the electricity with the residual heat recovery system.

Suppliers

We centralize our procurement and Xi'an Yaobai Material Company, one of our PRC-incorporated subsidiaries, is responsible for the centralized procurement of key raw materials such as gypsum, flyash, pyrite cinder and slag from our suppliers. Our procurement department orders the relevant raw materials according to our monthly production plans. We are typically required to make full payment for our raw materials within one to three months after delivery. Our production lines source clay locally as it is easy to obtain and inexpensive.

The quality of the raw materials is checked by our quality control department to ensure that the raw materials purchased comply with our production requirements. In addition, our procurement department monitors the quality, the timing of delivery and the pricing of raw materials.

For the years ended December 31, 2018, 2019 and 2020, purchases from our five largest suppliers accounted for approximately 8.1%, 9.3% and 13.3% of our total cost of sales, respectively. During the same periods, purchases from our largest supplier accounted for approximately 3.1%, 2.6% and 3.3 % of our cost of sales, respectively. Our five largest suppliers during the three years ended December 31, 2020 were mainly suppliers of coal, electricity and limestone. To the best knowledge of our directors after due inquiry, as of December 31, 2020 all of our five largest suppliers were independent third parties.

As of December 31, 2020 none of our directors, their respective associates or any of the shareholders (which to the knowledge of our directors owns more than 5% of our issued share capital) had any interest in any of our five largest suppliers.

SALES AND MARKETING

Sales

In 2018, 2018 and 2020, we sold our products primarily to customers in Shaanxi, Xinjiang and Guizhou provinces. We sell a majority of our cement directly to government infrastructure projects, ready-mix concrete stations and distributors, which then resell our cement to retail purchasers. We conduct our sales primarily through our sales offices in Shaanxi, Xinjiang and Guizhou provinces. We have established a subsidiary primarily in charge of the sales related aspect. We have established and continue to maintain a We have 16 sales offices (covering Central, South and Southeast Shaanxi) in Shaanxi Province, four in Xinjiang Province and one in Guizhou Province. Our regional sales offices are responsible for, among other things, organizing sales activities, establishing market development plans and controlling marketing expenses. On the other hand, our local sales offices are more tailored toward customer service, with a focus on sales activities and product promotion. We centralize the management of our sales activities by setting sales targets and guidelines for the sales activities of each of the regional sales offices and monitoring their implementation.

Demand for our products is subject to seasonal fluctuations, and our sales volume is generally lower in the first quarter due to cold winter weather in Shaanxi and the Chinese New Year holiday season.

Marketing

Our marketing department gathers market information, such as cement prices, coal prices and transportation costs. Our general administrative office together with our sales department coordinate our marketing activities, which primarily include promotional media events, purchasing outdoor billboards, distributing promotional brochures and purchasing advertisements placed on vehicles. Our marketing activities are focused on raising the awareness of our brand.

We monitor market developments and customer preferences by having our sales personnel visit our customers and potential customers. Our sales personnel pay regular visits to our direct sales customers, both to provide after-sales support, such as seeking their feedback on ways to improve our delivery schedule and packing services as well as our adjustment to pricing policy and to assess their needs in order to meet their demand. Our sales personnel also visit potential customers and introduce our products to them by offering product samples and plant tours.

Customers

We have a broad and well-established customer base in Shaanxi Province. Our cement products are primarily sold to government infrastructure projects, ready-mix concrete stations and distributors, which then resell our products to retail purchasers. We participate in both the "open bidding processes" and "bidding by invitation" for supplying to government infrastructure projects.

The table below sets forth our revenue from sales of cement products by customer type for each of the years ended December 31, 2018, 2019 and 2020. In addition to the revenue from cement products, we also recorded revenue of RMB23.7 million, RMB75.2 million and RMB128.7 million for the years ended December 31, 2018, 2019 and 2020 from sales of aggregates and of RMB125.2 million, RMB493.2 million and RMB720.0 million for the years ended December 31, 2018, 2019 and 2020 from sales of commercial concrete.

	For the year ended December 31,			
Type of Customer	**2018**	**2019**	**2020**	**2020**
		(RMB in millions)		**(US$ in millions)**
Government infrastructure projects[1] . . .	666.4	867.8	803.0	123.1
Distributors (both entities and individuals).	4,717.4	5,154.1	4,761.8	729.8
Others[2]	317.6	391.4	421.5	64.6
Total	5,701.3	6,413.3	5,986.3	917.5

Notes:

(1) Includes infrastructure projects sponsored by various levels of the PRC government or state-owned enterprises, such as railways, expressways, subways and hydroelectric power stations.

(2) These customers were primarily individuals or entities located near our production facilities and purchased our products for use in among others, small construction projects and such transactions were conducted on cash basis.

As of December 31, 2020, we had about 195 personnel in our centralized sales department based in Xi'an. According to the relevant requirements set out by our centralized sales company, our sales personnel should visit our customers, including our end customers, with monthly target. Our business managers will collect customer feedback and market data and submit internal reports to designated staff who will then report the updated results in different regions in weekly meetings. Our direct sales personnel are also required to meet certain sales targets and they are subject to target-based compensation.

Distributors

We also sell our cement to distributors in Shaanxi, Guizhou and Xinjiang Province, which then resell our cement to retail purchasers. We enter into distributorship arrangements with these distributors, and they are not allowed to purchase and sell cement produced by other cement producers. We do not have minimum purchase requirements for such distributors. We do not provide any credit sales to, nor do we allow any return of our products from, such distributors. We require the distributors to pay in advance the full purchase price for each purchase order they place with us. As an incentive, we provide rebates in the form of extra amounts of cement to such distributors with high sales volume at the end of each year. The amount of rebate provided is based on the annual sales volume of the distributors. For the years ended December 31, 2018, 2019 and 2020, our rebates to the distributors amounted to approximately RMB40.5 million, RMB40.4 million and RMB41.9 million (US$6.4 million), respectively.

The table below sets out the number of distributors that we engaged and their average number of years of relationship with us during the years ended December 31, 2018, 2019 and 2020:

Year	Number of Distributors	Range of Years of Relationship between the Distributors and us
2018	255	5–20
2019	194	5–21
2020	184	5–22

We typically select our distributors based on their customer base and financial resources. To the best knowledge of our directors after due inquiry, all of our distributors during the three years ended December 31, 2020 were independent third parties.

For the three years ended December 31, 2020, our sales to distributors amounted to approximately RMB3,081.9 million, RMB3,271.3 million, and RMB2,818.3 million, representing approximately 52.1%, 45.1%, and 39.5% of our total revenue for the same periods, respectively. We maintain close relationships with only selected distributors and we do not require such distributors to sell our cement products exclusively. We require full payment in advance from the distributors before we sell our products to them and therefore we did not suffer any loss in the past from our sales to such distributors.

During the three years ended December 31, 2020, we also sold our products to individual retail customers through direct cash sales. Our sales to individual retail customers during the three years ended December 31, 2013 amounted to approximately RMB317.6 million, RMB391.4 million, and RMB417.1 million, respectively. As our sales to individual retail customers were direct cash sales, we did not suffer any loss from payment default during the three years ended December 31, 2020. We have a record system of individual retail customers in all of our sales offices. Under the record system, in addition to details of cash sales to retail customers such as the date of transaction, sales volume and value which we recorded in the past, our sales personnel also record the intended use and details of the retail customers. All such details will be confirmed by the retail customers and our accounting personnel and the person-in-charge of each sales office will conduct a monthly check on the record.

For the years ended December 31, 2018, 2019 and 2020, sales to our five largest customers accounted for approximately 6.5%, 9.3%, and 8.1%, respectively, of our revenue, and sales to our largest customer accounted for approximately 3.1%, 2.6% and 2.7%, respectively, during the same periods. Our five largest customers during the same periods included (i) construction companies for government infrastructure projects; (ii) ready-mix concrete stations in Shaanxi Province and (iii) individual distributors, most of whom have maintained business relationships with us during the three years ended December 31, 2020.

As of the date of this offering memorandum, none of our directors, their respective associates or any of our shareholders (which to the knowledge of our directors own more than 5% of our issued share capital) had any interests in any of our five largest customers.

Pricing policy

Due to the lack of product differentiation, competition for our products is based largely on price. As a result, the prices that we charge our customers are not likely to be materially different from the prices charged by other producers in the same markets. We set the prices for our products based on raw material costs, coal and electricity prices, market demand, our production capacity, transportation costs, inventory levels, competitors' prices and credit terms. A minimum price level is set for each type of cement. Any sales below the minimum price are subject to approval by the sales manager and senior management. Our central sales department in Xi'an evaluates the factors affecting our selling price on a regular basis and adjusts our minimum prices when appropriate. We usually sell our products by prepayment or credit sales. In general, the prices for credit sales are higher than that under prepayment. We usually sell cement to our distributors at the same price as our direct retail customers. In certain cases, we sell our cement to some customers on a comparatively lower price based on the purchase volume. We set different prices for different markets based on estimated transportation costs as well as local market conditions. We do not have any control over the re-sell price charged by the distributors to end users.

Payment terms

We require our distributors and retail customers to make full payment of the contract price before they collect our products from our production facilities. We typically grant a credit period of 30 days to governmental infrastructure projects, and a credit period of 90 to 180 days to our trade customers including concrete producers. Our customers usually pay either by cash or by bank transfers, including banker's acceptance bill.

TRANSPORTATION

For coal, depending on contract terms, we are either required to collect the coal we purchase from our suppliers or our suppliers deliver it to us, in both cases at our own cost. In cases where our suppliers are responsible for delivery, they also bear the risk of loss in delivery, and we bear the risk of loss when we collect the raw materials from our suppliers. The distributors and some of our direct sale customers collect their cement purchases at their own cost at our production facilities. We arrange for transportation to deliver our cement to some government infrastructure projects at their own cost. If the actual cost of transportation exceeds the amount agreed between us and our customers, we pay the excess amount.

COMPETITION

The cement industry is extremely competitive and competition among producers and suppliers of cement is based primarily on price, with consistency of quality and service to customers being important but of lesser significance. Price competition among individual producers and suppliers of cement within a geographic area is intense because of the fungible nature of the product. Because of cement's low value-to-weight ratio, the relative cost of transporting cement on land is high and limits the geographic area in which each company can market its products profitably; therefore, the cement industry is fragmented into regional geographic areas rather than a single national selling area. No single cement company has a distribution of plants extensive enough to serve all geographic areas, so profitability is sensitive to shifts in the balance between regional supply and demand. As a result, we view only those companies with a presence in or near our target markets as our primary competitors. Our major competitors include Tangshan Jidong Cement Co., Ltd. (唐山冀東水泥股份有限公司), SINOMA Cement Co. Ltd. (中材水泥有限責任公司), Shaanxi Eco-Cement Co., Ltd. (陝西生態水泥股份有限公司), Anhui Conch Cement Company Limited (安徽海螺水泥股份有限公司), Xinjiang Qingsong Building Materials and Chemicals (Group) CO., Ltd. (新疆青松建材化工(集團)股份有限公司) and Qingsong Longli Hongshi Cement Co., Ltd. (龍裡紅獅水泥).

We compete primarily on the basis of price, variety of product offerings, access to resources, sales and marketing network and brand image. We believe we compete favorably on the basis of each of these factors. However, some of our competitors may have better brand recognition in their local markets, better pricing or greater financial, technical or marketing resources than we do. Our production facilities are strategically located in our target markets which have enabled us to effectively establish dominance in Southern Shaanxi area. For many of the major infrastructure projects in Southern Shaanxi area, we are the major cement provider with NSP technology and the capability of producing high quality cement products within a commercially reasonable distance. Most of our competitors' core markets are in Central Shaanxi area, which is one of our target markets and which is adjacent to our core markets. As a result, they compete or could compete with us for the same target customers. If we fail to compete effectively against our competitors, our business, financial condition and results of operations may be materially and adversely affected.

RESEARCH AND DEVELOPMENT

Our research and development efforts focus on lowering costs by using waste materials as additives in our cement products. These by-products and waste materials are readily available at low cost. Our ability to recycle such materials and use them in our cement production lowers our overall cost of materials, which we believe represents a significant advantage that distinguishes us from our competitors. Our research and development costs recognized as an expense (included in cost of sales) during the years ended December 31, 2018, 2019 and 2020 amounted to RMB195.1 million, RMB304.8 million and RMB366.7 million, respectively.

INTELLECTUAL PROPERTY

We rely on a combination of trademarks, domain name registrations and contractual restrictions to establish and protect our intellectual property rights. We sell our products under the trademarks including “堯柏” (Yao Bai), “堯柏水泥” (Yaobaishuini), “堯柏石灰” (Yaobaishihui), “堯柏新材” (Yaobaixincai) and “蝸牛” (Snail) which are registered with the PRC Trademarks Office under the State Administration for Industry and Commerce. In addition, we have registered our internet domains including “yaobo.com.cn”, “westchinacement.com.cn”, “中國西部水泥.中國” and “中國西部水泥有限公司.com” in China. As of the date of this offering memorandum, we are re-registering our corporate logos “” and “”, as well as certain other trademarks in Hong Kong.

Any unauthorized use of our brand names, trademarks and other intellectual property rights could adversely affect our business, reputation and market position. Each of our research and development personnel has entered into a standard employment contract with us that is subject to renewal every three years, which includes confidentiality undertakings and an acknowledgement and agreement that all inventions, designs, trade secrets, works of authorship, developments and other processes developed or generated by them on our behalf during their employment by us are our property, and assigns to us any ownership rights that they may claim in those works.

QUALITY CONTROL

The production facilities of our following PRC subsidiaries, namely, Weinan Yaobai, Hancheng Yaobai, Lantian Yaobai, Longqiao Yaobai, Ankang Yaobai, Yili Yaobai and Guizhou Linshan are accredited with ISO-9001 quality control system certification, with expiration dates between June 2021 and August 2022. We established testing laboratories equipped with various advanced testing equipment at our production facilities to work together with our production technology department to conduct quality testing and maintain quality control. Our quality control system includes raw materials and coal, production process and finished products quality control inspections. Raw materials and coal are tested by taking samples from each shipment. Any raw materials and coal that do not meet our requirements will be returned to the suppliers for replacement. We also set up multiple inspection points at different production stages to test our products by random sampling during the production process. All of our substandard products would be reprocessed and regenerated for use. Our finished products are inspected and tested by applying a variety of national standards prior to delivery. Such national standards include GB/T 17671–1999 on compressive strength, GB/T176–2008 on cement chemical analysis method, GB/T 10238–2015 on oil well cement and GB/T201–2015 on aluminate cement.

As of the date of this offering memorandum, we are not involved in any material litigation nor have we entered into any settlement agreement with any third parties concerning the quality of our products.

PRODUCTION MANAGEMENT AND INVENTORY CONTROL

We plan our production and manage the inventory level of our finished products on a monthly basis based on projected sales volume and make periodic adjustments to the production schedule and volume based on actual orders received. We closely supervise our daily production and aim to maintain suitable inventory levels of raw materials and finished goods at each production facility.

We maintain different inventory levels for raw materials and coal depending on lead time required to obtain additional supplies. We typically maintain an inventory of nine days for limestone and 16.5 days for coal. We typically maintain an inventory level of approximately nine days for cement products. Our inventory turnover days (measured by dividing 365 days by production cost divided by average inventory) for the year ended December 31, 2018, 2019 and 2020 were 42 days, 44 days and 53 days, respectively.

REPAIR AND MAINTENANCE

Regular repair and maintenance programs for our production facilities are scheduled by our production departments and carried out by our machinery and electrical repair teams to maximize production efficiency and avoid unexpected interruption of our operations. We conduct scheduled maintenance twice a year, which takes approximately one week to complete. Our machinery and electrical repair teams carry out day-to-day maintenance and repair of the facilities and machinery on an as-needed basis. Normally, maintenance is only carried out on one production line at each plant at a time to ensure the continuity of our production.

OCCUPATIONAL HEALTH AND SAFETY

We obtained the OHSAS18001 certification for our health and safety management systems in Fucheng Yaobai, Hancheng Yaobai, Shaanxi Shifeng, Ankang Yaobai, Hanzhong Yaobai, Mianxian Yaobai, Xixiang Yaobai, Ankang Yaobai Jianghua, Yili Yaobai and Guizhou Linshan with expiration dates between June 2021 and September 2022. To ensure compliance with relevant PRC regulatory requirements, we have implemented a number of safety measures and established a safety supervision department that is responsible for formulation and implementation of such safety measures. This department currently consists of 233 personnel, all of whom have relevant production safety management experience and qualifications issued by relevant governmental authorities. Our safety supervision department conducts inspections of our production facilities on a monthly basis to ensure that all of our operations are in compliance with existing laws and regulations. Our safety supervision department also conducts regular training sessions for employees two to three times each month on accident prevention and management. The safety measures we adopted include measures for personnel safety protection, vehicle operation safety and reward and penalty system for safe production. Such safety measures lay out the potential safety hazards, responsible personnel for safety matters, emergency reaction plans and periodic inspection procedures. Our operations are in compliance with the currently applicable labor and safety regulations in all material respects.

To prevent the future occurrence of industrial accidents, we have adopted a series of remedial measures, including the revision of relevant operation safety measures, inspection and modification of equipment, and holding training sessions for employees. We are committed to further reducing our personal injury rates and maintaining high safety standards at our production facilities in the future by enhancing the implementation of various safety measures, inspecting production facilities for potential problems and increasing the safety awareness of the employees by providing training on a regular basis. We also provide various healthcare benefits to our employees in accordance with applicable laws and regulations and 21 of our PRC subsidiaries have obtained the occupational health and safety certification. To prevent potential future risks, we have also adopted various emergency action plans for limestone mining accidents, special equipment failure accidents, coal storage facility fire accidents and other accidents. Such plans set forth the responsible personnel and procedures to control and minimize the damage in emergency situations.

FINANCIAL LEASING BUSINESS

In June 2017, Guangxin International, a wholly owned subsidiary of ours, obtained the approval of the Ministry of Commerce of the PRC as a licensed lessor. During the second half of 2017, we commenced a new financial leasing business under the support of the national policies of the PRC government, in order to capitalize on the rapid development opportunities present in the financial leasing industry.

In our financial leasing business, we enter into certain financial leasing arrangements which involve receiving ownership titles of certain assets by us 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. We also enter into certain entrusted loans and loans collateralized by receivables with third parties with fixed interest rates over the term of the contract. Our target customers include customers in the upstream and downstream of our Group's production chain and our target regions are Shaanxi province as well as areas connected with our primary business. The primary types of assets involve include machineries, mining equipment, vehicles and equity interest. These financial leasing arrangements are accounted for as our loan receivables. We had loan receivables of RMB1,692.7 million, RMB1,779.6 million and RMB1,739.0 million as of December 31, 2018, 2019 and 2020, respectively. Interest income derived from loan receivables amounted to RMB127.8 million, RMB213.0 million and RMB184.0 million for the years ended December 31, 2018, 2019 and 2020, respectively.

We intend to continue the operations of the financial leasing business; however, we expect the capital deployed as well as the size of such business will be gradually decreased because of (i) tightening domestic regulations over financial leasing business, (ii) negative impact due to COVID-19 outbreak on financial conditions of financial leasing customers and (iii) that we plan to increase focus on our primary business (cement products) with expansion plan in the PRC and overseas which results in capital need.

INSURANCE

We maintain loss of cash and property insurance covering our equipment, vehicles and facilities for loss due to fire, flood and a wide range of natural disasters. We also maintain production safety liability insurance for certain of our mines, work injury insurance and medical insurance for our staff. We do not maintain public liability insurance, product liability insurance, business interruption insurance or any insurance for key employees. We believe our insurance coverage is customary and standard with respect to the type and scope of coverage for companies of comparable size in the cement industry in China.

EMPLOYEES

As of December 31, 2020, we employed a total of 6,374 full time employees. A breakdown of our employees by function is shown below:

Employee Function	Number of Employees
General and administration	1,488
Production/technical	4,582
Sales and marketing	304
Total	6,374

Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the years ended December 31, 2018, 2019 and 2020, our employee benefit expenses were approximately RMB437.4 million, RMB591.0 million and RMB642.2 million, respectively.

Under PRC law, we are required to make contributions to pension funds, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, housing provident funds and other staff welfare for our employees.

SOCIAL WELFARE SCHEMES

We are required by PRC state laws and regulations to participate in various social welfare schemes including pension, medical, unemployment, birth and work-related injury insurances and housing provident fund contributions. For the years ended December 31, 2018, 2019 and 2020, we contributed approximately RMB51.2 million, RMB71.0 million and RMB28.3 million to the social insurance schemes, respectively.

PROPERTY

As of December 31, 2020, we owned 69 parcels of land, with an aggregate site area of approximately 9.0 million square meters. We own 60 buildings and units, with an aggregate gross floor area of approximately 210,310 square meters. As of December 31, 2020, in respect of our production lines under construction in Tongchuan, Shaanxi Province, we had under construction buildings and structures with planned gross floor area of approximately 3,545 square meters. We also have leased properties in different locations including Shaanxi, Xinjiang and Guizhou provinces and Mozambique, Africa.

ENVIRONMENTAL COMPLIANCE AND POLLUTION CONTROLS

The cement industry is categorized as a polluting industry under PRC laws. Our production processes generate noise, waste water, gaseous wastes and other industrial wastes. Our production facilities are subject to various environmental laws and regulations promulgated by national and local governments with respect to noise and air pollution and the disposal of waste and hazardous materials. According to the Environmental Protection Law of China (中華人民共和國環境保護法) and other relevant laws and regulations, companies that discharge contaminants must report and register with the State or the relevant local environmental protection authorities. The State Environmental Protection Administration sets national discharge standards for various pollutants and local environmental protection bureaus may set stricter local standards. Enterprises are required to comply with the stricter of the two applicable standards. The central and local governments provide schedules of base-level discharge fees for various polluting substances and if such levels are exceeded, the polluting entity will be required to pay excess discharge fees. Local governments are also authorized to issue orders to stop or reduce discharges in excess of the base levels. Each of our production plants, prior to its construction, is required to be evaluated for its environmental impact and when constructed, is required to be tested and approved by local environmental agencies, and is subject to continuous government monitoring thereafter. See the section headed "Regulatory Overview — Environmental Protection" in this offering memorandum.

We have established and implemented various internal control rules and guidelines regarding environmental compliance and pollution controls, such as the guidelines on control and management of waste water, solid waste and waste gas, the guidelines on management of the operation of pollution control systems and the guidelines on management of data related to environmental protection. We also regularly maintain our pollution control and waste treatment facilities and monitoring system to ensure that they function normally and the data collected is accurate.

We have also established a Safety and Environmental Protection Committee comprising senior management at both our senior management and production facility level who are responsible for the day-to-day operation and production management at such facilities, some of whom have relevant qualifications in production safety and environmental management. The committee is responsible for overseeing our environmental protection related matters. The main responsibility of our environmental protection committee includes (i) providing regular training to our staff, (ii) conducting regular on-site inspection, (iii) promoting updated national laws about environmental protection and (iv) implementing the opinions and requirements of local environmental protection authorities.

We have established a pollution control system and installed various kinds of equipment to process and dispose of our industrial wastes and hazardous materials to minimize the impact on the environment. Our emission of pollutants is below the relevant national standards. 11 of our subsidiaries have met the ISO 14001 environmental management standards.

Air: We generate dust in our cement production process. We have installed electrostatic precipitators and bag filters for the collection and removal of dust. Electrostatic precipitators apply high voltage static electricity to separate gas and dust. During the cement production process, dusty air will pass through the electrostatic precipitator where dust is removed. Bag filters are more widely used among cement producers. During the cement production process, dusty air passes through the bag filter which purifies the air, and the purified air is then discharged. We also required our contractors to install dust collectors for the platform punchers to collect the rock power in bags or cover with dust screens, which significantly reduces flying dust.

Water: We have a water treatment and recycle system which allows us to recycle and reuse water. Water in the waste heat power generation system and production cooling water system is recycled and we have achieved zero discharge of sewage in all our PRC subsidiaries.

Noise: We have also installed mufflers, acoustic claddings and soundproof doors to control the noise generated during our operations.

Mining areas: We plan to actively rehabilitate the mining areas where the environment is affected by the mining activities after the limestone quarries are fully excavated or when our mining rights expire. Measures include careful selection of actual mining sites and location of storage of limestone to minimize impact to the mining area, proper storage and re-use of soil removed and planting sufficient replacement vegetation after the mining is completed. In 2020, we continued to invest in our green mine construction projects. As of December 31, 2020, the re-greening area and reforestation area of our former mining areas reached 5.4 million square meters and 127,600 square meters, respectively.

We have fully complied with the relevant environmental rules and regulations and have obtained all environmental permits and approvals necessary to conduct our existing business. Our cost of compliance with applicable environmental protection laws and regulations was approximately RMB134.0 million, RMB81.2 million and RMB85.8 million (US$13.1 million) and for each of the years ended December 31, 2018, 2019 and 2020. The increase in our cost of compliance with applicable environmental protection laws and regulations was mainly driven by the addition of new production facilities and therefore we acquired new equipment or replaced existing equipment for pollution control. The cost of compliance for the year ending December 31, 2021 is estimated to increase as compared to December 31, 2020, primarily due to the further upgrading the pollution control technologies in our production lines according to the relevant measures and guidelines from the local governments. We have not encountered material environmental claims or been subject to any material sanctions or fines for environmental violations in the past. As the PRC environmental protection regulations continue to evolve, we may be required to make significant expenditures to upgrade our production facilities to comply with environmental regulations that may be adopted or imposed in the future.

GOVERNMENT INCENTIVES

Pursuant to the Announcement on the Value-added Tax Policies for Comprehensive Utilization of Resources (關於資源綜合利用增值税政策的公告) and the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (關於印發《資源綜合利用產品和勞務增值税優惠目錄》的通知) issued by Ministry of Finance and the State Taxation Administration. We enjoy VAT refunds for cement products that use a certain percentage of waste materials as raw materials. During the years ended December 31, 2018, 2019 and 2020, such VAT refunds amounted to RMB316.2 million, RMB269.6 million and RMB246.6 million (US$37.8 million), respectively, representing 5.3%, 3.7%, and 3.5% of our revenue during the same periods.

Some of our PRC subsidiaries are entitled to preferential enterprise income tax, or EIT, rate of 0 to 20% under the applicable government policies, compared with the regular national enterprise income tax rate of 25%. For example, Hetian Yaobai was entitled to a preferential EIT rate of 15% in 2020 and will continue to be entitled to this preferential rate until December 31, 2030 if its operating revenue from encouraged business in a year accounted for more than 60% of its total income in that year. Moyu Jiancai and Hetian Jiancai are entitled to 0% EIT rate from 2020. Please refer to Note 12 to our consolidated financial statements included elsewhere in this offering memorandum for details of the various preferential tax incentives that we enjoy.

LEGAL PROCEEDINGS AND COMPLIANCE

We were not involved in any legal, administrative or arbitration proceedings which had a material adverse effect on our business, results of operations or our financial position during the three years ended December 31, 2020. As of the date of this offering memorandum, we were not aware of any legal, arbitration or administrative proceedings against or matters involving us or any of our directors or senior management members which may have a material adverse effect on our business, results of operations or financial position.

All our business and operations are in Shaanxi, Xinjiang and Guizhou provinces, the PRC and Mozambique. We have complied with all material applicable laws and regulations in jurisdictions where we operated for the past three years ended December 31, 2020 and we have obtained all material permits, certificates, licenses and approvals for our operations except as otherwise disclosed herein. In order to maintain our on-going compliance with the relevant regulatory requirements in such jurisdictions, we have adopted different measures, including setting up of Safety and Environmental Protection Committee and appointment of external legal advisors in the PRC to advise us on compliance with applicable laws and regulations.

This section sets out a summary of the most significant PRC laws and regulations that affect our business and the industry in which we operate. These include the laws and regulations relating to our production and sales of cement in the PRC and the relevant laws and regulations in relation to environmental protection, taxation, labor and foreign exchange. As this is a summary, it does not contain the detailed analysis of the PRC laws which are relevant to our business and operations.

THE PRC LAWS IN RELATION TO CEMENT INDUSTRY

Cement Production License

Pursuant to the "Regulations of the People's Republic of China on the Administration of Production License for Industrial Products" (《中華人民共和國工業產品生產許可證管理條例》) promulgated by the State Council on July 9, 2005, which entered into force on September 1, 2005, the "Measures for the Implementation for the Regulations of the People's Republic of China on the Administration of Production License for Industrial Products" (《中華人民共和國工業產品生產許可證管理條例實施辦法》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC on April 21, 2014, which became effective on August 1, 2014 and the "Implementation Rules for the Production License of Cement Products" (《水泥產品生產許可證實施細則》) which was promulgated by the State Administration for Market Regulation and became effective on December 1, 2018, the PRC adopted a production license system for the enterprises producing cement products.

Industry Policy

The "Interim Provisions on Promoting Industrial Structure Adjustment" (《促進產業結構調整暫行規定》) was promulgated by the State Council on December 2, 2005 with effect on the same day, and the "Guidance Catalogue of Industrial Structure Adjustment (2019 Edition)" (《產業結構調整指導目錄(2019年本)》) (collectively, "Industrial Structure Adjustment Provisions") was promulgated by NDRC on October 30, 2019 and with effect on January 1, 2020. The "Guidance Catalogue of Industrial Structure Adjustment" is composed of three categories of industries, namely, the encouraged category, the restricted category and the eliminated category. The industries not belonging to the encouraged category, the restricted category or the eliminated category, but conforming to the relevant laws, regulations and policies of the state, shall belong to the permitted category. The permitted category shall not be listed into the "Guidance Catalogue of Industrial Structure Adjustment". The new investments project under the restricted category shall be prohibited. The investment administrative department shall not examine, approve, ratify or archive the projects under the restricted category. No financial institution shall grant loans for such projects, and no administrative departments of land administration, urban planning, construction, environmental protection, quality inspection, fire prevention, customs, or industry and commerce, etc. shall handle the relevant procedures for such projects. In case of any violation of the provisions to carry out construction based on investment or financing, the relevant entities and persons shall be subject to liabilities. With respect to the existing production capacities under the restricted category, the enterprises shall be allowed to, within a certain period, take measures to transform or upgrade themselves, and the financial institutions shall, in compliance with the credit principles, continue providing supports. The relevant administrative department of the state shall, when required by industrial structure optimization and upgrading, comply with the principle of selecting the superior and eliminating the inferior and provide classified guidance.

All investments after the effective date of the Industrial Structure Adjustment Provisions in the eliminated category are prohibited. All regions, departments and enterprises concerned shall adopt strong measures to eliminate the prescribed production technology, equipment and products within a prescribed timeframe. For enterprises which fail to do so, the local people's governments at all levels and the competent authorities shall order suspension or closure in accordance with relevant PRC laws and regulations. If the products of such enterprises are regulated under the production permit system, the competent authorities shall revoke the production permits in accordance with the law. The State Administration for Industry and Commerce (which has been changed to SAMR) shall supervise and urge the enterprises to undergo procedures for modification or cancellation of their registration in accordance with the law. The environmental protection and management authorities shall revoke the discharge licences of such enterprises. If the relevant requirement is not fulfilled, the person with direct responsibilities and the related leadership shall be pursued for liability.

Foreign Investment in Real Estate Development

According to the Foreign Investment Law, foreign investment refers to any investment activity directly or indirectly carried out by foreign natural persons, enterprises or other organizations, including the following circumstances: (i) a foreign investor establishes a foreign-funded enterprise within the territory of China, either alone or together with any other investor; (ii) a foreign investor acquires shares, equities, property shares or any other similar rights and interests of an enterprise within the territory of China; (iii) a foreign investor invests in any new project within the territory of China, either alone or together with any other investor; and (iv) a foreign investor invests in any other way stipulated under laws, administrative regulations or provisions of the State Council. And a foreign-funded enterprise refers to an enterprise incorporated under Chinese laws within the territory of China and with all or part of its investment from a foreign investor.

The Foreign Investment Law further prescribes that the State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to granting to foreign investors and their investments, in the stage of investment access, the treatment no less favorable than that granted to domestic investors and their investments; the negative list refers to special administrative measures for access of foreign investment in specific fields as stipulated by the State. The State will give national treatment to foreign investments outside the negative list. The negative list will be released by or upon approval by the State Council. If more preferential treatment for access of foreign investors is provided under international treaties or agreements governing foreign investment that the PRC concludes or accedes, such provisions may apply.

Under the Special Measures (Negative List) for the Access of Foreign Investment (Edition 2020)(《外商投資准人特別管理措施(負面清單)(2020年版)》) (the ''Negative List (Edition 2020)'') promulgated by NDRC and MOFCOM on June 23, 2020 and became effective on July 23, 2020, cement industry does not belong to industry specified in the negative list that a special administrative measures for access of foreign investment shall be imposed.

Production Safety

According to the ''Production Safety Law of the People's Republic of China'' (《中華人民共和國安全生產法》) promulgated by the NPC Standing Committee on June 29, 2002, revised on August 27, 2009 and August 31, 2014 respectively, production entities shall fulfil the production safety requirements under the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Entities which fail to meet the production safety requirement may not engage in any production activities. Enterprises shall organise education and training on production safety for its staff. They shall also provide their staff with labour protective articles which meet the national or industrial standards and supervise and guide their staff to wear and use such articles according to the prescribed use.

ENVIRONMENTAL PROTECTION

The laws and regulations governing the environmental requirements for real estate development in the PRC include the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Prevention and Control of Noise Pollution Law of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》), the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Development Projects (《建設項目環境保護管理條例》) and the Interim Regulations on Environmental Protection for Acceptance Examination Upon Completion of Buildings (《建設項目竣工環境保護驗收暫行辦法》). Pursuant to these laws and regulations, depending on the impact of the project on the environment, an environmental impact study report, an environmental impact analysis table or an environmental impact registration form shall be submitted by a developer before the relevant authorities will grant approval for the commencement of construction of the property development. In addition, upon completion of the property development, the relevant environmental authorities and the construction unit will also inspect the property to ensure compliance with the applicable environmental standards and regulations before the property can be delivered to the purchasers.

FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

The Foreign Currency Administration Rules

The principal regulations governing foreign currency exchange in the PRC are the Foreign Exchange Administrative Regulations (《外匯管理條例》) (the "SAFE Regulations") which was promulgated by the State Council and latest amended on August 5, 2008. Under the SAFE Regulations, the RMB is generally freely convertible for current account items, including the distribution of dividends, trade and service related foreign exchange transactions, but not for capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside the PRC, unless the prior approval of the SAFE is obtained.

Pursuant to the Circular of the State Administration of Foreign Exchange on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "SAFE Circular No. 37"), promulgated by SAFE and which became effective on July 4, 2014, (a) a PRC resident (the "PRC Resident") shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "Overseas SPV"), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV's PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV's registered capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the "Circular 13"), which was promulgated on February 13, 2015 and with effect from June 1, 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

Regulations on Dividend Distribution

Under the PRC Company laws, a company in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10.0% of their after-tax profits each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain above 50.0% of the enterprise's registered capital amount, these reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

TAXATION

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "EIT Law"), which was promulgated on March 16, 2007 and latest amended on December 29, 2018, a unified income tax rate of 25% is applied for both domestic and foreign-invested enterprises. Furthermore, pursuant to the EIT Law and the Implementation Rules on the Enterprise Income Tax (《企業所得稅法實施條例》) which was promulgated on December 6, 2007 and with effect from January 1, 2008 and amended on April 23, 2019, enterprises are classified as either "resident enterprises" or "non-resident enterprises". Pursuant to the EIT Law and the EIT Implementation Rules, besides enterprises established within the PRC, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" and subject to the uniform 25% enterprise income tax rate for their global income. In addition, the EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose "de facto management bodies" are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. Furthermore, the EIT Implementation Rules provide that, a withholding tax rate of 10% will be applicable to any dividend payable by foreign-invested enterprises to their non-PRC enterprise investors.

In addition, pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006 and applicable in Hong Kong to income derived in any year of assessment commencing on or after April 1, 2007 and in mainland China to any year commencing on or after January 1, 2007, a company incorporated in Hong Kong will be subject to withholding income tax at a rate of 5% on dividends it receives from its PRC subsidiaries if it holds a 25% or more of equity interest in each such PRC subsidiary at the time of the distribution, or 10% if it holds less than a 25% equity interest in that subsidiary. According to the Notice of the State Administration of Taxation, or SAT on issues regarding the Administration of Dividend Provisions in Tax Treaties (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated on February 20, 2009, recipients of dividends paid by PRC enterprises must satisfy certain requirements in order to obtain a preferential income tax rate pursuant to a tax treaty, one such requirement is that the taxpayer must be the "beneficiary owner" of relevant dividends. In order for a corporate recipient of dividends paid by a PRC enterprise to enjoy preferential tax treatment pursuant to a tax treaty, such recipient must be the direct owner of a certain proportion of the share capital of the PRC enterprise at all times during the 12 months preceding its receipt of the dividends. In addition, the Announcement of the State Administration of Taxation on Issues concerning the "Beneficial Owner" in Tax Treaties (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) promulgated on February 3, 2018 and became effective on April 1, 2018, defined the "beneficial owner" as a person who owns or controls income or the rights or property based on which the income is generated, and introduced various factors to adversely impact the recognition of such "beneficiary owners".

Value-added Tax

Pursuant to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated on December 13, 1993 revised on February 6, 2016 and latest amended on November 19, 2017 and its implementation rules, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, repairs and replacement services, the sale services, intangible assets, immovables, and the importation of goods are required to pay value-added tax (the "VAT").

Pursuant to the Announcement of the SAT on Promulgating the Interim Administrative Measures for the Collection of Value-added Tax on the Sale of Self-developed Real Estate Projects by Real Estate Developers (《國家稅務總局關於發佈〈房地產開發企業銷售自行開發的房地產項目增值稅徵收管理暫行辦法〉的公告》) which was promulgated on March 31, 2016 and with effect from May 1, 2016 and amended on June 15, 2018, real estate developer shall pay VAT for the sales of its self-developed real estate project.

Circular regarding the Pilot Program on Comprehensive Implementation of VAT from Business Taxes Reform (《關於全面推開營業稅改徵增值稅試點的通知》), promulgated by Ministry of Finance and the SAT on March 23, 2016, effective on May 1, 2016 and amended by Notice on Pilot Policies of Levying VAT in Lieu of Business Tax for Construction Services and Other Sectors (《關於建築服務等營改增試點政策的通知》) on July 11, 2017 and Announcement on Policies to Deepen VAT Reform (《關於深化增值稅改革有關政策的公告》) on March 20, 2019 provides that upon approval by the State Council, the pilot program of replacing business tax with VAT shall be implemented nationwide effective from May 1, 2016 and all business tax payers in construction industry, real estate industry, finance industry and consumer service industry, etc. shall be included in the scope of the pilot program and pay VAT instead of business tax. According to the appendix of this notice, entities and individuals engaging in the sale of services, intangible assets or real property within the territory of the People's Republic of China shall be the taxpayers of VAT and shall, instead of business tax, pay VAT. The sale of real property and the secondhand housing transaction shall adopt this notice as well. Under the Decision of State Council on Abolition of the Provisional Regulations of the People's Republic of China on Business Tax and Revision of the Provisional Regulations of the People's Republic of China on VAT (《國務院關於廢止〈中華人民共和國營業稅暫行條例〉和修改〈中華人民共和國增值稅暫行條例〉的決定》) which was promulgated on November 19, 2017 and came into effect on the same day, business tax is officially replaced by VAT.

Land Appreciation Tax

Under the Interim Regulations on Land Appreciation Tax of the PRC (《中華人民共和國土地增值稅暫行條例》) promulgated by the State Council on December 13, 1993 and latest amended on January 8, 2011 as well as its implementation rules issued on January 27, 1995 (《中華人民共和國土地增值稅暫行條例實施細則》), land appreciation tax is payable on the appreciation value derived from the transfer of State-owned land use rights and buildings or other facilities on such land, after deducting the deductible items.

LABOR PROTECTION

Pursuant to the PRC Labor Law (《中華人民共和國勞動法》), which was promulgated by the SCNPC on July 5, 1994 and became effective on January 1, 1995 and latest amended on December 29, 2018, the PRC Labor Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on June 29, 2007 and subsequently amended on December 28, 2012 and became effective on July 1, 2013, and the Implementing Regulations of the Employment Contracts Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council and became effective on September 18, 2008, labor contracts in written form shall be executed to establish labor relationships between employers and employees. In addition, wages cannot be lower than local minimum wage. The employers must establish a system for labor safety and sanitation, strictly abide by State rules and standards, provide education regarding labor safety and sanitation to its employees, provide employees with labor safety and sanitation conditions and necessary protection materials in compliance with State rules, and carry out regular health examinations for employees engaged in work involving occupational hazards.

The Notice of the Office of the Ministry of Human Resources and Social Security on Issues of Properly Handling the Employment Relations during the Period of Prevention and Control of Infection Caused by Novel Coronavirus (Ming Dian No. 5 [2020] of the Office of the Ministry of Human Resources and Social Security) (《人力資源社會保障部辦公廳關於妥善處理新型冠狀病毒感染的肺炎疫情防控期間勞動關係問題的通知》(人社廳明電[2020]5號)) issued by the Ministry of Human Resources and Social Security on January 24, 2020 provides that all patients with Novel Coronavirus, suspected patients and people who have close relationship with them placed in isolation for medical treatments and inspection as well as employees who are not able to provide services due to isolation implemented by the government or other measures in emergencies shall be entitled to compensation from the employers for such periods. The employers shall not terminate the employment contracts with the employees on Article 40 and Article 41 of the Labor Contract Law. During such periods, any employment contract that expires shall be extended to the date when the periods of medical treatment or inspection expire, or the period of isolation or the expiry of such periods when measures for emergencies are taken by the government.

Under applicable PRC laws, including the Social Insurance Law of PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010 and became effective on July 1, 2011 and amended on December 29, 2018, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》), which was promulgated by the State Council and became effective on January 22, 1999 and amended on March 24, 2019, and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council and became effective on April 3, 1999, amended on March 24, 2002 and March 24, 2019, employers are required to contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and to housing provident funds. These payments are made to local administrative authorities and any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

PRC MERGER & ACQUISITION

Pursuant to the Regulations on Mergers of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "M&A Rules") which was promulgated by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAIC, the China Securities Regulatory Commission and the SAFE on August 8, 2006, and subsequently amended by the MOFCOM on June 22, 2009, acquisition of a domestic enterprise by a foreign investor refers to the purchase by foreign investors of the equity interests of the shareholders of non-foreign invested enterprises established within the territory of PRC or the subscription by foreign investors of the capital increase of domestic companies, thus converting and re-establishing such domestic companies as foreign-invested enterprises; or, and the purchase by agreement of the assets of domestic enterprises and operation of such assets through the foreign-invested enterprises established by foreign investors for the purpose of merging and acquiring domestic enterprises, or, the purchase of the assets of domestic enterprises through agreement by foreign investors who then use such purchased assets to establish a foreign-invested enterprise which operates such assets. As for merger and acquisition of a domestic company with a related party relationship by a domestic company, enterprise or natural person in the name of an overseas company legitimately incorporated or controlled by the domestic company, enterprise or natural person, such merger and acquisition shall be subject to examination and approval of the Ministry of Commerce.

On October 8, 2016, Ministry of Commerce issued the Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises (the "Circular 6") (《外商投資企業設立及變更備案管理暫行辦法》) which took effect on the same day and amended on July 30, 2017 and further amended on June 29, 2018. According to the Circular 6, where a non-foreign-invested enterprise changes into a foreign-invested enterprise which is not involved in special access administrative measures prescribed by the PRC government due to acquisition, consolidation by merger or otherwise, which is subject to record-filing as stipulated in the Circular 6, it shall complete the record-filing formalities for incorporation and submit the Incorporation Application in accordance with Circular 6. On December 30, 2019, the Ministry of Commerce and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (《外商投資信息報告辦法》), which came into effect on January 1, 2020 and replaced Circular 6. Since January 1, 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to these measures.

RECORD FILING AND REGISTRATION

The Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知》(發改外資[2015]2044號)) (the "NDRC Circular") issued by the National Development and Reform Commission of the PRC or its local counterparts ("NDRC") on September 14, 2015 which came into effect on the same day, relates to the matters as listed below:

- remove the quota review and approval system for the issuance of foreign debts by enterprises, reform and innovate the ways that foreign debts are managed, and implement the administration of record-filing and the registration system. Realize the supervision and administration of the size of foreign debts borrowed on a macro level with the record-filing, registration, and information reporting of the issuance of foreign debts by enterprises;

- before the issuance of foreign debts, enterprises shall first apply to NDRC for the handling of the record-filing and registration procedures and shall report the information on the issuance to NDRC within ten working days of completion of each issuance;

- record-filing and registration materials to be submitted by an enterprise for the issuance of foreign debts shall include: application report for the issuance of foreign debts and issuance plan, including the currency, size, interest rate, and maturity of foreign debts, the purpose of the funds raised, back flow of funds, etc. The applicant shall be responsible for the authenticity, legality, and completeness of the application materials and information;

- NDRC shall decide whether to accept the application for record-filing and registration within five working days of receiving it and shall issue a Certificate for Record-filing and Registration of the Issuance of Foreign Debts by Enterprises within seven working days of accepting the application and within the limit of the total size of foreign debts;

- the issuer of foreign debts shall handle the procedures related to the outflow and inflow of foreign debt funds with the Certificate for Record-filing and Registration according to the regulations. When the limit of the total size of foreign debts is exceeded, NDRC shall make a public announcement and no longer accept applications for record-filing and registration; and

- if there is a major difference between the actual situation of the foreign debts issued by the enterprises and the situation indicated in the record-filing and registration, an explanation shall be given when reporting relevant information. NDRC shall enter the poor credit record of an enterprise which maliciously and falsely reports the size of its foreign debts for record filing and registration into the national credit information platform.

Pursuant to the Foreign Debt Registration Measures and its operating guidelines (《外債登記管理辦法》及《外債登記管理操作指引》), effective as of May 13, 2013, issuers of foreign debts are required to register with SAFE. Issuers other than banks and financial departments of the government shall go through registration or record-filing procedures with the local branch of SAFE within 15 business days of entering into a foreign debt agreement. If the receipt and payment of funds related to the foreign debt of such issuer is not handled through a domestic bank, the issuer shall, in the event of any change in the amount of money withdrawn, principal and interest payable or outstanding debt, go through relevant record-filing procedures with the local branch of SAFE.

MANAGEMENT

DIRECTORS

Our board currently consists of nine directors, comprising two executive directors, three non-executive directors and three independent non-executive directors. The powers and duties of our board include convening general meetings and reporting our board's work at our shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports; formulating proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital, as well as exercising other powers, functions and duties conferred by our memorandum and articles of association. We have entered into service contracts with each of our executive directors and non-executive director. We have also entered into letters of appointment with each of our independent non-executive directors.

The following table sets forth certain information concerning our directors:

Name	Age	Position
Mr. Zhang Jimin (張繼民)	66	Chairman and Executive Director
Dr. Ma Weiping (馬維平)	59	Executive Director and Chief Executive Officer
Mr. Ma Zhaoyang (馬朝陽)	52	Non-executive Director
Ms. Liu Yan (劉剡).	53	Non-executive Director
Mr. Fan Changhong (范長虹)	55	Non-executive Director
Mr. Lee Kong Wai Conway (李港衛)	66	Independent Non-executive Director
Mr. Zhu Dong (朱東)	59	Independent Non-executive Director
Mr. Tam King Ching Kenny (譚競正)	72	Independent Non-executive Director

Executive Directors

Mr. Zhang Jimin (張繼民), aged 66, is the chairman and executive director of our Company. He was appointed an executive director of our Company on October 27, 2006. Mr. Zhang is the founder of our Group and is also a director of a number of our subsidiaries, including West China BVI, Shaanxi Yaobai, Lantian Yaobai, Ankang Yaobai, Xiushan Yaobai, Xian Yaobai and Longqiao Yaobai.

Mr. Zhang has more than 28 years of experience in the cement industry. He was the factory manager of the Shaanxi Province Pucheng County Hanjing Town Second Cement Factory (陝西省蒲城縣罕井鎮第二水泥廠) (one of the predecessors of our production facility in Pucheng) from 1985 to December 1990 and the manager of the Pucheng County Hanjing Town Cement Factory (蒲城縣罕井鎮水泥廠) (another predecessor of our production facility in Pucheng) thereafter. These two small cement facilities represent the origins of us, demonstrating our growth under the management of Mr. Zhang. Mr. Zhang has actively participated in various cement technology development projects and from 1992 to 1994, he led the development of low heat slag cement and moderate-heat Portland cement, winning the Second Grade Science and Technology Progress Prize issued by the Government of Shaanxi Province.

Mr. Zhang also holds several industry associations and political positions. He is the Chairman of the Shaanxi Province Cement Association (陝西省水泥協會), an industry association jointly established by The Raw Materials Division of The Industry and Information Technology Department of Shaanxi Province (陝西省工業和資訊化廳原材料處) and various cement production enterprises in Shaanxi, holding this position since December 2009. As the Chairman of the Shaanxi Province Cement Association, Mr. Zhang promotes information exchange between cement enterprises in Shaanxi, leading the association to formulate a self-regulatory regime, maintaining fair market competition, providing technology and human resources and assisting the Shaanxi Government in regulating the cement industry in Shaanxi Province. Mr. Zhang was also a Xi'an City representative of the 11th Standing Committee of the Shaanxi Provincial People's Congress (陝西省第十一屆人民代表大會常務委員會西安市代表) and participated in the plenary sessions of the 11th Standing Committee of the Shaanxi Provincial People's Congress for discussion and approval of various matters in relation to the political and economical development of Shaanxi Province. Mr. Zhang was also the Vice President of the China Cement Association.

Through these social positions, Mr. Zhang is able to maintain close contact with industry partners and local government so as to keep abreast of the latest development of the cement industry and government policies. Mr. Zhang received professional training course in economic management from Peking University (北京大學) in July 2001.

Dr. Ma Weiping (馬維平), aged 59, was appointed as a non-executive Director of our Company in June 2012 and redesignated as an executive director and chief executive officer of our Company in February 2015. 5. He has over 24 years of management and technical experience in the building materials industry in both the United States of America and China. From 1996 to 2002, Dr. Ma served as a senior process engineer and project manager for Holcim in Michigan, United States. From 2002 to 2005, Dr. Ma served as a vice president of marketing and sales for Lafarge (China) in Beijing and served in a similar position for Lafarge Shuion Cement from 2005 to 2008. From 2008 to 2009, he served as a general manager and vice president for Lafarge A&C in Chongqing. Preceding his appointment as a non-executive Director, from 2009 to June 2012, Dr. Ma was also a chief representative and managing director of Fuping Cement, a company wholly owned by Italcementi Group.

Dr. Ma received a bachelor's degree in Inorganic and Non-Metallic Materials from Tongji University, Shanghai in 1982, a master's degree in Solid State Science and a Ph.D in Material Science and Engineering from Pennsylvania State University in 1991 and 1994, respectively. Dr. Ma also obtained a Master of Business Administration in Integration Management from Michigan State University in 2002.

Non-executive Directors

Mr. Ma Zhaoyang (馬朝陽), aged 52, was appointed a non-executive director of our Company on July 29, 2010. Mr. Ma received a master's degree in management from Northwestern Polytechnic University (西北工業大學) in May 1998. Mr. Ma has been a professor of management at Northwestern Polytechnic University in Shaanxi, China since 1996. In view of his academic knowledge and extensive experience in strategic planning, Mr. Ma was appointed a non-executive Director of the Company and assumes an advisory role with our Company in respect of the overall strategic planning and operation of our business. Mr. Ma has been the chairman and director of Sino Vanadium Inc., a vanadium mining company listed on the TSX Venture Exchange in Canada since June 2009. He has also been a non-executive director of Taihua PLC, a pharmaceutical company listed on the London Stock Exchange, where he has assumed an advisory role since December 2006.

Ms. Liu Yan (劉剡), aged 53, was appointed as a non-executive director of our Company in July 2015 and is currently the head of the finance department of Conch Cement, our substantial shareholder. She has extensive experience in financial management, internal audit and internal risk management and control. Ms. Liu graduated from Tongling University majoring in planning and statistics in 1987. From March 2006 to April 2010, Ms. Liu served as the head of finance department of Anhui Tongling Conch Cement Co., Ltd. ("Anhui Tongling"), a wholly-owned subsidiary of Conch Cement. From April 2010 to July 2013, Ms. Liu held various positions such as deputy chief accountant of Anhui Tongling and chief accountant of Suzhou Conch Cement Co., Ltd., a wholly-owned subsidiary of Conch Cement. From July 2013 to December 2014, Ms. Liu served as deputy head of the finance department of Conch Cement.

Mr. Fan Changhong (范長虹), aged 55, was appointed as a non-executive director of our Company on July 15, 2019. Mr. Fan graduated from Wuhan University of Technology in 1986 with a bachelor's degree in engineering. Mr. Fan has rich experience in cement production management and external communication. Mr. Fan served as the regional director of Anhui Conch Cement Company Limited ("Conch Cement") (Shanghai area) from May 2013 to April 2019, responsible for market operation and resource co-ordination of Conch Cement in Shanghai, Su-Xi-Chang Area and Nantong. Meanwhile, he also served as the general manager of Shanghai Conch Cement Company Limited and Shanghai Conch Cement Sales Company Limited, responsible for the production and operation management of the two companies. He then also served as the general manager of Conch Mingzhu Cement Company Limited from March 2016 to April 2019, responsible for the production and operation management of the company. Mr. Fan is currently the regional director of Conch Cement (Shaanxi and Gansu area) and the general manager of Pingliang Conch Cement Co., Ltd ("Pingliang Conch"), responsible for the market operation and resource co-ordination of Conch Cement in Shaanxi and Gansu and the production and operation management of Pingliang Conch.

Independent non-executive Directors

Mr. Lee Kong Wai Conway (李港衛), aged 66, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Lee serves as Chairman of the audit committee of our Company, member of the remuneration committee of our Company, and also member of the nomination committee of our Company. He is mainly responsible for reviewing and advising the financial reporting process, audit process, internal control and risk management systems of our Group and providing independent advice to the Board on various financial and corporate governance matters.

Mr. Lee received a bachelor's degree in arts from Kingston University (formerly known as Kingston Polytechnic) in London in July 1980 and further obtained his postgraduate diploma in business from Curtin University of Technology in Australia in February 1988. Mr. Lee served as a partner of Ernst & Young over the past 29 years and held key leadership positions in the development of such firm in China. Mr. Lee is a member of the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants in Australia, the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Macau Society of Registered Accountants. Mr. Lee currently also serves as an independent non-executive director of Chaowei Power Holdings Limited, China Modern Dairy Holdings Limited, Gome Electrical Appliances Holding Limited, NVC Lighting Holding Limited, Yashili International Holdings Limited, WH Group Limited and Guotai Junan Securities Limited, companies listed on the main board of the Hong Kong Stock Exchange ("HKEX"), since July 2010, November 2010, March 2011, November 2012, November 2013, August 2014 and April 2017, respectively. He was also an independent non-executive director of China Taiping Insurance Holdings Company Limited, Merry Garden Holdings Limited, Citic Securities Company Limited, Tibet Water Resources Ltd. and China Rundong Auto Group Limited, companies which are listed on the main board of the HKEX, from October 2009 to August 2013, from July 2014 to September 2015, from November 2011 to May 2016, from March 2011 to February 2020 and from August 2014 to December 2020, respectively, and Sino Vanadium Inc., which was listed on TSX Venture Exchange in Canada, between October 2009 and December 2011. Mr. Lee was appointed as a member of the Chinese People's Political Consultative Conference of Hunan Province in China from 2007 to December 2017.

Mr. Zhu Dong (朱東), aged 59, was appointed an independent non-executive director of our Company on July 15, 2019. Mr. Zhu serves as a member of the audit committee and remuneration committee of our Company.

Mr. Zhu graduated in 1982 from Guangxi University with a bachelor degree in mechanical engineering and he finished a program of Master of Business Administration held by Tsinghua University in 1996. Mr. Zhu has approximately 30 years of experience in capital markets and corporate financing involving securities origination, underwriting and placing of equities and equity-linked products, mergers and acquisitions, corporate restructuring and reorganizations and other general corporate advisory activities. From August 1982 to November 1992, Mr. Zhu worked at various departments in the PRC government. He served as a senior manager at the Peregrine Investment Group form May 1994 to May 1998. He was the managing director at the BMP Paribas Capital (Asia Pacific) Limited form May 1998 to July 2011. Form September 2011 to May 2016, he was the managing director of Nomura International (Hong Kong) Limited. Mr. Zhu is currently an independent non-executive director of HPC Holdings Limited, a company listed on the HKEX.

Mr. Tam King Ching Kenny (譚競正), aged 72, was appointed an independent non-executive director of our Company on July 29, 2010. Mr. Tam serves as chairman of remuneration committee of the Company and also the members of the audit committee and nomination committee of the Company. He is mainly responsible for overseeing the policy and structure of the remuneration for directors and senior management of our Company. He is also responsible for monitoring our Company's performance in achieving agreed corporate goals and objectives, and taking the lead where potential conflicts of interest arise.

Mr. Tam received a bachelor's degree in commerce from the Concordia University in November 1975. He is a practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada. Mr. Tam is a member of the Restructuring and Insolvency Faculty Executive Committee in the Hong Kong Institute of Certified Public Accountants. He is also a past president of The Society of Chinese Accountants and Auditors. Mr. Tam has also served as an independent non-executive director of eight other listed companies on the main board of the HKEX, namely, Kingmaker Footwear Holdings Limited, CCT Fortis Holdings Limited, Shougang Concord Grand (Group) Limited, Starlite Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited, BeijingWest Industries

International Limited, GBA Holdings Limited and Wisdom Education International Holdings Company Limited, since May 1994, December 1999, February 1996, July 2004, September 2004, January 2014, February 2016 and January 2017, respectively.

SENIOR MANAGEMENT

The following table sets forth certain information concerning our other senior management members.

Name	Age	Position
Ms. Wangrui (王蕊)	43	Chief Executive Officer of Yaobai Group
Mr. Wang Fayin (王發印)	50	Deputy Chief Executive Officer and General Manager of Production Technology Department of Yaobai Group
Mr. Chu Yufeng (楚宇峰)	43	Deputy Chief Executive Officer of Yaobai Group and Chief Financial Officer
Mr. Liu Jianjun (劉建軍).	52	Deputy Chief Executive Officer of Yaobai Group
Mr. Liu Xiaojun (劉曉軍)	50	Deputy Chief Executive Officer and General Sales Manager of Headquarter
Mr. Lui Wing'on (雷永安).	45	Deputy Chief Executive Officer and General Manager of Yaobai Building Materials Company
Mr. Chan King Sau (陳兢修)	43	Financial Controller and Company Secretary

Ms. Wangrui (王蕊), aged 43, is the chief executive officer of Yaobai Group. Ms. Wang is mainly responsible for the management of sales company, materials company, logistics company, commercial concrete company, testing company, and the strategic development department. Ms. Wang obtained an MBA degree from Hong Kong Economy & Trading Management Academy in July 2010. She joined our Group in 1998 and held several positions including office manager, assistant manager, chief administration officer, general manager of materials company, and general manger of sales company. In January 2020, Ms. Wang was appointed as the chief executive officer of the Yaobai Group. She has won several rewards, such as Outstanding Communist Party Member of Ministry of Industry and Information of Shaanxi Province (陝西省工信廳中共優秀共產黨員), and Outstanding Entrepreneur of National Building Material Industry (全國建材行業優秀企業家).

Mr. Wang Fayin (王發印), aged 50, is the deputy chief executive officer and general manager of production technology department of Yaobai Group. He is mainly responsible for production, quality, technology and equipment operation of Yaobai Group. He obtained an associate diploma in electric application technology from Luoyang Institute of Science and Technology (洛陽工業高等專科學院). Mr. Wang joined our Group in May 1996 and held several positions including workshop director, factory manager, director of production technology department, chief of electricity section, regional general manager. Mr. Wang has extensive experience in production technology. He has won several rewards granted by Shaanxi Association for Technological Innovation in Building Material Industry (陝西省建材行業技術創新協會).

Mr. Chu Yufeng (楚宇峰), aged 43, joined Shaanxi Yaobai as deputy chief financial officer in July 2012 and he was the deputy administration, finance and control director of Shaanxi Fuping, from November 2010 to June 2012. In 2014, Mr. Chu was appointed as the chief financial officer of Shaanxi Yaobai and he has been responsible for financial management and audit matters of Yaobai Group for over 5 years. In January 2020, Mr. Chu was also appointed as the chief financial officer of our Company. Prior to joining our Group, Mr. Chu was a finance manager in a software company in the PRC from September 2008 to October 2010 and an electric equipment manufacturer in the PRC from November 2007 to August 2008. Mr. Chu received a master degree in business administration from an international business program jointly organised by Maastricht School of Management (MSM) of Netherlands and Independent University of Bangladesh in June 2005. He also graduated with a bachelor's degree in commerce in international accounting from Xi'an Jiao Tong University in June 1999. Mr. Chu is a member of the Association of Chartered Certified Accountants.

Mr. Liu Jianjun (劉建軍), aged 52, is mainly responsible for production technology, product quality, and equipment operation. He received a degree in Business Administration from Guangdian (廣電大學). He has the title of Engineer. Mr. Liu joined our Group in January 1988 and has held various positions, including Workshop Supervisor, Plant Manager, Head of Operation, and Regional General

Manager. Mr. Liu has extensive experience in production technology and operation security. He has received several awards from the Shaanxi Building Materials Industry Technology Innovation Association (陝西建材行業技術創新協會).

Mr. Liu Xiaojun (劉曉軍), aged 50, is mainly responsible for sales, logistics, special cement and marketing departments. He holds an EMBA degree from Xi'an Jiaotong University. Mr. Liu joined our Group in September 2009 and has held the positions of Sales Operation Manager, Assistant General Manager and General Manager. Mr. Liu has extensive experience in marketing, market planning and management.

Mr. Lei Wing'on (雷永安), aged 45, is mainly responsible for commercial cement and cement products. He joined our Group in October 2000 and has held the positions of Accountant, Head of Financial Department, Assistant Financial Director, Deputy Sales Manager and General Manager of Yaobai Building Materials Company (堯柏建材公司). Mr. Lei has extensive experience in financial management, material procurement, sales cement and commercial cement.

Mr. Chan King Sau (陳競修), aged 43, joined our Company on Juny 1, 2010. Mr. Chan was an assistant financial controller of our Company before being appointed as chief financial officer of our Company. He was also appointed as the company secretary of our Company since June 2012. In January 2020, Mr. Chan was designated as the financial controller of our Company. From September 2000 to August 2008, Mr. Chan worked for Ernst & Young, in a range of positions including staff accountant, senior accountant and manager. From September 2008 to October 2009, Mr. Chan worked for Nineyou International Limited, an online game operator as chief financial officer and company secretary. He graduated from University of Hong Kong with a bachelor's degree in finance in November 2000. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

COMPANY SECRETARY

Mr. Chan King Sau is the company secretary of our Company. Please refer to his biography under the paragraph headed ''— Senior Management'' above.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules and paragraph C3 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The audit committee currently consists of three independent non-executive directors, being Mr. Lee Kong Wai Conway, Mr. Zhu Dong and Mr. Tam King Ching, with Mr. Lee Kong Wai Conway serving as chairman of the audit committee. Mr. Lee Kong Wai Conway has the appropriate professional qualification as set out in Rule 3.10(2) of the Listing Rules. The primary duties of the audit committee are to assist our board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our board.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with paragraph B1 of the Code of Corporate Governance Practices set out in Appendix 14 to the Listing Rules. The remuneration committee currently consists of three independent non-executive directors, being Mr. Tam King Ching Kenny, Mr. Zhu Dong and Mr. Lee Kong Wai Conway and one executive director, being Mr. Zhang, with Mr. Tam serving as chairman of the remuneration committee.

The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for directors and senior management.

Nomination Committee

We have established a nomination committee with written terms of reference as recommended under the Code on Corporate Governance Practices, set out in Appendix 14 to the Listing Rules. The nomination committee currently consists of two independent non-executive directors, being Mr. Lee Kong Wai Conway and Mr. Tam King Ching Kenny, and one executive director, being Mr. Zhang, with Mr. Zhang serving as chairman of the committee.

The primary functions of the nomination committee are to make recommendations to our board regarding the appointment of members of our board.

COMPENSATION OF DIRECTORS AND MANAGEMENT

We have established a remuneration committee to determine the remuneration of our directors and senior management from time to time. Our remuneration policy 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. Our remuneration committee reviews such packages annually, or when the occasion requires. Our executive directors, who are also our employees, receive compensation in the form of salaries, bonuses and other allowances. The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which we paid to our directors for the years ended December 31, 2018, 2019 and 2020 were approximately RMB8.7 million, RMB9.8 million, and RMB9.6 million (US$1.5 million), respectively.

The aggregate amount of remuneration (including fees, salaries and discretionary bonuses) which were paid by our Group to the five highest paid individuals, including our directors, during the years ended December 31, 2018, 2019 and 2020 were approximately RMB2.7 million, RMB3.9 million and RMB5.0 million (US$0.8 million), respectively.

We paid no remuneration to our directors or the five highest paid individuals as an inducement to join or upon joining us or as compensation for loss of office, in respect of the years ended December 31, 2018, 2019 and 2020. Further, none of our directors had waived any remuneration during the same period.

Save as disclosed above, no other payments including contributions to pension schemes have been paid or are payable, in respect of the years ended December 31, 2018, 2019 and 2020, by us or any of our subsidiaries to our directors, and no payments were made during the years ended December 31, 2018, 2019 and 2020 by us to any of our directors as an inducement to join or upon joining us.

PRINCIPAL SHAREHOLDERS

As of December 31, 2020, according to the register we maintain in accordance with Section 336 of the Securities and Futures Ordinance, the following parties were directly or indirectly interested in 5% or more of our issued share capital.

Name	Nature of interest	Number of shares held[(1)]	Percentage of shareholding in our Company
Asia Gain *(Note 2)*	Beneficial owner	1,756,469,900 (L)	32.3%
Zhang Jimin *(Note 2)*	Interest in a controlled corporation	1,756,469,900 (L)	32.3%
Conch International Holdings (HK) Limited (“Conch”) *(Note 3)*	Beneficial owner	1,147,565,970 (L)	21.1%
Anhui Conch Cement Co., Ltd. (“Conch Cement”) *(Note 3)*	Interest in a controlled corporation	1,147,565,970 (L)	21.1%
Anhui Conch Cement Group Ltd. 安徽海螺集團有限責任公司 *(Note 3)*	Interest in a controlled corporation	1,147,565,970 (L)	21.1%
China Conch Venture Holdings Limited (“China Conch”) *(Note 3)*	Interest in a controlled corporation	1,147,565,970 (L)	21.1%
Citigroup Inc..	Beneficial owner	545,451,802 (L)	10.0%
		620,432 (S)	0.0%
GIC Private Limited	Beneficial owner	430,582,000 (L)	7.9%
Alliance Bernstein L.P.	Beneficial owner	235,962,000 (L)	5.2%

Notes:

(1) The letter “L” denotes the person’s long position in such securities and the letter”S” denotes the person’s short position in such securities.

(2) Asia Gain is beneficially and wholly-owned by Zhang Jimin.

(3) Conch is beneficially and wholly-owned by Conch Cement, which is owned as to approximately 36.8% by Anhui Conch Cement Group Ltd. 安徽海螺集團有限責任公司 and which is in turn indirectly controlled by China Conch.

RELATED PARTY TRANSACTIONS

Except as disclosed in this section, we did not have any other material related party transactions between our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated during the three years ended December 31, 2020. Each of our related party transactions was entered into on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The table below sets forth the amounts of compensation that we paid to our key management (including executive and non-executive directors of the Company and our senior management) for the periods indicated below.

	For the year ended December 31,			
	2018	**2019**	**2020**	**2020**
	(RMB'000)	**(RMB'000)**	**(RMB'000)**	**(US$'000)**
Salaries and other short-term employee benefits	10,812	14,286	15,686	2,404.0
Post-employment benefits	180	159	26	4.00
Share-based payments	1,024	228	—	—
Total	12,016	14,673	15,712	2,408.0

DESCRIPTION OF OTHER MATERIAL INDEBTEDNESS

To fund our existing business operations and to finance our working capital requirements, we have borrowed money or incurred indebtedness from various banks. As of December 31, 2020, our total borrowings amounted to RMB3,712.3 million (US$568.9 million), which includes outstanding bank borrowings of RMB2,479.4 million (US$380.0 million) and MTN Notes in the amount of RMB1,232.8 million (US$188.9 million). We set forth below a summary of the material terms and conditions of these loans and other indebtedness.

PRC LOAN AGREEMENTS

Bilateral Bank Loan Agreements

Shaanxi Yaobai entered into bilateral loan agreements with a number of PRC-incorporated banks, including the Agricultural Bank of China (collectively, the ''ABC Loans''), the Bank of China (''the ''BOC Loan''), China Minsheng Bank (the ''CMB Loan''), the Bank of Xi'an (collectively, the ''BOX Loans'') and the Shanghai Pudong Development Bank (the ''SPDB Loans'') and the Bank of Chengdu (the ''BOCD Loan'' and together with other loans such as ABC Loans and BOX Loans, the ''Onshore Loans''). These loans are typically used to satisfy our working capital requirements and are repayable within six months to two years.

Interest

All of our Onshore Loans are denominated in Renminbi except for one BOX Loan with an aggregate amount of approximately US$31.7 million which is denominated U.S. dollars and carries a fixed interest rate. Some of our Onshore Loans bear a floating rate interest calculated by reference to the PBOC's benchmark interest rate per annum. Interest payments under the Onshore Loans are payable monthly or quarterly and must be made on each payment date as provided in the loan agreements. Any overdue amount under the Onshore Loans will be subject to a penalty interest accruing from the due date up to the date of actual payment at a rate of 20% to 100% above the benchmark interest rate per annum. Any portion of the Onshore Loans which is not used for the prescribed purpose will be subject to a penalty interest at a rate of 20% to 100% above the benchmark interest rate per annum. Please refer to Note 31 to our consolidated financial statements for the year ended December 31, 2020 included elsewhere in this offering memorandum for the interest rates of our bank borrowings.

Covenants

Under these Onshore Loans, Shaanxi Yaobai has agreed, among other things, not to take the following actions without first notifying the lender and/or obtaining the lenders' prior consent:

- creating encumbrances on any part of properties or assets or deal with assets in a way that may adversely affect its ability to repay its loans;
- granting guarantees to any third parties that may adversely affect its ability to repay its loans;
- applying for bankruptcy, liquidation and dissolution proceedings;
- transferring part or all of the liabilities under the loans to a third party;
- prepaying the loan;
- changing its capital structure;
- conducting foreign investment;
- materially increasing its indebtedness; and
- other major corporate actions such as mergers, divisions, and transfer of shares.

Guarantee and security

Certain of our PRC subsidiaries have entered into guarantee and security agreements with the lenders in connection with the Onshore Loans, pursuant to which the borrower and its subsidiaries have provided guarantees and security, including land use rights and fixed assets such as plant and equipment of such PRC subsidiaries or our other PRC subsidiaries.

SYNDICATED LOAN

On September 5, 2019, the Company entered into term and revolving credit facilities agreement with a group of financial institutions for a loan of US$150.0 million (equivalent to approximately RMB1,062.7 million) for a period of three years ("Syndicated Loan"). We applied the Syndicated Loan primarily to satisfy our general capital needs and payment obligations related to our senior notes in the aggregate principal amount of US$400.0 million due 2019. As of December 31, 2020, the outstanding principal amount of the Syndicated Loan was US$30.0 million (equivalent to approximately RMB195.7 million). As of the date of this offering memorandum, we had fully repaid all outstanding amount under the Syndicated Loan.

ONSHORE MEDIUM-TERM NOTES

On May 6, 2019, Shaanxi Yaobai issued the first tranche of its up to RMB1,500.0 million unsecured medium-term notes in mainland China. The first tranche of the medium-term notes was issued at 100.0% of the face value. The total principal amount of the first tranche of the medium-term notes was RMB500.0 million carrying a fixed interest rate of 7.5% per annum. The first tranche of MTN Notes has a tenor of three years starting from May 8, 2019 to May 8, 2022. The interest is due and payable annually on March 8 and the entire principal amount is due and payable on May 8, 2022 together with the third interest payment. On September 2, 2020, Shaanxi Yaobai issued the second tranche of the medium-term notes at 100.0% of the face value. The total principal amount of the second tranche of the medium-term notes was RMB700.0 million carrying a fixed interest rate of 7.0% per annum. These MTN Notes have a tenor of three years starting from September 4, 2020 to September 4, 2023. The interest is due and payable annually on September 4 and the entire principal amount is due and payable on September 4, 2023 together with the third interest payment.

As of December 31, 2020, the entire first and second tranches of the medium-term notes was outstanding. Shaanxi Yaobai registered an aggregate of RMB1,500.0 million medium-term notes with National Association of Financial Market Institutional Investors of the PRC (中國銀行間市場交易商協會). As of the date of this offering memorandum, no further MTN notes may be issued pursuant to the above registration.

DEBT MATURITY PROFILE

The table below sets forth our debt maturity profile as of December 31, 2020, without taking into account interest payable thereon:

	For the year ended December 31,			
	2021	2022	2023	2028
	(RMB million)	(RMB million)	(RMB million)	(RMB million)
MTN	—	500.0	700.0	—
Bank borrowings	1,878.9	493.4	—	107.1
Total	1,878.9	993.4	700.0	107.1

DESCRIPTION OF THE NOTES

For purposes of this "Description of the Notes," the term "Company" refers only to West China Cement Limited, and any successor obligor on the Notes, and not to any of its Subsidiaries. Each Subsidiary of the Company that Guarantees the Notes is referred to as a "Subsidiary Guarantor," and each such guarantee is referred to as a "Subsidiary Guarantee."

The Notes are to be issued under an indenture (the "Indenture"), to be dated as of July 8, 2021, among the Company, the Subsidiary Guarantors, and DB Trustees (Hong Kong) Limited, as trustee (the "Trustee").

The following is a summary of certain provisions of the Indenture, the Notes and the Subsidiary Guarantees. This summary does not purport to be complete and is qualified in its entirety by reference to all of the provisions of the Indenture, the Notes and the Subsidiary Guarantees. It does not restate those agreements in their entirety. Whenever particular sections or defined terms of the Indenture not otherwise defined herein are referred to, such sections or defined terms are incorporated herein by reference. Copies of the Indenture will be available for inspection on or after the Original Issue Date at the corporate trust office of the Trustee at Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong; facsimile: +852 2203 7320; attention: The Managing Directors.

Brief Description of the Notes

The Notes are:

- general obligations of the Company;
- senior in right of payment to any existing and future obligations of the Company expressly subordinated in right of payment to the Notes;
- *pari passu* in right of payment with all other unsecured, unsubordinated Indebtedness of the Company (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law);
- guaranteed by the Subsidiary Guarantors on a senior basis, subject to the limitations described below under "— The Subsidiary Guarantees" and in "Risk Factors — Risks Relating to the Subsidiary Guarantees;"
- effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries (defined below); and
- effectively subordinated to secured obligations (if any) of the Company and the Subsidiary Guarantors to the extent of the value of the collateral securing such obligations.

The Notes will mature on July 8, 2026, unless earlier redeemed pursuant to the terms thereof and the Indenture. The Indenture allows additional Notes to be issued from time to time (the "Additional Notes"), subject to certain limitations described under "— Further Issues." Unless the context requires otherwise, references to the "Notes" for all purposes of the Indenture and this "Description of the Notes" include any Additional Notes that are actually issued. The Notes will bear interest at 4.95% per annum from the Original Issue Date or from the most recent interest payment date to which interest has been paid or duly provided for, payable semi-annually in arrears on January 8 and July 8 of each year (each an "Interest Payment Date"), commencing January 8, 2022. Interest on the Notes will be paid to Holders of record at the close of business on June 23 or December 24 immediately preceding an Interest Payment Date (each, a "Record Date"), notwithstanding any transfer, exchange or cancellation thereof after a Record Date and prior to the immediately following Interest Payment Date. So long as the Notes are held in global form, each payment in respect of the Global Note will be made to the person shown as the holder of the Notes in the Notes register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except December 25 and January 1.

Except as described under "Optional Redemption," "Redemption for Taxation Reasons" or otherwise provided in the Indenture, the Notes may not be redeemed prior to maturity.

In any case in which the date of the payment of principal of, premium (if any) on, or interest on, the Notes is not a Business Day, then payment of principal, premium (if any) or interest need not be made on such date but may be made on the next succeeding Business Day. Any payment made on such Business Day shall have the same force and effect as if made on the date on which such payment is due, and no interest on the Notes shall accrue for the period after such date. Interest on the Notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Notes will be issued only in fully registered form, without coupons, in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof. No service charge will be made for any registration of transfer or exchange of the Notes, but the Company and the Paying Agent may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

All payments on the Notes will be made by wire transfer in U.S. dollars by the Company at the office or agency of the Company maintained for that purpose (which initially will be the specified office of the Paying Agent, currently located at Level 60, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong), and the Notes may be presented for registration of transfer or exchange at such office or agency; *provided* that, if the Notes are in certificated form and the Company is acting as its own paying agent, at the option of the Company, payment of interest may be made by check mailed to the address of the Holders as such address appears in the Note register maintained by the Note Registrar or by wire transfer. Interest payable on the Notes held through Euroclear or Clearstream will be available to Euroclear or Clearstream participants (as defined herein) on the Business Day following payment thereof.

The Subsidiary Guarantees

The initial Subsidiary Guarantors that will execute the Indenture on the Original Issue Date will consist of certain of the Company's Restricted Subsidiaries incorporated outside the PRC. All of the initial Subsidiary Guarantors are holding companies that do not have significant operations. The initial Subsidiary Guarantors will be WC Cement Limited (British Virgin Islands), Faithful Alliance Limited (Hong Kong) and West International Holding Limited (Hong Kong). Although the Indenture contains limitations on the amount of additional Indebtedness that Restricted Subsidiaries may incur, the amount of such additional Indebtedness could be substantial. In the event of a bankruptcy, liquidation or reorganization of any Non-Guarantor Subsidiary, the Non- Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Company.

None of the existing or future Restricted Subsidiaries organized under the laws of the PRC (the "PRC Subsidiaries") will provide a Subsidiary Guarantee, subject to the covenant under "— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries". In addition, none of the existing or future Exempted Subsidiaries will provide a Subsidiary Guarantee at any time in the future; *provided* that the Company will cause each Restricted Subsidiary that ceases to be an Exempted Subsidiary, as soon as practicable and in any event within 90 days after it ceases to be an Exempted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which it will Guarantee the payment of the Notes.

In the case of any Restricted Subsidiary organized under the laws of a jurisdiction other than the PRC that is, or is proposed by the Company or any of its Restricted Subsidiaries to be, established or acquired after the Original Issue Date, such Restricted Subsidiary (and their subsidiaries, if any) shall not be required to provide a Subsidiary Guarantee and such Restricted Subsidiary shall be a "New Offshore Non-Guarantor Subsidiary," *provided* that (i) within 30 days of the establishment or acquisition of such Restricted Subsidiary, the Company delivers an Officers' Certificate to the Trustee confirming that either (x) one or more Independent Third Parties owns 30% or more of the Capital Stock of such Restricted Subsidiary or (y) the Company is in discussions with one or more Independent Third Parties for a potential investment by such Independent Third Parties in such Restricted Subsidiary and (ii) no later than 180 days after the establishment or acquisition of such Restricted Subsidiary and at anytime thereafter, such Independent Third Party or Parties own no less than 30% of the Capital Stock of such Restricted Subsidiary. If either of the above conditions is not satisfied, such Restricted Subsidiary will be required to promptly deliver to the Trustee a duly executed supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will guarantee the payment of the Notes as a Subsidiary Guarantor. If any of the New Offshore Non-Guarantor Subsidiaries guarantees Indebtedness of the Company or any Subsidiary Guarantor after the Original Issue Date, such New Non-Guarantor Restricted Subsidiary will be required to deliver to the Trustee, as soon as practicable and in any event within 30 days of entering into such Guarantee, a duly executed supplemental indenture to the Indenture pursuant to which such New Offshore Non-Guarantor Subsidiary will guarantee the payment of the Notes as a Subsidiary Guarantor.

The Company will cause each of its future Restricted Subsidiaries (other than the PRC Subsidiaries, the New Offshore Non-Guarantor Subsidiary and Exempted Subsidiaries) promptly and in any event within 30 days of becoming a Restricted Subsidiary, to execute and deliver to the Trustee a supplemental indenture to the Indenture pursuant to which such Restricted Subsidiary will Guarantee the payment of the Notes as a Subsidiary Guarantor. Each Restricted Subsidiary that Guarantees the Notes after the Original Issue Date is referred to as a "Future Subsidiary Guarantor" and upon execution of the applicable supplemental indenture to the Indenture will be a "Subsidiary Guarantor."

Notwithstanding of the foregoing, the Company may designate any Offshore Restricted Subsidiary (including those Offshore Restricted Subsidiaries not providing Subsidiary Guarantees on the Original Issue Date, but excluding any New Offshore Non-Guarantor Subsidiary or Exempted Subsidiaries) as a Designated Offshore Non-Guarantor Subsidiary (each, a "Designated Offshore Non-Guarantor Subsidiary"", and collectively, "Designated Offshore Non-Guarantor Subsidiaries"), subject to the limitations described below.

An Offshore Restricted Subsidiary need not provide a Subsidiary Guarantee if it is designated by the Company as a Designated Offshore Non-Guarantor Subsidiary. The Company may designate any Offshore Restricted Subsidiary to be a Designated Offshore Non-Guarantor Subsidiary, provided that, after giving effect to the consolidated assets of such Offshore Restricted Subsidiary:

(1) at any time of determination, the total Relevant Non-Guaranteed Portion would not exceed 15% of Total Assets (excluding for this purpose the consolidated assets of all Exempted Subsidiaries and New Offshore Non-Guarantor Subsidiaries as of the date of calculation); and

(2) such designation would not cause a Default.

The Company may at any time remove the designation of any Offshore Non-Guarantor Subsidiary as such, and unless such Offshore Restricted Subsidiary is designated an Unrestricted Subsidiary, it will become a Subsidiary Guarantor and execute a supplemental indenture pursuant to which it will guarantee the Notes under a Subsidiary Guarantee in accordance with the provisions of the Indenture, within 30 days of the date on which its designation as an Offshore Non-Guarantor Subsidiary was removed.

If, at any time, the Relevant Non-Guaranteed Portion exceeds 15% of Total Assets (calculated as provided above), the Company must remove the designation of one or more Offshore Non-Guarantor Subsidiaries and cause such Offshore Restricted Subsidiaries to provide a Subsidiary Guarantee such that the Relevant Non-Guaranteed Portion would not exceed 15% of Total Assets (calculated as provided above). This removal of designation must be made within 30 days from the date consolidated financial statements of the Company for the most recent semi-annual period (which the Company must use its reasonable best efforts to compile on a timely basis) become available.

As of December 31, 2020,

- the Company and its consolidated subsidiaries (including the Non-Guarantor Subsidiaries) had total consolidated indebtedness of approximately RMB3,712.3 million (US$568.9 million), of which RMB2,301.0 million (US$352.6 million) was secured; and

- the Non-Guarantor Subsidiaries had total indebtedness of approximately RMB3,533.8 million (US$541.6 million).

In addition, as of December 31, 2020, the Non-Guarantor Subsidiaries had capital commitments of approximately RMB1,942.1 million (US$297.6 million).

The Subsidiary Guarantee of each Subsidiary Guarantor:

- is a general obligation of such Subsidiary Guarantor;

- is effectively subordinated to all secured obligations of such Subsidiary Guarantor, to the extent of the value of the assets serving as security therefor;

- is senior in right of payment to all future obligations of such Subsidiary Guarantor expressly subordinated in right of payment to such Subsidiary Guarantee;

- ranks *pari passu* with the subsidiary guarantee of such Subsidiary Guarantor for all unsecured, unsubordinated Indebtedness of such Subsidiary Guarantor (subject to any priority rights of such unsecured, unsubordinated Indebtedness pursuant to applicable law); and

- is effectively subordinated to all existing and future obligations of the Non-Guarantor Subsidiaries.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each of the Subsidiary Guarantors will jointly and severally Guarantee the due and punctual payment of the principal of, premium, if any, and interest on, and all other amounts payable under, the Notes. The Subsidiary Guarantors will (1) agree that their obligations under the Subsidiary Guarantees will be enforceable irrespective of any invalidity, irregularity or unenforceability of the Notes or the Indenture and (2) waive their right to require the Trustee to pursue or exhaust its legal or equitable remedies against the Company prior to exercising its rights under the Subsidiary Guarantees. Moreover, if at any time any amount paid under a Note or the Indenture is rescinded or must otherwise be repaid or restored, the rights of the Holders under the Subsidiary Guarantees will be reinstated with respect to such payment as though such payment had not been made. All payments under the Subsidiary Guarantees are required to be made in U.S. dollars.

Under the Indenture, and any supplemental indenture to the Indenture, as applicable, each Subsidiary Guarantee will be limited in an amount not to exceed the maximum amount that can be Guaranteed by the applicable Subsidiary Guarantor without rendering the Subsidiary Guarantee, as it relates to such Subsidiary Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer or similar laws affecting the rights of creditors generally. If a Subsidiary Guarantee were to be rendered voidable, it could be subordinated by a court to all other Indebtedness (including Guarantees and other contingent liabilities) of the applicable Subsidiary Guarantor, and, depending on the amount of such indebtedness, a Subsidiary Guarantor's liability on its Subsidiary Guarantee could be reduced to zero.

The obligations of each Subsidiary Guarantor under its respective Subsidiary Guarantee may be limited, or possibly invalid, under applicable laws. See "Risk Factors — Risks Relating to the Subsidiary Guarantees — The Subsidiary Guarantees may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Subsidiary Guarantees."

Release of the Subsidiary Guarantees

A Subsidiary Guarantee given by a Subsidiary Guarantor may be released in certain circumstances, including:

- upon repayment in full of the Notes;

- upon a defeasance as described under "— Defeasance — Defeasance and Discharge;"

- in the case of a Subsidiary Guarantor that becomes, or is designated by the Company as, a Non-Guarantor Subsidiary or an Unrestricted Subsidiary, in compliance with the terms of the Indenture; or

- upon the sale, disposition or merger of a Subsidiary Guarantor in compliance with the terms of the Indenture (including the covenants under "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Certain Covenants — Limitation on Asset Sales" and "— Consolidation, Merger and Sale of Assets") resulting in such Subsidiary Guarantor no longer being a Restricted Subsidiary, so long as (1) such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Company's other Indebtedness or any Indebtedness of any other Restricted Subsidiary and (2) the proceeds from such sale, disposition or merger are used for the purposes permitted or required by the Indenture.

As of the date of the Indenture, all of the Company's Subsidiaries will be "Restricted Subsidiaries." However, under the circumstances described below under "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries," the Company will be permitted to designate certain of its Subsidiaries as "Unrestricted Subsidiaries." The Company's Unrestricted Subsidiaries will generally not be subject to the restrictive covenants in the Indenture. The Company's Unrestricted Subsidiaries will not Guarantee the Notes.

No release of a Subsidiary Guarantor from its Subsidiary Guarantee shall be effective against the Trustee or the Holders until the Company has delivered to the Trustee an Officers' Certificate stating that all requirements relating to such release have been complied with and such release is authorized and permitted by the terms of the Indenture.

Further Issues

Subject to the covenants described below and in accordance with the terms of the Indenture, the Company may, from time to time, without notice to or the consent of the Holders, create and issue Additional Notes having the same terms and conditions as the Notes (including the benefit of the Subsidiary Guarantees) in all respects (or in all respects except for the issue date, issue price and the first interest period and, to the extent necessary, certain temporary securities law transfer restrictions) (a "Further Issue") so that such Additional Notes may be consolidated and form a single class with the previously outstanding Notes and vote together as one class on all matters with respect to the Notes; *provided* that the issuance of any such Additional Notes will then be permitted under the "Limitation on Indebtedness" covenant described below and the other provisions of the Indenture.

Optional Redemption

On or after July 8, 2024, the Company may on any one or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on July 8 of the years indicated below, subject to the rights of holders of Notes on the relevant Record Date to receive interest on the relevant Interest Payment Date:

Year	Redemption Price
2024	102.475%
2025 and thereafter	101.238%

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to July 8, 2024, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to (but not including) the redemption date. Neither the Trustee nor any of the Agents shall be responsible for verifying or calculating the Applicable Premium.

At any time and from time to time prior to July 8, 2024, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the Net Cash Proceeds of one or more sales of Common Stock of the Company in an Equity Offering at a redemption price of 104.95% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date; *provided* that at least 65% of the aggregate principal amount of the Notes originally issued on the Original Issue Date remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related Equity Offering.

The Company will give not less than 30 days' nor more than 60 days' notice of any redemption to the Holders and the Trustee. If less than all of the Notes are to be redeemed at any time, the Notes for redemption will be selected as follows:

(1) if the Notes are listed on any securities exchange and/or are held through a clearing system, in compliance with the requirements of the principal securities exchange on which the Notes are listed and/or the requirements of the clearing system; or

(2) if the Notes are not listed on any securities exchange and not held through a clearing system, on a *pro rata* basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate, unless otherwise required by law.

A Note of US$200,000 in principal amount or less shall not be redeemed in part. If any Note is to be redeemed in part only, the notice of redemption relating to such Note will state the portion of the principal amount to be redeemed. A new Note in principal amount equal to the unredeemed portion will be issued upon cancellation of the original Note. On and after the redemption date, interest will cease to accrue on the Notes or portions of them called for redemption.

In connection with any redemption of Notes referred to in the preceding paragraphs, any such notice of redemption may, at the Company's discretion, be subject to the satisfaction of one or more conditions precedent.

Repurchase of Notes Upon a Change of Control Triggering Event

Not later than 30 days following a Change of Control Triggering Event, the Company will make an Offer to Purchase all outstanding Notes (a "Change of Control Offer") at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to (but not including) the Offer to Purchase Payment Date (as defined in clause (2) of the definition of "Offer to Purchase").

Notwithstanding the foregoing, the Company will not be required to make a Change of Control Offer following a Change of Control Triggering Event if a third party makes the Change of Control Offer in the same manner, at the same time and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Certain of the events constituting a Change of Control Triggering Event under the Notes will also constitute an event of default under certain debt instruments of the Company and its Subsidiaries. Existing and future debt of the Company may also (1) prohibit the Company from purchasing Notes in the event of a Change of Control Triggering Event; (2) provide that a Change of Control Triggering Event is a default; or (3) require repurchase of such debt upon a Change of Control Triggering Event. Moreover, the exercise by the Holders of their right to require the Company to purchase the Notes could cause a default under other Indebtedness, even if the Change of Control Triggering Event itself does not, due to the financial effect of the purchase on the Company. The Company's ability to pay cash to the Holders following the occurrence of a Change of Control Triggering Event may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. See "Risk Factors — Risks Relating to the Notes — The Company may not be able to repurchase the Notes upon a Change of Control Triggering Event."

The definition of Change of Control includes a phrase relating to the sale of "all or substantially all" the assets of the Company. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Company to repurchase such Holder's Notes as a result of a sale of less than all the assets of the Company to another person or group may be uncertain and will depend upon particular facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of "all or substantially all" the assets of the Company has occurred.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control Triggering Event or any event which could lead to the occurrence of a Change of Control Triggering Event has occurred and shall not be liable to any person for any failure to do so.

Except as described above with respect to a Change of Control Triggering Event, the Indenture does not contain provisions that permit the Holders to require that the Company purchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

No Mandatory Redemption or Sinking Fund

There will be no mandatory redemption or sinking fund payments for the Notes.

Additional Amounts

All payments of principal of, and premium (if any) and interest on the Notes or under the Subsidiary Guarantees will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or within any jurisdiction in which the Company, a Surviving Person (as defined under "— Consolidation, Merger and Sale of Assets") or an applicable Subsidiary Guarantor is organized or resident for tax purposes or any political subdivision or taxing authority thereof or therein (each, as applicable, a "Relevant Taxing Jurisdiction") or any jurisdiction through which payment is made by or on behalf of the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, or any political subdivision or taxing authority thereof or therein (together with the Relevant Taxing Jurisdictions, the "Relevant Jurisdictions"), unless such withholding or deduction is required by law or by regulation or governmental policy having the force of law. In the event that any such withholding or deduction is so required, the Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will pay such additional amounts ("Additional Amounts") as will result in receipt by the Holder of each Note or the Subsidiary Guarantees, as the case may be, of such amounts as would have been received by such Holder had no such withholding or deduction been required, except that no Additional Amounts shall be payable:

(1) for or on account of:

(a) any tax, duty, assessment or other governmental charge that would not have been imposed but for:

(i) the existence of any present or former connection between the Holder or beneficial owner of such Note or Subsidiary Guarantee, as the case may be, and the Relevant Jurisdiction other than merely holding such Note or the receipt of payments thereunder or under a Subsidiary Guarantee, including, without limitation, such Holder or beneficial owner being or having been a national, domiciliary or resident of such Relevant Jurisdiction or treated as a resident thereof or being or having been physically present or engaged in a trade or business therein or having or having had a permanent establishment therein;

(ii) the presentation of such Note (in cases in which presentation is required) more than 30 days after the later of the date on which the payment of the principal of, premium, if any, and interest on, such Note became due and payable pursuant to the terms thereof or was made or duly provided for, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented such Note for payment on any date within such 30-day period; or

(iii) the failure of the Holder or beneficial owner to comply with a timely request of the Company, a Surviving Person or any Subsidiary Guarantor addressed to the Holder, to provide information concerning such Holder's or its beneficial owner's nationality, residence, identity or connection with any Relevant Jurisdiction, if and to the extent that due and timely compliance with such request is required under the domestic tax laws of a Relevant Jurisdiction in order to reduce or eliminate any withholding or deduction as to which Additional Amounts would have otherwise been payable to such Holder;

(b) any estate, inheritance, gift, sale, transfer, personal property or similar tax, assessment or other governmental charge;

(c) any tax, duty, assessment or other governmental charge to the extent such tax, duty, assessment or other governmental charge results from the presentation of the Note (where presentation is required) for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment elsewhere;

(d) any tax, assessment, withholding or deduction required by section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended ("FATCA"), any current or future U.S. Treasury Regulations or rulings promulgated thereunder, any intergovernmental agreement between the United States and any other jurisdiction to implement FATCA, any law, regulation or other official guidance enacted or published in any jurisdiction implementing FATCA or an intergovernmental agreement with respect thereto, or any agreement with the U.S. Internal Revenue Service under FATCA; or

(e) any combination of taxes, duties, assessments or other governmental charges referred to in the preceding clauses (a), (b), (c) or (d); or

(2) to a Holder that is a fiduciary, partnership or person other than the sole beneficial owner of any payment to the extent that such payment would be required to be included in the income under the laws of a Relevant Jurisdiction, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, or a member of that partnership or a beneficial owner who would not have been entitled to such Additional Amounts had that beneficiary, settlor, partner or beneficial owner been the Holder thereof.

The Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will (i) make such withholding or deduction and (ii) remit the full amount deducted or withheld to the relevant authority in accordance with applicable law. The Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will make reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from the Relevant Jurisdiction imposing such taxes. The Company, a Surviving Person or the applicable Subsidiary Guarantor, as the case may be, will furnish to the Holders and the Paying Agent, within 60 days after the date the payment of any taxes so deducted or withheld is due pursuant to applicable law, either certified copies of tax receipts evidencing such payment or, if such receipts are not obtainable, other evidence of such payments.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Company will be obligated to pay Additional Amounts with respect to such payment, the Company will deliver to the Trustee an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable and will set forth such other information necessary to enable the Paying Agent to pay such Additional Amounts to the Holders on such payment date.

In addition, the Company will pay any stamp, issue, registration, documentary, value added or other similar taxes and other duties (including interest and penalties) payable in any Relevant Jurisdiction in respect of the creation, issue, offering, execution or enforcement of the Notes, or any documentation with respect thereto.

Whenever there is mentioned in any context the payment of principal of, and any premium or interest on, any Note or under any Subsidiary Guarantee, such mention shall be deemed to include payment of Additional Amounts provided for in the Indenture to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Taxation Reasons

The Notes may be redeemed, at the option of the Company or a Surviving Person with respect to the Company, as a whole but not in part, upon giving not less than 30 days' nor more than 60 days' notice to the Holders (which notice shall be irrevocable) and the Trustee, at a redemption price equal to 100% of the principal amount thereof, together with accrued and unpaid interest (including any Additional Amounts), if any, to (but not including) the date fixed by the Company or the Surviving Person, as the case may be, for redemption (the "Tax Redemption Date") if, as a result of:

(1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction, excluding any applicable treaty with the Relevant Taxing Jurisdiction, affecting taxation; or

(2) any change in the existing official position or the stating of an official position regarding the application or interpretation of such laws, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction),

which change or amendment becomes effective or, in the case of an official position, is announced (i) with respect to the Company or any initial Subsidiary Guarantor, on or after the Original Issue Date, or (ii) with respect to any Future Subsidiary Guarantor or Surviving Person, on or after the date such Future Subsidiary Guarantor or Surviving Person becomes a Subsidiary Guarantor or a Surviving Person, with respect to any payment due or to become due under the Notes or the Indenture, the Company, a

Surviving Person or a Subsidiary Guarantor, as the case may be, is, or on the next Interest Payment Date would be, required to pay Additional Amounts, and such requirement cannot be avoided by the taking of reasonable measures by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be; *provided* that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, would be obligated to pay such Additional Amounts if a payment in respect of the Notes were then due.

Notwithstanding anything to the contrary herein, the Company or a Surviving Person may not redeem the Notes in the case that Additional Amounts are payable in respect of PRC withholding tax at a rate of 10% or less solely as a result of the Company or a Surviving Person being considered a PRC tax resident under the Enterprise Income Tax Law.

Prior to the mailing of any notice of redemption of the Notes pursuant to the foregoing, the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before a redemption date:

(1) an Officers' Certificate stating that such change or amendment or stating of an official position referred to in this section entitled "Redemption for Taxation Reasons" has occurred, describing the facts related thereto and stating that such requirement cannot be avoided by the Company, a Surviving Person or a Subsidiary Guarantor, as the case may be, taking reasonable measures; and

(2) an Opinion of Counsel or an opinion of a tax consultant, in either case of recognized standing with respect to tax matters of the Relevant Taxing Jurisdiction, stating that the requirement to pay such Additional Amounts results from such change or amendment or stating of an official position referred to in this section entitled "Redemption for Taxation Reasons".

The Trustee shall be entitled to conclusively rely on and accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent described above, in which event it shall be conclusive and binding on the Holders.

Any Notes that are redeemed will be cancelled.

Certain Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Indebtedness

(1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness (including Acquired Indebtedness), *provided* that the Company or any Subsidiary Guarantor may Incur Indebtedness (including Acquired Indebtedness) and any Non-Guarantor Subsidiary may Incur Permitted Subsidiary Indebtedness if, after giving effect to the Incurrence of such Indebtedness or Permitted Subsidiary Indebtedness and the receipt and application of the proceeds therefrom, (x) no Default has occurred and is continuing and (y) the Fixed Charge Coverage Ratio would not be less than 3.0 to 1.0.

    Notwithstanding the foregoing, the Company will not permit any Restricted Subsidiary to Incur any Disqualified Stock (other than Disqualified Stock held by the Company or a Subsidiary Guarantor, so long as it is so held).

(2) Notwithstanding the foregoing, the Company and to the extent provided below, any Restricted Subsidiary, may Incur each and all of the following ("Permitted Indebtedness"):

    (a) Indebtedness under the Notes (excluding any Additional Notes) and each Subsidiary Guarantee;

    (b) Indebtedness of the Company or any Restricted Subsidiary outstanding on the Original Issue Date excluding Indebtedness permitted under clause (c); *provided* that such Indebtedness of Restricted Subsidiaries shall be included in the calculation of Permitted Subsidiary Indebtedness (other than any such Indebtedness excluded from the definition of Permitted Subsidiary Indebtedness);

(c) Indebtedness of the Company or any Restricted Subsidiary owed to the Company or any Restricted Subsidiary; *provided* that (i) any event which results in (x) any Restricted Subsidiary to which such Indebtedness is owed ceasing to be a Restricted Subsidiary or (y) any subsequent transfer of such Indebtedness (other than to the Company or any Restricted Subsidiary) shall be deemed, in each case, to constitute an Incurrence of such Indebtedness not permitted by this clause (c) and (ii) if the Company is the obligor on such Indebtedness, such Indebtedness must expressly be subordinated in right of payment to the Notes, and if any Subsidiary Guarantor is the obligor on such Indebtedness (and the Company is not the obligee), such Indebtedness must be expressly subordinated in right of payment to the Subsidiary Guarantee of such Subsidiary Guarantor;

(d) Indebtedness (“Permitted Refinancing Indebtedness”) of the Company or any Restricted Subsidiary issued in exchange for, or the net proceeds of which are used to refinance or refund, replace, exchange, renew, repay, redeem, defease, discharge or extend (collectively, “refinance” and “refinances” and “refinanced” shall have a correlative meaning), then outstanding Indebtedness Incurred under the proviso in paragraph (1) above or clauses (a), (b), (f), (k), (n) or (p) of paragraph (2) and any refinancings thereof in an amount not to exceed the amount so refinanced (plus premiums, accrued interest, fees and expenses); *provided* that (i) Indebtedness the proceeds of which are used to refinance the Notes or Indebtedness that is *pari passu* with, or subordinated in right of payment to, the Notes or any Subsidiary Guarantee shall only be permitted under this clause (d) if (A) in case the Notes are refinanced in part or the Indebtedness to be refinanced is *pari passu* with the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made *pari passu* with, or subordinate in right of payment to, the remaining Notes or such Subsidiary Guarantee, as the case may be, or (B) in case the Indebtedness to be refinanced is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such new Indebtedness, by its terms or by the terms of any agreement or instrument pursuant to which such new Indebtedness is issued or remains outstanding, is expressly made subordinate in right of payment to the Notes or such Subsidiary Guarantee, as the case may be, at least to the extent that the Indebtedness to be refinanced is subordinated to the Notes or such Subsidiary Guarantee, as the case may be, (ii) such new Indebtedness, determined as of the date of Incurrence of such new Indebtedness, does not mature prior to the Stated Maturity of the Indebtedness to be refinanced, and the Average Life of such new Indebtedness is at least equal to the remaining Average Life of the Indebtedness to be refinanced, and (iii) in no event may Indebtedness of the Company or any Subsidiary Guarantor be refinanced pursuant to this clause by means of any Indebtedness of any Restricted Subsidiary that is not a Subsidiary Guarantor;

(e) Indebtedness Incurred by the Company or any Restricted Subsidiary pursuant to Hedging Obligations entered into in the ordinary course of business;

(f) any Pari Passu Guarantee;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently, except in the case of daylight overdrafts, drawn against insufficient funds in the ordinary course of business; *provided* that this Indebtedness is extinguished within five Business Days;

(h) Indebtedness of the Company or any Restricted Subsidiary in respect of workers' compensation claims and claims arising under similar legislation, or in connection with self-insurance or similar requirements, in each case in the ordinary course of business;

(i) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price, earn-out or other similar obligations, in each case Incurred or assumed in connection with the disposition of any business, assets of the Company or of a Restricted Subsidiary, other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of any of the Company's or a Restricted Subsidiary's business or assets for the purpose of financing an acquisition; *provided* that the maximum assumable liability in respect of all this Indebtedness shall at no time exceed the gross proceeds actually received by the Company and/or the relevant Restricted Subsidiary in connection with the disposition;

(j) obligations with respect to trade letters of credit, performance and surety bonds and completion guarantees provided by the Company or any of its Restricted Subsidiaries securing obligations, entered into in the ordinary course of business, to the extent the letters of credit, bonds or guarantees are not drawn upon or, if and to the extent drawn upon is honored in accordance with its terms and, if to be reimbursed, is reimbursed no later than 30 days following receipt of a demand for reimbursement following payment on the letter of credit, bond or guarantee;

(k) Indebtedness of the Company or any Restricted Subsidiary incurred in the ordinary course of business:

(i) representing Capitalized Lease Obligations; or

(ii) constituting purchase money Indebtedness incurred to finance all or any part of the purchase price of equipment, property or assets of the Company to be used in the ordinary course of business by the Company or a Restricted Subsidiary;

provided that (A) the net proceeds of such purchase money Indebtedness shall not exceed the purchase price of such equipment, property or assets so acquired, (B) such purchase money Indebtedness shall be Incurred no later than 180 days after the acquisition of such equipment, property or assets and (C) on the date of the Incurrence of any such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (k) (together with any refinancings thereof) does not exceed an amount equal to 20% of Total Assets;

(l) (i) guarantees by any Non-Guarantor Subsidiary of Indebtedness of any other Non-Guarantor Subsidiary; (ii) guarantees by the Company and the Subsidiary Guarantors of each other's Indebtedness or (iii) guarantees by the Company and the Subsidiary Guarantors of Indebtedness of Non-Guarantor Subsidiaries; *provided*, *however*, in the case of each of (i), (ii) and (iii) that the Indebtedness guaranteed is permitted to be Incurred under the Indenture;

(m) Bank Deposit Secured Indebtedness Incurred by the Company or any Restricted Subsidiaries in order to in effect exchange Renminbi into U.S. dollars or Hong Kong dollars; *provided* that on the date of the Incurrence of such Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (2)(m) (together with any refinancings thereof) does not exceed an amount equal to 5.0% of Total Assets;

(n) Indebtedness of the Company or any Restricted Subsidiary maturing in one year or less used by the Company or any Restricted Subsidiary for working capital; *provided* that on the date of the Incurrence of any Indebtedness and after giving effect thereto, the aggregate principal amount outstanding of all such Indebtedness Incurred pursuant to this clause (n) (together with any refinancings thereof) does not exceed an amount equal to 10% of Total Assets;

(o) Indebtedness of the Company or any Restricted Subsidiary constituting an obligation to pay the deferred purchase price of Capital Stock in a Restricted Subsidiary pursuant to a Staged Acquisition Agreement, to the extent that such deferred purchase price is paid within 12 months after the date the Company or such Restricted Subsidiary enters into such Staged Acquisition Agreement; and

(p) Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount outstanding at any time (together with any refinancings thereof) not to exceed US$20 million (or the Dollar Equivalent thereof).

(3) For purposes of determining compliance with this "Limitation on Indebtedness" covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Permitted Indebtedness, or of Indebtedness described in the proviso in paragraph (1) of this covenant and one or more types of Permitted Indebtedness, the Company, in its sole discretion, shall classify, and from time to time may reclassify, such item of Indebtedness in one or more types of Indebtedness described above.

(4) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness under this "*Limitation on Indebtedness and Preferred Stock*" covenant, the Dollar Equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that may be Incurred pursuant to this covenant shall not be deemed to be exceeded with respect to any outstanding Indebtedness solely as a result of fluctuations in the exchange rate of currencies.

Limitation on Restricted Payments

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly (the payments or any other actions described in clauses (1) through (4) below being collectively referred to as "Restricted Payments"):

(1) declare or pay any dividend or make any distribution on or with respect to the Company's or any of the Restricted Subsidiaries' Capital Stock (other than dividends or distributions payable solely in shares of the Company's Capital Stock (other than Disqualified Stock or Preferred Stock) or in options, warrants or other rights to acquire shares of such Capital Stock) held by Persons other than the Company or any Wholly Owned Restricted Subsidiary;

(2) purchase, call for redemption or redeem, retire or otherwise acquire for value any shares of Capital Stock of the Company or any Restricted Subsidiary or any direct or indirect parent of the Company (including options, warrants or other rights to acquire such shares of Capital Stock) held by any Persons other than the Company or any Wholly Owned Restricted Subsidiary other than the purchase of Capital Stock of a Restricted Subsidiary pursuant to a Staged Acquisition Agreement;

(3) make any voluntary or optional principal payment, or voluntary or optional redemption, repurchase, defeasance, or other acquisition or retirement for value, of Subordinated Indebtedness (excluding any intercompany Indebtedness between or among the Company and any Wholly Owned Restricted Subsidiary); or

(4) make any Investment, other than a Permitted Investment; if, at the time of, and after giving effect to, the proposed Restricted Payment:

(a) a Default has occurred and is continuing or would occur as a result of such Restricted Payment;

(b) the Company could not Incur at least US$1.00 of Indebtedness under the proviso in paragraph (1) of the covenant described under "— Limitation on Indebtedness"; or

(c) such Restricted Payment, together with the aggregate amount of all Restricted Payments made by the Company and the Restricted Subsidiaries after the Original Issue Date, shall exceed the sum (without duplication) of:

(i) 50% of the aggregate amount of the Consolidated Net Income of the Company (or, if the Consolidated Net Income is a loss, minus 100% of the amount of such loss) accrued on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2021 and ending on the last day of the Company's most recently ended fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner and which may be internal financial statements) are available; plus

(ii) 100% of the aggregate Net Cash Proceeds received by the Company after the Original Issue Date as a capital contribution to its common equity by, or from the issuance and sale of its Capital Stock (other than Disqualified Stock) to a Person who is not a Subsidiary of the Company, including any such Net Cash Proceeds received upon (A) the conversion by a Person who is not a Subsidiary of the Company of any Indebtedness (other than Subordinated Indebtedness) of the Company into Capital Stock (other than Disqualified Stock) of the Company, or (B) the exercise by a Person who is not a Subsidiary of the Company of any options, warrants or other rights to acquire Capital Stock of the Company (other than Disqualified Stock), in each case after deducting the amount of any such Net Cash Proceeds used to redeem, repurchase, defease or otherwise acquire or retire for value any Subordinated Indebtedness or Capital Stock of the Company or any Restricted Subsidiary; plus

(iii) the amount by which Indebtedness of the Company or any of its Restricted Subsidiaries is reduced on the Company's consolidated balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to the Original Issue Date of any Indebtedness of the Company or any of its Restricted Subsidiaries convertible or exchangeable into Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); *provided*, *however*, that the foregoing amount shall not exceed the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the Incurrence of such Indebtedness; plus

(iv) an amount equal to the net reduction in Investments (other than reductions in Permitted Investments) that were made after the Original Issue Date in any Person resulting from (A) payments of interest on Indebtedness, dividends or repayments of loans or advances by such Person, in each case to the Company or any Restricted Subsidiary (except, in each case, to the extent any such payment or proceeds are included in the calculation of Consolidated Net Income), (B) the unconditional release of a Guarantee provided by the Company or a Restricted Subsidiary after the Original Issue Date of an obligation of another Person, (C) to the extent that an Investment made after the Original Issue Date is sold or otherwise liquidated or repaid for cash, the lesser of (x) cash return of capital with respect to such Investment (less the cost of disposition, if any) and (y) the initial amount of such Investment, or (D) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, not to exceed, in each case, the amount of Investments (other than Permitted Investments) made by the Company or a Restricted Subsidiary after the Original Issue Date in any such Person; plus

(v) the amount of deposit paid in cash, which was treated as a Restricted Payment when made, in connection with an acquisition of any Person upon such Person becoming a Restricted Subsidiary; plus

(vi) US$20 million (or the Dollar Equivalent thereof).

The foregoing provision shall not be violated by reason of:

(1) the payment of any dividend or redemption of any Capital Stock within 60 days after the related date of declaration or call for redemption if, at said date of declaration or call for redemption, such payment or redemption would comply with the preceding paragraph;

(2) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor with the Net Cash Proceeds of, or in exchange for, a substantially concurrent Incurrence of Permitted Refinancing Indebtedness;

(3) the redemption, repurchase or other acquisition of Capital Stock of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock) in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(4) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness of the Company or any Subsidiary Guarantor in exchange for, or out of the Net Cash Proceeds of, a substantially concurrent capital contribution or sale (other than to a Subsidiary of the Company) of, shares of the Capital Stock (other than Disqualified Stock) of the Company or any Subsidiary Guarantor (or options, warrants or other rights to acquire such Capital Stock); *provided* that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (c)(ii) of the preceding paragraph;

(5) the payment of any dividends or distributions declared, paid or made by a Restricted Subsidiary payable, on a *pro rata* basis or on a basis more favorable to the Company, to all holders of any class of Capital Stock of such Restricted Subsidiary, at least a majority of which is held, directly or indirectly through Restricted Subsidiaries, by the Company;

(6) the repurchase, redemption or other acquisition of Capital Stock of the Company from employees, former employees, directors or former directors of the Company or any Restricted Subsidiary (or their estate or authorized representatives) upon the death, disability or termination of employment of such employees or directors pursuant to agreements or plans (including employment agreements and share option plans) approved by the board of directors of the Company in an aggregate amount not to exceed US$1 million (or the Dollar Equivalent thereof) in any fiscal year of the Company;

(7) repurchases of Capital Stock deemed to occur upon the exercise of stock options if such Capital Stock represents a portion of the exercise price thereof;

(8) cash payment in lieu of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for the Capital Stock of the Company;

(9) the acquisition of the Capital Stock of a Restricted Subsidiary held by a minority shareholder which acquisition increases the proportion of the Capital Stock of such Restricted Subsidiary held, directly or indirectly, by the Company;

(10) payments made under a Staged Acquisition Agreement to acquire the Capital Stock of a Person, *provided* that such Person becomes a Restricted Subsidiary on or before the last date in the period stipulated in such Staged Acquisition Agreement for which the purchase price can be made (such date not to exceed 12 months from the date the Staged Acquisition Agreement was entered into) (the "Deadline Date"); *provided* further that in the event such Person does not become a Restricted Subsidiary on or before the Deadline Date, all payments previously made under this clause (10) shall be aggregated and constitute Restricted Payments made on the Deadline Date and such Restricted Payments must satisfy the other conditions under this "Limitations on Restricted Payments" covenant; or

(11) the declaration and payment of dividends by the Company with respect to any financial year commencing from 2021 up to an aggregate amount not to exceed 30% of the Company's consolidated net profit in such financial year, provided that the conditions of clauses (a) and (c) of the first paragraph of this "Limitation on Restricted Payments" covenant would not be violated as a consequence of such declaration and payment of dividends;

(12) the payment of final dividend and special dividend by the Company for the financial year ended December 31, 2020 in the amount of HK$0.104 and HK$0.041 per ordinary share, respectively, as approved and announced by the Company on May 28, 2021 and June 8, 2021.

provided that, in the case of clauses (2), (3) and (4) of this paragraph, no Default shall have occurred and be continuing or would occur as a consequence of the actions or payments set forth therein. Each Restricted Payment made pursuant to clause (1) and (11) of this paragraph shall be included in calculating whether the conditions of clause (c) of the first paragraph of this "— Limitation on Restricted Payments" covenant have been met with respect to any subsequent Restricted Payments.

The amount of any Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or the Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The value of any assets or securities that are required to be valued by this covenant will be the Fair Market Value. The Board of Directors' determination of the Fair Market Value of a Restricted Payment or any such assets or securities must be based upon an opinion or an appraisal issued by an appraisal or investment banking firm of recognized international standing if the Fair Market Value exceeds US$10 million (or the Dollar Equivalent thereof).

Not later than the date of making any Restricted Payment (other than those made pursuant to clauses (1) or (5) to (11) of the second paragraph of this "— Limitation on Restricted Payments" covenant) in excess of US$15 million (or the Dollar Equivalent thereof), the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this "— Limitation on Restricted Payments" covenant were computed, together with a copy of any fairness opinion or appraisal required by the Indenture.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) Except as provided below, the Company will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

   (a) pay dividends or make any other distribution on any Capital Stock of such Restricted Subsidiary owned by the Company or any other Restricted Subsidiary;

   (b) pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary;

   (c) make loans or advances to the Company or any other Restricted Subsidiary; or

   (d) sell, lease or transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(2) The provisions of paragraph (1) do not apply to any encumbrances or restrictions:

   (a) existing in agreements as in effect on the Original Issue Date, or in the Notes, the Subsidiary Guarantees, the Indenture or Pari Passu Guarantee, or any extensions, refinancings, renewals or replacements of any of the foregoing agreements; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

   (b) existing under or by reason of applicable law, rule, regulation or order;

   (c) with respect to any Person or the property or assets of such Person acquired by the Company or any Restricted Subsidiary, existing at the time of such acquisition and not incurred in contemplation thereof, which encumbrances or restrictions are not applicable to any Person or the property or assets of any Person other than such Person or the property or assets of such Person so acquired, and any extensions, refinancings, renewals or replacements thereof; *provided* that the encumbrances and restrictions in any such extension, refinancing, renewal or replacement, taken as a whole, are no more restrictive in any material respect to the Holders than those encumbrances or restrictions that are then in effect and that are being extended, refinanced, renewed or replaced;

   (d) that otherwise would be prohibited by the provision described in clause (1)(d) of this covenant if they arise, or are agreed to, in the ordinary course of business and (i) restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license, (ii) exist by virtue of any Lien on, or agreement to transfer, option or similar right with respect to any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture or (iii) do not relate to any Indebtedness, and that do not, individually or in the aggregate, detract from the value of property or assets of the Company or any Restricted Subsidiary in any manner material to the Company or any Restricted Subsidiary;

(e) with respect to a Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, such Restricted Subsidiary that is permitted by the "— Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries," "— Limitation on Indebtedness" and "— Limitation on Asset Sales" covenants; or

(f) with respect to any Restricted Subsidiary and imposed pursuant to an agreement that has been entered into for the Incurrence of Indebtedness permitted under clauses (2)(d) or (k) of the "— Limitation on Indebtedness" covenant if, as determined by the Board of Directors, the encumbrances or restrictions are (i) customary for such type of agreement and (ii) would not, at the time agreed to, be expected to materially and adversely affect the ability of the Company to make required payment on the Notes.

Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries

The Company will not sell, and will not permit any Restricted Subsidiary, directly or indirectly, to issue or sell, any shares of Capital Stock of a Restricted Subsidiary (including in each case options, warrants or other rights to purchase shares of such Capital Stock) except:

(1) to the Company or a Wholly Owned Restricted Subsidiary, or in the case of a Restricted Subsidiary that is not Wholly Owned, *pro rata* to its shareholders or incorporators or in such proportions as would result in a greater percentage of ownership in such Restricted Subsidiary by the Company;

(2) to the extent such Capital Stock represents director's qualifying shares or is required by applicable law to be held by a Person other than the Company or a Wholly Owned Restricted Subsidiary;

(3) the issuance or sale of Capital Stock of a Restricted Subsidiary (which remains a Restricted Subsidiary after any such issuance or sale); *provided* that the Company or such Restricted Subsidiary applies the Net Cash Proceeds of such issuance or sale in accordance with the "— Limitation on Asset Sales" covenant to the extent required thereunder; and

(4) the issuance or sale of Capital Stock of a Restricted Subsidiary if, immediately after giving effect to such issuance or sale, such Restricted Subsidiary would no longer be a Restricted Subsidiary and any remaining Investment in such Person would have been permitted to be made under the "Limitation on Restricted Payments" covenant if made on the date of such issuance or sale and *provided* that the Company complies with the "— Limitation on Asset Sales" covenant.

Limitation on Issuances of Guarantees by Restricted Subsidiaries

The Company will not permit any Non-Guarantor Subsidiary, directly or indirectly, to Guarantee any Indebtedness ("Guaranteed Indebtedness") of the Company or any Subsidiary Guarantor, unless (1)(a) such Non-Guarantor Subsidiary simultaneously executes and delivers a supplemental indenture to the Indenture providing for an unsubordinated Subsidiary Guarantee of payment of the Notes by such Non-Guarantor Subsidiary and (b) such Non-Guarantor Subsidiary waives and will not in any manner whatsoever claim or take the benefit or advantage of, any rights of reimbursement, indemnity or subrogation or any other rights against the Company or any other Restricted Subsidiary as a result of any payment by such Non-Guarantor Subsidiary under its Subsidiary Guarantee until the Notes have been paid in full or (2) such Guarantee is permitted by clauses (2)(c) or (2)(m) (in the case of clause (2)(m), with respect to the Guarantee provided by any PRC Restricted Subsidiary through the pledge of one or more PRC bank accounts or deposits to secure (or the use of any Guarantee or letter of credit or similar instrument to Guarantee) any Bank Deposit Secured Indebtedness) under the "*Limitation on Indebtedness*" covenant.

If the Guaranteed Indebtedness (1) ranks *pari passu* in right of payment with the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will rank *pari passu* in right of payment with, or subordinated to, the Subsidiary Guarantee or (2) is subordinated in right of payment to the Notes or any Subsidiary Guarantee, then the Guarantee of such Guaranteed Indebtedness will be subordinated in right of payment to the Subsidiary Guarantee at least to the extent that the Guaranteed Indebtedness is subordinated to the Notes or the Subsidiary Guarantee.

Limitation on Transactions with Shareholders and Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement (including, without limitation, the purchase, sale, lease or exchange of property or assets, or the rendering of any service) with (x) any holder (or any Affiliate of such holder) of 10.0% or more of any class of Capital Stock of the Company or (y) any Affiliate of the Company (each an ''Affiliate Transaction''), unless:

(1) the Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Company or the relevant Restricted Subsidiary, as the case may be, than those that would have been obtained in a comparable transaction by the Company or the relevant Restricted Subsidiary with a Person that is not an Affiliate of the Company; and

(2) the Company delivers to the Trustee:

   (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$5 million (or the Dollar Equivalent thereof), a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

   (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US$15 million (or the Dollar Equivalent thereof), in addition to the Board Resolution required in clause 2(a) above, an opinion as to the fairness to the Company or such Restricted Subsidiary, as the case may be, of such Affiliate Transaction from a financial point of view or confirming that the terms of such Affiliate Transaction are no less favorable to the Company or such Restricted Subsidiary than the terms available to (or from, as applicable) a Person that is not an Affiliate of the Company, in each case issued by an accounting, appraisal or investment banking firm of recognized international standing.

The foregoing limitation does not limit, and shall not apply to:

(1) the payment of reasonable and customary regular fees to directors of the Company who are not employees of the Company;

(2) transactions between or among the Company and any Wholly Owned Restricted Subsidiary or between or among Wholly Owned Restricted Subsidiaries;

(3) any Restricted Payment of the type described in clause (1) or (2) of the first paragraph of the covenant described above under ''— Limitation on Restricted Payments'' if permitted by that covenant;

(4) any sale of Capital Stock (other than Disqualified Stock) of the Company;

(5) the payment of compensation to officers and directors of the Company or any Restricted Subsidiary pursuant to an employee stock or share option scheme, so long as such scheme is in compliance with the listing rules of The Stock Exchange of Hong Kong Limited, which as of the Original Issue Date require a majority shareholder approval of any such scheme; and

(6) any repurchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or any Restricted Subsidiary pursuant to clause (6) or (7) of the second paragraph of the covenant described under the caption ''*Limitation on Restricted Payments*.''

The requirements of clause (2) of the first paragraph of this covenant shall not apply to (i) Investments (other than Permitted Investments) not prohibited by the ''Limitation on Restricted Payments'' covenant, (ii) transactions pursuant to agreements in effect on the Original Issue Date and described in this Offering Memorandum, or any amendment or modification or renewal or replacement thereof, so long as such amendment, modification, renewal or replacement is not more disadvantageous to the Company and its Restricted Subsidiaries than the original agreement in effect on the Original Issue Date and (iii) any transaction between or among the Company or a Wholly Owned Restricted Subsidiary on the one hand and any Restricted Subsidiary that is not a Wholly Owned Restricted

Subsidiary on the other hand or between or among Restricted Subsidiaries that are not Wholly Owned Restricted Subsidiaries; *provided* that in the case of clause (iii), (a) such transaction is entered into in the ordinary course of business and (b) none of the minority shareholders or minority partners of or in such Restricted Subsidiary that is not a Wholly Owned Restricted Subsidiary is a Person described in clauses (x) or (y) of the first paragraph of this covenant (other than by reason of such minority shareholder or minority partner being an officer or director of such Restricted Subsidiary).

Limitation on Liens

The Company will not, and will not permit any Subsidiary Guarantor to, directly or indirectly, incur, assume or permit to exist any Lien on any Capital Stock of any Subsidiary Guarantor, unless the Notes are equally and ratably secured by such Lien.

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur, assume or permit to exist any Lien of any nature whatsoever on any of its assets or properties of any kind, whether owned at the Original Issue Date or thereafter acquired, except Permitted Liens, unless the Notes are (or, in respect of any Lien on any Subsidiary Guarantor's property or assets, any Subsidiary Guarantee of such Restricted Subsidiary is) secured equally and ratably with (or, if the obligation or liability to be secured by such Lien is subordinated in right of payment to the Notes, prior to) the obligation or liability secured by such Lien, for so long as such obligation or liability is secured by such Lien.

Limitation on Sale and Leaseback Transactions

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction; *provided* that the Company or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

(1) the Company or such Restricted Subsidiary, as the case may be, could have (a) Incurred Indebtedness in an amount equal to the Attributable Indebtedness relating to such Sale and Leaseback Transaction under the covenant described under "— Limitation on Indebtedness" and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under "— Limitation on Liens," in which case, the corresponding Indebtedness will be deemed Incurred and the corresponding Lien will be deemed incurred pursuant to those provisions;

(2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of such Sale and Leaseback Transaction; and

(3) the transfer of assets in that Sale and Leaseback Transaction is permitted by, and the Company or such Restricted Subsidiary, as the case may be, applies the proceeds of such transaction in compliance with, the covenant described below under "— Limitation on Asset Sales."

Limitation on Asset Sales

The Company will not, and will not permit any Restricted Subsidiary to, consummate any Asset Sale, unless:

(1) no Default shall have occurred and be continuing or would occur as a result of such Asset Sale;

(2) the consideration received by the Company or such Restricted Subsidiary, as the case may be, is at least equal to the Fair Market Value of the assets sold or disposed of; and

(3) at least 75% of the consideration received consists of cash, Temporary Cash Investments or Replacement Assets; *provided* that in the case of an Asset Sale in which the Company or such Restricted Subsidiary receives Replacement Assets involving aggregate consideration in excess of US$20 million (or the Dollar Equivalent thereof), the Company shall deliver to the Trustee an opinion as to the fairness to the Company or such Restricted Subsidiary of such Asset Sale from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized international standing. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities, as shown on the Company's most recent consolidated balance sheet, of the Company or any Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary assumption, assignment, novation or similar agreement that releases the Company or such Restricted Subsidiary, as the case may be, from further liability; and

(b) any securities, notes or other obligations received by the Company or any Restricted Subsidiary from such transferee that are promptly, but in any event within 30 days of closing, converted by the Company or such Restricted Subsidiary, as the case may be, into cash, to the extent of the cash received in that conversion.

(4) Within 360 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Company or any Restricted Subsidiary, may apply such Net Cash Proceeds to:

(a) permanently repay unsubordinated Indebtedness of the Company or any Restricted Subsidiary (and, if such unsubordinated Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto) in each case owing to a Person other than the Company or a Restricted Subsidiary; or

(b) develop or acquire Replacement Assets;

provided that, pending the application of Net Cash Proceeds in accordance with clauses (a) or (b) of this paragraph, such Net Cash Proceeds may be temporarily invested only in cash or Temporary Cash Investments.

(5) Any Net Cash Proceeds from Asset Sales that are not applied or invested as provided in clause (5) will constitute "Excess Proceeds." Excess Proceeds of less than US$20 million (or the Dollar Equivalent thereof) will be carried forward and accumulated. When accumulated Excess Proceeds exceed US$20 million (or the Dollar Equivalent thereof), within ten days thereof, the Company must make an Offer to Purchase Notes having a principal amount equal to:

(a) accumulated Excess Proceeds, multiplied by

(b) a fraction (x) the numerator of which is equal to the outstanding principal amount of the Notes and (y) the denominator of which is equal to the outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest US$1,000.

The offer price in any Offer to Purchase will be equal to 100% of the principal amount plus accrued and unpaid interest to the date of purchase, and will be payable in cash.

If any Excess Proceeds remain after consummation of an Offer to Purchase, the Company or any Restricted Subsidiary may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture. If the aggregate principal amount of Notes (and any other *pari passu* Indebtedness) tendered in (or required to be prepaid or redeemed in connection with) such Offer to Purchase exceeds the amount of Excess Proceeds, the Trustee will select the Notes and such other *pari passu* Indebtedness to be purchased on a *pro rata* basis based on the principal amount of the Notes and such other *pari passu* Indebtedness tendered. Upon completion of each Offer to Purchase, the amount of Excess Proceeds will be reset at zero.

Limitation on Business Activities

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, engage in any business other than Permitted Businesses; *provided* that the Company or any Restricted Subsidiary may own Capital Stock of an Unrestricted Subsidiary or joint venture or other entity that is engaged in a business other than Permitted Businesses as long as any Investment therein was not prohibited when made under the "— Limitation on Restricted Payments" covenant.

Use of Proceeds

The Company will not, and will not permit any Restricted Subsidiary to, use the net proceeds from the sale of the Notes issued and sold on the Original Issue Date, in any amount, for any purpose other than (1) as specified under "Use of Proceeds" in this Offering Memorandum and (2) pending the application of all of such net proceeds in such manner, to invest the portion of such net proceeds not yet so applied in cash or Temporary Cash Investments.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) such Restricted Subsidiary does not own any Disqualified Stock of the Company or any Subsidiary Guarantor or Disqualified or Preferred Stock of a Restricted Subsidiary that is not a Subsidiary Guarantor or hold any Indebtedness of, or any Lien on any property of, the Company or any Restricted Subsidiary, if such Disqualified or Preferred Stock or Indebtedness could not be Incurred under the covenant described under "— Limitation on Indebtedness" or such Lien would violate the covenant described under "— Limitation on Liens"; (3) such Restricted Subsidiary does not own any Voting Stock of another Restricted Subsidiary, and all of its Subsidiaries are Unrestricted Subsidiaries or are being concurrently designated to be Unrestricted Subsidiaries in accordance with this paragraph; (4) such Restricted Subsidiary has no outstanding Indebtedness that could trigger a cross-default to the Indebtedness of the Company or any other Restricted Subsidiary and none of the Company or any Restricted Subsidiary Guarantees or provides credit support for the Indebtedness of such Restricted Subsidiary; and (5) the Investment deemed to have been made thereby in such newly designated Unrestricted Subsidiary and each other newly designated Unrestricted Subsidiary being concurrently redesignated would be permitted to be made by the covenant described under "— Limitation on Restricted Payments."

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that (1) no Default shall have occurred and be continuing at the time of or after giving effect to such designation; (2) any Indebtedness of such Unrestricted Subsidiary outstanding at the time of such designation which will be deemed to have been Incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be Incurred by the covenant described under "— Limitation on Indebtedness"; (3) any Lien on the property of such Unrestricted Subsidiary at the time of such designation which will be deemed to have been incurred by such newly designated Restricted Subsidiary as a result of such designation would be permitted to be incurred by the covenant described under "— Limitation on Liens"; (4) such Unrestricted Subsidiary is not a Subsidiary of another Unrestricted Subsidiary (that is not concurrently being designated as a Restricted Subsidiary); and (5) if such Restricted Subsidiary is not organized under the laws of the PRC, such Restricted Subsidiary will upon such designation execute and deliver to the Trustee a supplemental indenture to the Indenture by which such Restricted Subsidiary will become a Subsidiary Guarantor.

Government Approvals and Licenses; Compliance with Law

The Company will, and will cause each Restricted Subsidiary to, (1) obtain and maintain in full force and effect all governmental approvals, authorizations, consents, permits, concessions and licenses as are necessary to engage in the Permitted Businesses; (2) preserve and maintain good and valid title to its properties and assets (including land-use rights) free and clear of any Liens other than Permitted Liens; and (3) comply with all laws, regulations, orders, judgments and decrees of any governmental body, except to the extent that failure so to obtain, maintain, preserve and comply would not reasonably be expected to have a material adverse effect on (x) the business, results of operations or prospects of the Company and its Restricted Subsidiaries, taken as a whole, or (y) the ability of the Company or any Subsidiary Guarantor to perform its obligations under the Notes, the relevant Subsidiary Guarantee or the Indenture.

Anti-Layering

The Company will not Incur, and will not permit any Subsidiary Guarantor to Incur, any Indebtedness if such Indebtedness is contractually subordinated in right of payment to any other Indebtedness of the Company or any Subsidiary Guarantor, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes and the Subsidiary Guarantees on substantially identical terms; *provided* that this requirement does not apply to distinctions between categories of Indebtedness that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Indebtedness.

Suspension of Certain Covenants

If on any date following the date of the Indenture, the Notes have a rating of Investment Grade from two of the three Rating Agencies and no Default has occurred and is continuing (a "Suspension Event"), then, beginning on that day and continuing until such time, if any, at which the Notes cease to have a rating of Investment Grade from at least two of the three Rating Agencies, the provisions of the Indenture summarized under the following captions will be suspended:

(1) "— Certain Covenants — Limitation on Indebtedness;"

(2) "— Certain Covenants — Limitation on Restricted Payments;"

(3) "— Certain Covenants — Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;"

(4) "— Certain Covenants — Limitation on Sales and Issuances of Capital Stock in Restricted Subsidiaries;"

(5) "— Certain Covenants — Limitation on Issuances of Guarantees by Restricted Subsidiaries;"

(6) "— Certain Covenants — Limitation on Business Activities;"

(7) "— Certain Covenants — Limitation on Sale and Leaseback Transactions;" and

(8) "— Certain Covenants — Limitation on Asset Sales."

During any period that the foregoing covenants have been suspended, the Board of Directors may not designate any of the Restricted Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant summarized under "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" or the definition of "Unrestricted Subsidiary."

Such covenants will be reinstituted and apply according to their terms as of and from the first day on which a Suspension Event ceases to be in effect. Such covenants will not, however, be of any effect with regard to actions of the Company or any Restricted Subsidiary properly taken in compliance with the provisions of the Indenture during the continuance of the Suspension Event, and following reinstatement the calculations under the covenant summarized under "— Certain Covenants — Limitation on Restricted Payments" will be made as if such covenant had been in effect since the date of the Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the Notes will ever achieve a rating of Investment Grade or that any such rating will be maintained.

Provision of Financial Statements and Reports

(1) So long as any of the Notes remain outstanding, the Company will file with the Trustee and furnish to the Holders upon request, as soon as they are available but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognized exchange on which the Company's common shares are at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange; *provided* that if at any time the Common Stock of the Company ceases to be listed for trading on a recognized stock exchange, the Company will file with the Trustee and furnish to the Holders:

(a) as soon as they are available, but in any event within 90 calendar days after the end of the fiscal year of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such financial year (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and audited by a member firm of an internationally recognized firm of independent accountants;

(b) as soon as they are available, but in any event within 45 calendar days after the end of the second financial quarter of the Company, copies of the financial statements (on a consolidated basis and in the English language) of the Company in respect of such half-year period (including a statement of income, balance sheet and cash flow statement) prepared in accordance with GAAP and reviewed by a member firm of an internationally recognized firm of independent accountants; and

(c) as soon as they are available, but in any event within 45 calendar days after the end of each of the first and third financial quarters of the Company, copies of the unaudited financial statements (on a consolidated basis and in the English language) of the Company, including a statement of income, balance sheet and cash flow statement, prepared on a basis consistent with the audited financial statements of the Company, together with a certificate signed by the person then authorized to sign financial statements on behalf of the Company to the effect that such financial statements are true in all material respects and present fairly the financial position of the Company as at the end of, and the results of its operations for, the relevant quarterly period.

(2) In addition, so long as any Note remains outstanding, the Company will provide to the Trustee (a) within 120 days after the close of each fiscal year ending after the Original Issue Date, an Officers' Certificate stating the Fixed Charge Coverage Ratio with respect to the two most recent semi-annual fiscal periods and showing in reasonable detail the calculation of the Fixed Charge Coverage Ratio, including the arithmetic computations of each component of the Fixed Charge Coverage Ratio, with a certificate from the Company's external auditors verifying the accuracy and correctness of the calculation and arithmetic computation; *provided* that the Company shall not be required to provide such auditor certification if its external auditors refuse to provide such certification as a result of a policy of such external auditors not to provide such certification; and (b) as soon as possible and in any event within 30 days after the Company becomes aware or should reasonably become aware of the occurrence of a Default or an Event of Default, an Officers' Certificate setting forth the details of the Default or the Event of Default, and the action which the Company proposes to take with respect thereto.

Events of Default

The following events will be defined as "Events of Default" in the Indenture:

(1) default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise;

(2) default in the payment of interest or Additional Amounts on any Note when the same becomes due and payable, and such default continues for a period of 30 days;

(3) default in the performance or breach of the provisions of the covenant described under "— Consolidation, Merger and Sale of Assets," the failure by the Company to make or consummate an Offer to Purchase in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event" or "— Certain Covenants — Limitation on Asset Sales;"

(4) the Company or any Restricted Subsidiary defaults in the performance of or breaches any other covenant or agreement in the Indenture or under the Notes (other than a default specified in clause (1), (2) or (3) above) and such default or breach continues for a period of 30 consecutive days after written notice of such default or breach to the Company by the Trustee or the Holders of 25% or more in aggregate principal amount of the Notes;

(5) there occurs with respect to any Indebtedness of the Company or any Restricted Subsidiary having an outstanding principal amount of US$20 million (or the Dollar Equivalent thereof) or more in the aggregate for all such Indebtedness of all such Persons, whether such Indebtedness now exists or shall hereafter be created, (a) an event of default that has caused the holder thereof to declare such Indebtedness to be due and payable prior to its Stated Maturity and/or (b) a failure to make a principal payment when due;

(6) one or more final judgments or orders for the payment of money are rendered against the Company or any Restricted Subsidiary and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the

aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed US$20 million (or the Dollar Equivalent thereof) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(7) an involuntary case or other proceeding is commenced against the Company or any Restricted Subsidiary that is a Significant Subsidiary with respect to it or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any such Restricted Subsidiary or for any substantial part of the property and assets of the Company or any such Restricted Subsidiary and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 consecutive days; or an order for relief is entered against the Company or any such Restricted Subsidiary under any applicable bankruptcy, insolvency or other similar law as now or hereafter in effect;

(8) the Company or any Restricted Subsidiary that is a Significant Subsidiary, (a) commences a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (b) consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Company or any such Restricted Subsidiary or for all or substantially all of the property and assets of the Company or any such Restricted Subsidiary or (c) effects any general assignment for the benefit of creditors; or

(9) any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee or, except as permitted by the Indenture, any Subsidiary Guarantee is determined to be unenforceable or invalid or will for any reason cease to be in full force and effect.

If an Event of Default (other than an Event of Default specified in clause (7) or (8) above) occurs and is continuing under the Indenture, the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding, by written notice to the Company (and to the Trustee if such notice is given by the Holders), may, and the Trustee at the written direction of such Holders shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), declare the principal of, premium, if any, and accrued and unpaid interest on the Notes to be immediately due and payable. Upon a declaration of acceleration, such principal of, premium, if any, and accrued and unpaid interest shall be immediately due and payable. If an Event of Default specified in clause (7) or (8) above occurs with respect to the Company or any Restricted Subsidiary that is a Significant Subsidiary, the principal of, premium, if any, and accrued and unpaid interest on the Notes then outstanding shall automatically become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes by written notice to the Company and to the Trustee may on behalf of all the Holders waive all past defaults and rescind and annul a declaration of acceleration and its consequences if:

(1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived; and

(2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

The Holders of at least a majority in aggregate principal amount of the outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders. In addition, the Trustee will not be required to expend its own funds in following such direction if it does not believe that reimbursement or satisfactory indemnification and/or security and/or pre-funding is assured to it.

A Holder may not institute any proceeding, judicial or otherwise, with respect to the Indenture or the Notes, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture or the Notes, unless:

(1) the Holder has previously given the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer the Trustee indemnity and/or security and/or pre-funding satisfactory to the Trustee against any costs, liability or expense to be incurred in compliance with such written request;

(4) the Trustee does not comply with the request within (x) 60 days after receipt of the written request pursuant to clause (2) above or (y) 60 days after the receipt of the offer of indemnity and/or security and/or pre-funding pursuant to clause (3) above, whichever occurs later; and

(5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium, if any, or interest on, such Note or any payment under any Subsidiary Guarantee, or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right shall not be impaired or affected without the consent of such Holder.

Officers of the Company must certify to the Trustee in writing, on or before a date not more than 120 days after the end of each fiscal year ending after the Original Issue Date, that a review has been conducted of the activities of the Company and the Restricted Subsidiaries and the Company's and the Restricted Subsidiaries' performance under the Indenture and that the Company and each Restricted Subsidiary have fulfilled all of their respective obligations thereunder, or, if there has been a default in the fulfillment of any such obligation, specifying each such default and the nature and status thereof. The Company will also be obligated to notify the Trustee in writing of any default or defaults in the performance of any covenants or agreements under the Indenture. See "— Provision of Financial Statements and Reports."

Consolidation, Merger and Sale of Assets

The Company will not consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) unless each of the following conditions is satisfied:

(1) the Company shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Company consolidated or merged, or that acquired or leased such property and assets (the "Surviving Person") shall be a corporation organized and validly existing under the laws of Jersey, Bermuda, the British Virgin Islands, the Cayman Islands or Hong Kong and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of the Company under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company or the Surviving Person, as the case may be, either (i) shall have a Fixed Charge Coverage Ratio equal to or not lower than immediately prior to such transaction, or (ii) could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "— Certain Covenants — Limitation on Indebtedness;"

(5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with; and

(6) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Company has entered into a transaction described under "— Consolidation, Merger and Sale of Assets," shall execute and deliver a supplemental indenture to the Indenture confirming that its Subsidiary Guarantee shall apply to the obligations of the Company or the Surviving Person, as the case may be, in accordance with the Notes and the Indenture.

No Subsidiary Guarantor will consolidate with, merge with or into another Person, permit any Person to merge with or into it, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor and its Restricted Subsidiaries (computed on a consolidated basis) (as an entirety or substantially an entirety in one transaction or a series of related transactions) to another Person (other than the Company or another Subsidiary Guarantor), unless each of the following conditions is met:

(1) such Subsidiary Guarantor shall be the continuing Person, or the Person (if other than it) formed by such consolidation or merger, or with or into which the Subsidiary Guarantor consolidated or merged, or that acquired or leased such property and assets shall be the Company, another Subsidiary Guarantor or shall become a Subsidiary Guarantor concurrently with the transaction in accordance with the Indenture; and shall expressly assume, by a supplemental indenture to the Indenture, executed and delivered to the Trustee, all the obligations of such Subsidiary Guarantor under the Indenture and the Notes, including the obligation to pay Additional Amounts with respect to any jurisdiction in which it is organized or resident for tax purposes or through which it makes payments, and the Indenture and the Notes shall remain in full force and effect;

(2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing;

(3) immediately after giving effect to such transaction on a *pro forma* basis, the Company shall have a Consolidated Net Worth equal to or greater than the Consolidated Net Worth of the Company immediately prior to such transaction;

(4) immediately after giving effect to such transaction on a *pro forma* basis, the Company either (i) shall have a Fixed Charge Coverage Ratio equal to or not lower than immediately prior to such transaction, or (ii) could Incur at least US$1.00 of Indebtedness under the proviso of paragraph (1) of the covenant described under "— Certain Covenants — Limitation on Indebtedness;" and

(5) the Company shall deliver to the Trustee (x) an Officers' Certificate (attaching the arithmetic computations to demonstrate compliance with clauses (3) and (4)) and (y) an Opinion of Counsel, in each case stating that such consolidation, merger or transfer and the relevant supplemental indenture complies with this provision and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with.

provided that this paragraph shall not apply to any sale or other disposition that complies with the "Limitation on Asset Sales" covenant or any Subsidiary Guarantor whose Subsidiary Guarantee is unconditionally released in accordance with the provisions described under "— The Subsidiary Guarantees — Release of the Subsidiary Guarantees."

The foregoing requirements shall not apply to a consolidation or merger of any Subsidiary Guarantor with and into the Company or any other Subsidiary Guarantor, so long as the Company or such Subsidiary Guarantor survives such consolidation or merger. The foregoing provisions would not necessarily afford Holders protection in the event of highly leveraged or other transactions involving the Company or the Subsidiary Guarantors that may adversely affect Holders.

No Payments for Consents

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture, the Notes or any Subsidiary Guarantee unless such consideration is offered to be paid or is paid to all Holders that consent, waive or agree to amend such term or provision within the time period set forth in the solicitation documents relating to such consent, waiver or amendment.

Defeasance

Defeasance and Discharge

The Indenture will provide that the Company will be deemed to have paid and will be discharged from any and all obligations in respect of the Notes on the 183rd day after the deposit referred to below, and the provisions of the Indenture will no longer be in effect with respect to the Notes (except for, among other matters, certain obligations to register the transfer or exchange of the Notes, to replace stolen, lost or mutilated Notes, to maintain paying agencies, to pay Additional Amounts and to hold monies for payment in trust) if, among other things:

(1) the Company (a) has deposited with the Trustee (or its agent), in trust, cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes and (b) delivers to the Trustee an Opinion of Counsel or a certificate of an internationally recognized firm of independent accountants to the effect that the amount deposited by the Company is sufficient to provide payment for the principal of, premium, if any, and accrued interest on, the Notes on the Stated Maturity of such payment in accordance with the terms of the Indenture and an Opinion of Counsel to the effect that the Holders have a valid, perfected, exclusive Lien over such trust;

(2) the Company has delivered to the Trustee an Opinion of Counsel to the effect that the creation of the defeasance trust does not violate the U.S. Investment Company Act of 1940, as amended, and after the passage of 123 days following the deposit, the trust fund will not be subject to the effect of Section 547 of the United States Bankruptcy Code or Section 15 of the New York Debtor and Creditor Law;

(3) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others; and

(4) immediately after giving effect to such deposit on a *pro forma* basis, no Event of Default, or event that after the giving of notice or lapse of time or both would become an Event of Default, shall have occurred and be continuing on the date of such deposit or during the period ending on the 183rd day after the date of such deposit, and such defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company or any of the Restricted Subsidiaries is a party or by which the Company or any of the Restricted Subsidiaries is bound.

In the case of either discharge or defeasance of the Notes, each of the Subsidiary Guarantees will terminate.

Defeasance of Certain Covenants

The Indenture will further provide that the provisions of the Indenture will no longer be in effect with respect to (i) clauses (3) and (4) under the first and second paragraphs under "— Consolidation, Merger and Sale of Assets" and all the covenants described herein under "— Certain Covenants," other than as described under "— Certain Covenants — Government Approvals and Licenses; Compliance with Law" and "— Certain Covenants — Anti-Layering," and (ii) clause (3) under "Events of Default" with respect to such clauses (3) and (4) under the first and second paragraphs under "— Consolidation, Merger and Sale of Assets" and with respect to such other events set forth in such clause (i) above, clause (4) under "— Events of Default" with respect to such other covenants set forth in clause (i) above and clauses (5), (6), (7) and (8) under "— Events of Default" shall be deemed not to be Events of Default upon, among other things, the deposit with the Trustee (or its agent), in trust, of cash in U.S. dollars, U.S. Government Obligations or a combination thereof that through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount sufficient to pay the principal of, premium, if any, and accrued interest on the Notes on the Stated Maturity of such payments in accordance with the terms of the Indenture and the Notes, and the satisfaction of the provisions described in clause (2) of the preceding paragraph.

Defeasance and Certain Other Events of Default

In the event the Company exercises its option to omit compliance with certain covenants and provisions of the Indenture with respect to the Notes as described in the immediately preceding paragraph and the Notes are declared due and payable because of the occurrence of an Event of Default that remains applicable, the amount of cash in U.S. dollars and/or U.S. Government Obligations on deposit with the Trustee (or its agent) will be sufficient to pay amounts due on the Notes at the time of their Stated Maturity but may not be sufficient to pay amounts due on the Notes at the time of the acceleration resulting from such Event of Default. However, the Company and the Subsidiary Guarantors will remain liable for such payments.

Amendments and Waiver

Amendments Without Consent of Holders

The Indenture may be amended, without the consent of any Holder:

(1) to cure any ambiguity, defect, omission or inconsistency in the Indenture or the Notes;

(2) to comply with the provisions described under "— Consolidation, Merger and Sale of Assets;"

(3) to evidence and provide for the acceptance of appointment by a successor Trustee;

(4) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(5) in any other case where a supplemental indenture to the Indenture is required or permitted to be entered into pursuant to the provisions of the Indenture without the consent of any Holder;

(6) to effect any changes to the Indenture in a manner necessary to comply with the procedures of the relevant clearing system;

(7) to add any Subsidiary Guarantor or any Subsidiary Guarantee or release any Subsidiary Guarantor from any Subsidiary Guarantee as provided or permitted by the terms of the Indenture;

(8) to conform the text of the Indenture, the Notes or the Subsidiary Guarantees to any provision of this "Description of the Notes" to the extent that such provision in this "Description of the Notes" was intended to be a verbatim recitation of a provision of the Indenture, the Notes or the Subsidiary Guarantees;

(9) to add collateral to secure the Notes or any Subsidiary Guarantee, including the sharing of collateral pursuant to the provisions described under "— Limitation on Liens," or to enter into intercreditor agreement or amendments or supplements thereto; or

(10) to make any other change that does not adversely affect the rights of any Holder.

Amendments With Consent of Holders

Amendments of the Indenture may be made by the Company, the Subsidiary Guarantors and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of the outstanding Notes, and the Holders of a majority in principal amount of the outstanding Notes may waive future compliance by the Company with any provision of the Indenture or the Notes; *provided, however*, that no such modification, amendment or waiver may, without the consent of each Holder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Note;

(2) reduce the principal amount of, or premium, if any, or interest on, any Note;

(3) change the place, currency or time of payment of principal of, or premium, if any, or interest on, any Note;

(4) impair the right to institute suit for the enforcement of any payment on or after the Stated Maturity (or, in the case of a redemption, on or after the redemption date) of any Note;

(5) reduce the above-stated percentage of outstanding Notes the consent of whose Holders is necessary to modify or amend the Indenture;

(6) waive a default in the payment of principal of, premium, if any, or interest on the Notes;

(7) reduce the percentage or aggregate principal amount of outstanding Notes the consent of whose Holders is necessary for waiver of compliance with certain provisions of the Indenture or for waiver of certain defaults;

(8) release any Subsidiary Guarantor from its Subsidiary Guarantee, except as provided in the Indenture;

(9) amend, change or modify any Subsidiary Guarantee in a manner that adversely affects the Holders;

(10) reduce the amount payable upon a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale or change the time or manner by which a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale may be made or by which the Notes must be repurchased pursuant to a Change of Control Offer or an Offer to Purchase with the Excess Proceeds from an Asset Sale;

(11) change the redemption date or the redemption price of the Notes from that stated under "— Optional Redemption" or "— Redemption for Taxation Reasons;"

(12) amend, change or modify the obligation of the Company or any Subsidiary Guarantor to pay Additional Amounts; or

(13) amend, change or modify any provision of the Indenture or the related definition affecting the ranking of the Notes or any Subsidiary Guarantee in a manner which adversely affects the Holders.

Unclaimed Money

Claims against the Company for the payment of principal of, premium, if any, or interest, on the Notes will become void unless presentation for payment is made as required in the Indenture within a period of six years.

No Personal Liability of Incorporators, Stockholders, Officers, Directors or Employees

No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or any Subsidiary Guarantor in the Indenture, or in any of the Notes or the Subsidiary Guarantees or because of the creation of any Indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Company or any Subsidiary Guarantor or of any successor Person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes and the Subsidiary Guarantees. Such waiver may not be effective to waive liabilities under the federal securities laws.

Concerning the Trustee and the Agents

DB Trustees (Hong Kong) Limited is to be appointed as the Trustee under the Indenture, Deutsche Bank AG, Hong Kong Branch is to be appointed as registrar (the ''Note Registrar'') and as paying and transfer agent (the ''Paying Agent'', together with the Note Registrar, the ''Agents'') with regard to the Notes. Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture and the Notes, and no implied covenant or obligation shall be read into the Indenture, the Notes (as the case may be) against the Trustee. If an Event of Default has occurred and is continuing, the Trustee will use the same degree of care and skill in its exercise of the rights and powers vested in it under the Indenture or the Notes as a prudent person would exercise under the circumstances in the conduct of such person's own affairs.

The Trustee will be under no obligation to exercise any rights or powers conferred under the Indenture for the benefit of the Holders unless the requisite number of Holders have instructed the Trustee in writing in accordance with the provisions of the Indenture and offered to the Trustee indemnity, security and/or pre-funding satisfactory to the Trustee against any loss, liability or expense.

The Notes provide the Trustee to take action on behalf of the Holders in certain circumstances, but only if the Trustee is indemnified, secured and/or pre-funded to its satisfaction to its satisfaction. It may not be possible for the Trustee to take certain actions, whether in relation to the Notes, and accordingly in such circumstances the Trustee will be unable to take such actions, notwithstanding the provision of an indemnity, security and/or pre-funding to it, and it will be for the Holders to take such actions directly.

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion, be contrary to any law of that jurisdiction, any directive or regulation of any agency of that jurisdiction or any other law applicable to the Trustee and may without liability do anything which is, in its opinion, necessary to comply with any such law, directive or regulation. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

Neither the Trustee nor any of the Agents shall be under any duty to monitor or take any steps to ascertain whether any event or circumstance has happened or exists in relation to a Default, Event of Default, redemption, change of control, asset sale or under the heading ''— Certain Covenants'' and shall assume that no such event has occurred until it has received express written notice from the Company and shall not be liable to the Holders or any other person for any loss arising from any such assumption or failure to so monitor or take such steps to ascertain.

The Trustee and each of the Agents is permitted to engage in other transactions, including normal banking and trustee relationships, with the Company and its Affiliates. The Indenture contains limitations on the rights of the Trustee to obtain payment of claims as a creditor of the Company or any of the Subsidiary Guarantors in certain cases or to realize on certain property received by it in respect of any such claims, whether as security or otherwise.

The Trustee and the Agents shall be absolutely and conclusively entitled to rely on, and shall be fully protected in acting or refraining from acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to be genuine. The Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted hereunder in good faith and in reliance thereon.

All calculations relating to the Notes shall be performed by the Company or any other person appointed by it for this purpose. None of the Trustee or the Agents shall be liable in any respect for the accuracy or inaccuracy in any calculation or formula under the Indenture or the Notes, whether by the Company, auditors or any other person so appointed by any of them for such purpose.

In connection with the exercise of its functions (including but not limited to those in relation to any modification, authorization or waiver), the Trustee shall have regard to the interests of the Holders as a class and shall not have regard to the consequences of such exercise for individual Holders, and no Holder shall be entitled to claim from the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such individual except as described under "— Additional Amounts".

Each Holder, by accepting the Notes will agree, for the benefit of the Trustee, that it is solely responsible for its own independent appraisal of an investigation into all risks arising under or in connection with the Indenture and has not relied on and will not at any time rely on the Trustee or any of the Agents in respect of such risks.

Book-Entry; Delivery and Form

The Notes will be represented by a global note in registered form without interest coupons attached (the "Initial Global Note"). On the Original Issue Date, the Global Note will be deposited with a common depositary and registered in the name of the common depositary or its nominee for the accounts of Euroclear and Clearstream. Any additional Notes will be represented by additional global notes in registered form without interest coupons attached (the "Additional Global Notes" and, together with the Initial Global Note, the "Global Notes").

Global Notes

Ownership of beneficial interests in the Global Notes (the "book-entry interests") will be limited to persons that have accounts with Euroclear and/or Clearstream or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear and Clearstream and their participants.

Except as set forth below under "— Individual Definitive Notes," the book-entry interests will not be held in definitive form. Instead, Euroclear and/or Clearstream will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests.

So long as the Notes are held in global form, the common depositary for Euroclear and/or Clearstream (or its nominee) will be considered the sole holder of the Global Notes for all purposes under the Indenture and "holders" of book-entry interests will not be considered the owners or "Holders" of Notes for any purpose. As such, participants must rely on the procedures of Euroclear and Clearstream and indirect participants must rely on the procedures of the participants through which they own book-entry interests in order to transfer their interests in the Notes or to exercise any rights of Holders under the Indenture.

None of the Company, the Subsidiary Guarantors, the Trustee or any of the Agents will have any responsibility or be liable for any aspect of the records relating to the book-entry interests. The Notes are not issuable in bearer form.

Payments on the Global Notes

Payments of any amounts owing in respect of the Global Notes (including principal, premium, interest and Additional Amounts) will be made to the Paying Agent in U.S. dollars. The Paying Agent will, in turn, make such payments to the common depositary for Euroclear and Clearstream, which will distribute such payments to participants in accordance with their procedures. Each of the Company and the Subsidiary Guarantors will make payments of all such amounts without deduction or withholding for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature, except as may be required by law and additional amounts may be paid as described under "— Additional Amounts".

Under the terms of the Indenture, the Company, any Subsidiary Guarantor and the Trustee will treat the registered holder of the Global Notes (i.e., the common depositary or its nominee) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Subsidiary Guarantors, the Trustee or any of the Agents has or will have any responsibility or liability for:

- any aspect of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by Euroclear, Clearstream or any participant or indirect participants, or for maintaining, supervising or reviewing any of the records of Euroclear, Clearstream or any participant or indirect participant relating to or payments made on account of a book-entry interest; or

- any action or any failure to take action by Euroclear, Clearstream or any participant or indirect participant.

Payments by participants to owners of book-entry interests held through participants are the responsibility of such participants.

Redemption of Global Notes

In the event any Global Note, or any portion thereof, is redeemed, the common depositary will distribute the amount received by it in respect of the Global Note so redeemed to Euroclear and/or Clearstream, as applicable, who will distribute such amount to the holders of the book-entry interests in such Global Note. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by the common depositary, Euroclear or Clearstream, as applicable, in connection with the redemption of such Global Note (or any portion thereof). The Company understands that under existing practices of Euroclear and Clearstream, if fewer than all of the Notes are to be redeemed at any time, Euroclear and Clearstream will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on such other basis as they deem fair and appropriate; *provided*, however, that no book-entry interest of US$200,000 principal amount, or less, as the case may be, will be redeemed in part.

Action by Owners of Book-Entry Interests

Euroclear and Clearstream have advised that they will take any action permitted to be taken by a Holder of Notes only at the direction of one or more participants to whose account the book-entry interests in a Global Note are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Euroclear and Clearstream will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Note.

Transfers

Transfers between participants in Euroclear and Clearstream will be effected in accordance with Euroclear and Clearstream's rules and will be settled in immediately available funds. If a Holder requires physical delivery of individual definitive notes for any reason, including to sell the Notes to persons in jurisdictions which require physical delivery of such securities or to pledge such securities, such Holder must transfer its interest in the Global Note in accordance with the normal procedures of Euroclear and Clearstream and in accordance with the provisions of the Indenture.

Book-entry interests in the Global Notes will be subject to the restrictions on transfer discussed under "Transfer Restrictions".

Any book-entry interest in a Global Note that is transferred to a person who takes delivery in the form of a book-entry interest in another Global Note will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Note and become a book-entry interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Note for as long as it retains such a book-entry interest.

Global Clearance and Settlement Under the Book-Entry System

Book-entry interests owned through Euroclear or Clearstream accounts will follow the applicable settlement procedures applicable. Book-entry interests will be credited to the securities custody accounts of Euroclear and Clearstream participants on the business day following the settlement date against payment for value on the settlement date.

The book-entry interests will trade through participants of Euroclear or Clearstream, and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Information Concerning Euroclear and Clearstream

The Company understands as follows with respect to Euroclear and Clearstream:

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions, such as underwriters, securities brokers and dealers, banks and trust companies, and certain other organizations. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear and Clearstream in order to facilitate the original issue and subsequent transfers of interests in the Notes among participants of Euroclear and Clearstream, neither Euroclear nor Clearstream is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Subsidiary Guarantors, the Trustee or any of the Agents will have responsibility for the performance of Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations, including, without limitation, rules and procedures relating to book-entry interests.

Individual Definitive Notes

If (1) the common depositary or any successor to the common depositary is at any time unwilling or unable to continue as a depositary for the reasons described in the Indenture and a successor depositary is not appointed within 90 days, (2) either Euroclear or Clearstream, or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to permanently cease business or does in fact do so, or (3) any of the Notes has become immediately due and payable in accordance with "— Events of Default" and the Company has received a written request from a Holder, the Company will issue individual definitive notes in registered form in exchange for the Global Note. Upon receipt of such notice from the common depositary, Euroclear, Clearstream or the Trustee, as the case may be, the Company will use its best efforts to make arrangements with the common depositary for the exchange of interests in the Global Notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the Note Registrar in sufficient quantities and authenticated by the Note Registrar or authenticating agent for delivery to Holders. Persons exchanging interests in a Global Note for individual definitive notes will be required to provide the Note Registrar, through the relevant clearing system, with written instruction and other information required by the Company and the Note Registrar to complete, execute and deliver such individual definitive notes. In all cases, individual definitive notes delivered in exchange for any Global Note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by the relevant clearing system.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear or Clearstream.

Notices

All notices or demands required or permitted by the terms of the Notes or the Indenture to be given to or by the Holders are required to be in writing and may be given or served by being sent by prepaid courier or by being deposited, first-class postage prepaid, in the United States mails (if intended for the Company or any Subsidiary Guarantor) addressed to the Company or such Subsidiary Guarantor at Unit 3705, 37/F, Tower 6 , The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Hong Kong; (if intended for the Trustee) at the corporate trust office of the Trustee; and, if intended for any Holder, addressed to such Holder at such Holder's last address as it appears in the Note register (or otherwise delivered to such Holders in accordance with applicable Euroclear or Clearstream procedures).

Any such notice or demand will be deemed to have been sufficiently given or served when so sent or deposited and, if to the Holders, when delivered in accordance with the applicable rules and procedures of the relevant clearing system. Any such notice shall be deemed to have been delivered on the day such notice is delivered to the relevant clearing system or if by mail, when so sent or deposited.

Consent to Jurisdiction; Service of Process

The Company and each Subsidiary Guarantor will irrevocably (1) submit to the non-exclusive jurisdiction of any U.S. federal or New York state court located in the Borough of Manhattan, the City of New York in connection with any suit, action or proceeding arising out of, or relating to, the Notes, any Subsidiary Guarantee, the Indenture or any transaction contemplated thereby; and (2) designate and appoint Cogency Global Inc. for receipt of service of process in any such suit, action or proceeding.

Governing Law

Each of the Notes, the Subsidiary Guarantees and the Indenture provides that such instrument will be governed by, and construed in accordance with, the laws of the State of New York.

Definitions

Set forth below are defined terms used in the covenants and other provisions of the Indenture. Reference is made to the Indenture for other capitalized terms used in this "Description of the Notes" for which no definition is provided.

"Acquired Indebtedness" means Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary or Indebtedness of a Restricted Subsidiary assumed in connection with an Asset Acquisition by such Restricted Subsidiary whether or not Incurred in connection with, or in contemplation of, the Person merging with or into or becoming a Restricted Subsidiary.

"Adjusted Treasury Rate" means, with respect to any redemption date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15(519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities", for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three (3) months before or after July 8, 2024, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

"Affiliate" means, with respect to any Person, any other Person (1) directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person; (2) who is a director or officer of such Person or any Subsidiary of such Person or of any Person referred to in clause (1) of this definition; or (3) who is a spouse or any person cohabiting as a spouse, child, parent, brother, sister, parent-in-law, grandchild, grandparent, uncle, aunt, nephew or niece of a Person described in clause (1) or (2). For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Premium" means, with respect to a Note at any redemption date, the greater of (1) 1.00% of the principal amount of such Note and (2) the excess of (A) the present value at such redemption date of the redemption price of such Note at July 8, 2024, plus all required remaining scheduled interest payments due on such Note (but excluding accrued and unpaid interest to the redemption date) through July 8, 2024, computed using a discount rate equal to the Adjusted Treasury Rate plus 100 basis points, over (B) the principal amount of such Note on such redemption date.

"Asset Acquisition" means (1) an investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged into or consolidated with the Company or any Restricted Subsidiary; or (2) an acquisition by the Company or any Restricted Subsidiary of the property and assets of any Person other than the Company or any Restricted Subsidiary that constitute substantially all of a division or line of business of such Person.

"Asset Disposition" means the sale or other disposition by the Company or any Restricted Subsidiary (other than to the Company or another Restricted Subsidiary) of (1) all or substantially all of the Capital Stock of any Restricted Subsidiary that is a Significant Subsidiary; or (2) all or substantially all of the assets that constitute a division or line of business of the Company or any Restricted Subsidiary that is a Significant Subsidiary.

"Asset Sale" means any sale, transfer or other disposition (including by way of merger, consolidation or Sale and Leaseback Transaction) of any of its property or assets (including any sale of Capital Stock of a Subsidiary or issuance of Capital Stock of a Restricted Subsidiary) in one transaction or a series of related transactions by the Company or any Restricted Subsidiary to any Person; *provided* that "Asset Sale" shall not include:

(1) sales or other dispositions of inventory, receivables and other current assets in the ordinary course of business;

(2) sales, transfers or other dispositions of assets constituting a Permitted Investment or Restricted Payment permitted to be made by the covenant described under "— Certain Covenants — Limitation on Restricted Payments;"

(3) sales, transfers or other dispositions of assets with a Fair Market Value not in excess of US$1 million (or the Dollar Equivalent thereof) in any transaction or series of related transactions;

(4) any sale, transfer, assignment or other disposition of any property or equipment that has become damaged, worn out, obsolete or otherwise unsuitable for use in connection with the business of the Company or the Restricted Subsidiaries;

(5) any transfer, assignment or other disposition deemed to occur in connection with creating or granting any Permitted Lien;

(6) a transaction covered by the first paragraph of the covenant described under "— Consolidation, Merger and Sale of Assets;" and

(7) a sale, transfer or other disposition to the Company or a Restricted Subsidiary, including, without limitation, an issuance of Capital Stock by a Restricted Subsidiary to the Company or to another Restricted Subsidiary.

"Attributable Indebtedness" means, in respect of a Sale and Leaseback Transaction, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

"Average Life" means, at any date of determination with respect to any Indebtedness, the quotient obtained by dividing (1) the sum of the products of (a) the number of years from such date of determination to the dates of each successive scheduled principal payment of such Indebtedness and (b) the amount of such principal payment by (2) the sum of all such principal payments.

"Bank Deposit Secured Indebtedness" means Indebtedness of the Company or any Restricted Subsidiary that is secured by a pledge of one or more bank accounts of the Company or a Restricted Subsidiary and is used by the Company and its Restricted Subsidiaries to in effect exchange foreign currencies.

"Board of Directors" means the board of directors elected or appointed by the stockholders of the Company to manage the business of the Company or any committee of such board duly authorized to take the action purported to be taken by such committee.

"Board Resolution" means any resolution of the Board of Directors taking an action which it is authorized to take and adopted at a meeting duly called and held at which a quorum of disinterested members (if so required) was present and acting throughout or adopted by written resolution executed by every member of the Board of Directors.

"Business Day" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in the City of New York, London or in Hong Kong (or in any other place in which payments on the Notes are to be made) are authorized or required by law or governmental regulation to close.

"Capitalized Lease" means, with respect to any Person, any lease of any property (whether real, personal or mixed) which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

"Capitalized Lease Obligations" means the discounted present value of the rental obligations under a Capitalized Lease.

"Capital Stock" means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) in equity of such Person, whether outstanding on the Original Issue Date or issued thereafter, including, without limitation, all Common Stock and Preferred Stock.

"Change of Control" means the occurrence of one or more of the following events:

(1) the merger, amalgamation or consolidation of the Company with or into another Person (other than one or more Permitted Holders) or the merger or amalgamation of another Person (other than one or more Permitted Holders) with or into the Company, or the direct or indirect sale of all or substantially all the consolidated assets of the Company to another Person (other than one or more Permitted Holders);

(2) the Permitted Holders are the beneficial owners (as such term is used in Rule 13d-3 of the Exchange Act) of less than 25% of the total voting power of the Voting Stock of the Company;

(3) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) is or becomes the "beneficial owner" (as defined above), directly or indirectly, of total voting power of the Voting Stock of the Company greater than such total voting power held beneficially by the Permitted Holders; or

(4) the adoption of a plan relating to the liquidation or dissolution of the Company.

"Change of Control Triggering Event" means the occurrence of both a Change of Control and, *provided* that the Notes are rated by at least one Rating Agency, a Rating Decline.

"Clearstream" means Clearstream Banking, S.A.

"Commodity Hedging Agreement" means any commodities swap agreement, commodities cap agreement, commodities floor agreement, commodities futures agreement, commodities option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage commodities prices and commodities price risk.

"Common Stock" means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock or ordinary shares, whether or not outstanding at the date of the Indenture, and includes, without limitation, all series and classes of such common stock or ordinary shares.

"Comparable Treasury Issue" means the U.S. Treasury security having a maturity comparable to July 8, 2024 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity comparable to July 8, 2024.

"Comparable Treasury Price" means, with respect to any redemption date, if clause (ii) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Company, Reference Treasury Dealer Quotations for such redemption date.

"Consolidated EBITDA" means, with respect to any Person for any period, Consolidated Net Income of such Person for such period plus, to the extent such amount was deducted in calculating such Consolidated Net Income:

(1) Consolidated Interest Expense;

(2) income taxes (other than income taxes attributable to extraordinary and non-recurring gains (or losses) or sales of assets); and

(3) depreciation expense, amortization expense and all other non-cash items reducing Consolidated Net Income (other than non-cash items in a period which reflect cash expenses paid or to be paid in another period), less all non-cash items increasing Consolidated Net Income;

all as determined on a consolidated basis for such Person and its Subsidiaries (excluding Unrestricted Subsidiaries) in conformity with GAAP; *provided* that (i) if any Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, Consolidated EBITDA shall be reduced (to the extent not otherwise reduced in accordance with GAAP) by an amount equal to (A) the amount of the Consolidated Net Income attributable to such Restricted Subsidiary multiplied by (B) the percentage ownership interest in the income of such Restricted Subsidiary not owned on the last day of such period by the Company or any of the Restricted Subsidiaries; and (ii) in the case of any PRC CJV (consolidated in accordance with GAAP), Consolidated EBITDA shall be reduced (to the extent not already reduced in accordance with GAAP) by any payments, distributions or amounts (including the Fair Market Value of any non-cash payments, distributions or amounts) required to be made or paid by such PRC CJV to the PRC CJV Partner, or to which the PRC CJV Partner otherwise has a right or is entitled, pursuant to the joint venture agreement governing such PRC CJV.

"Consolidated Fixed Charges" means, with respect to any Person for any period, the sum (without duplication) of (1) Consolidated Interest Expense for such period and (2) all cash and non-cash dividends paid, declared, accrued or accumulated during such period on any Disqualified Stock or Preferred Stock of such Person or any of its Restricted Subsidiaries held by Persons other than the Company or any Wholly Owned Restricted Subsidiary, except for dividends payable in the Company's Capital Stock (other than Disqualified Stock) or dividend paid to the Company or to a Wholly-Owned Restricted Subsidiary.

"Consolidated Interest Expense" means, with respect to any Person for any period, the amount that would be included in gross interest expense on a consolidated income statement prepared in accordance with GAAP for such period of such Person and its Restricted Subsidiaries, plus, to the extent not included in such gross interest expense, and to the extent incurred, accrued or payable during such period by such Person and its Restricted Subsidiaries, without duplication, (1) interest expense attributable to Capitalized Lease Obligations, (2) amortization of debt issuance costs and original issue discount expense and non-cash interest payments in respect of any Indebtedness, (3) the interest portion of any deferred payment obligation, (4) all commissions, discounts and other fees and charges with respect to letters of credit or similar instruments issued for financing purposes or in respect of any Indebtedness, (5) the net costs associated with Hedging Obligations (including the amortization of fees),

(6) interest accruing on Indebtedness of any other Person that is Guaranteed by, or secured by a Lien on any asset of, such Person or any of its Restricted Subsidiaries and (7) any capitalized interest; *provided* that interest expense attributable to interest on any Indebtedness bearing a floating interest rate will be computed on a *pro forma* basis as if the rate in effect on the date of determination had been the applicable rate for the entire relevant period.

"Consolidated Net Income" means, with respect to any Person (the "Subject Person") for any period, the aggregate of the net income (or loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP; *provided* that the following items shall be excluded in computing Consolidated Net Income (without duplication):

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting except that:

   (a) subject to the exclusion contained in clause (5) below, the Company's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (3) below); and

   (b) the Company's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income to the extent funded with cash or other assets of the Company or Restricted Subsidiaries;

(2) the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or is merged into or consolidated with the Company or any of the Restricted Subsidiaries or all or substantially all of the property and assets of such Person are acquired by the Company or any of the Restricted Subsidiaries;

(3) the net income (but not loss) of any Restricted Subsidiary to the extent that the declaration or payment of dividends or similar distributions by such Restricted Subsidiary of such net income is not at the time permitted by the operation of the terms of its charter, articles of association or other constitutive document or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to such Restricted Subsidiary;

(4) the cumulative effect of a change in accounting principles;

(5) any net after tax gains realized on the sale or other disposition of (a) any property or asset of the Company or any Restricted Subsidiary that is not sold in the ordinary course of its business or (b) any Capital Stock of any Person (including any gains by the Company or a Restricted Subsidiary realized on sales of Capital Stock of the Company or of any Restricted Subsidiary);

(6) any translation gains and losses due solely to fluctuations in currency values and related tax effects; and

(7) any net after-tax extraordinary or non-recurring gains.

"Consolidated Net Worth" means, at any date of determination, stockholders' equity as set forth on the most recently available semi-annual or annual consolidated balance sheet of the Company and the Restricted Subsidiaries, plus, to the extent not included, any Preferred Stock of the Company, less any amounts attributable to Disqualified Stock or any equity security convertible into or exchangeable for Indebtedness, the cost of treasury stock and the principal amount of any promissory notes receivable from the sale of the Capital Stock of the Company or any of the Restricted Subsidiaries, each item to be determined in conformity with GAAP.

"Currency Hedging Agreement" means any currency swap agreement, currency cap agreement, currency floor agreement, currency futures agreement, commodity option agreement or any other similar agreement or arrangement which may consist of one or more of the foregoing agreements, designed to manage currencies and currency risk.

"Default" means any event that is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means any class or series of Capital Stock of any Person that by its terms or otherwise is (1) required to be redeemed prior to the date that is 183 days after the Stated Maturity of the Notes, (2) redeemable at the option of the holder of such class or series of Capital Stock at any time prior to the date that is 183 days after the Stated Maturity of the Notes or (3) convertible into or exchangeable for Capital Stock referred to in clause (1) or (2) above or Indebtedness having a scheduled maturity prior to the date that is 183 days after the Stated Maturity of the Notes; *provided* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" occurring prior to the date that is 183 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained in the "— Limitation on Asset Sales" and "— Repurchase of Notes upon a Change of Control Triggering Event" covenants and such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Company's repurchase of such Notes as are required to be repurchased pursuant to the covenants described under "— Certain Covenants — Limitation on Asset Sales" and "— Repurchase of Notes upon a Change of Control Triggering Event."

"Dollar Equivalent" means, with respect to any monetary amount in a currency other than U.S. dollars, at any time for the determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the noon buying rate for U.S. dollars in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on the date of determination.

"Entrusted Loans" means borrowings by a PRC Restricted Subsidiary from a bank that are secured by a pledge of deposits made by another PRC Restricted Subsidiary to the lending bank as security for such borrowings, provided that such borrowings are not reflected on the consolidated balance sheet of the Company.

"Equity Offering" means (i) any bona fide public or private offering of Capital Stock (other than Disqualified Stock) of the Company other than to Affiliates of the Company after the Original Issue Date or (ii) any bona fide underwritten secondary public offering or secondary private placement of Capital Stock (other than Disqualified Stock) of the Company beneficially owned by the Permitted Holders, after the Original Issue Date, to the extent that the Permitted Holders or a company controlled by such Person concurrently with such public offering or private placement purchases in cash an equal amount of Capital Stock (other than Disqualified Stock) from the Company at the same price as the public offering or private placing price; *provided* that (i) the aggregate gross cash proceeds received by the Company as a result of such offering described in clause (i) or (ii) or a combination thereof (excluding gross cash proceeds received from the Company or any of its Subsidiaries) shall be no less than US$25 million (or the Dollar Equivalent thereof) and (ii) any such offering shall result in such Capital Stock being listed and eligible for dealing on the Stock Exchange of Hong Kong Limited.

"Euroclear" means Euroclear Bank SA/NV.

"Exempted Subsidiary" means any Restricted Subsidiary organized in any jurisdiction other than the PRC that is prohibited by applicable law, rule or regulation to provide a Subsidiary Guarantee; *provided that* (x) the Company shall have failed, upon using commercially reasonable efforts, to obtain any required governmental or regulatory approval or registration with respect to such Subsidiary Guarantee, to the extent that such approval or registration is available under any applicable law or regulation and (y) such Restricted Subsidiary shall cease to be an Exempted Subsidiary immediately upon such prohibition ceasing to be in force or apply to such Restricted Subsidiary or upon the Company having obtained such applicable approval or registration.

"Fair Market Value" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Directors, whose determination shall be conclusive if evidenced by a Board Resolution.

"Fitch" means Fitch Ratings Ltd. and its successors.

"Fixed Charge Coverage Ratio" means, on any Transaction Date, the ratio of (1) the aggregate amount of Consolidated EBITDA for the then most recent four fiscal quarters prior to such Transaction Date for which consolidated financial statements of the Company (which the Company shall use its best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) (the "Four Quarter Period") to (2) the aggregate Consolidated Fixed Charges during such Four Quarter Period. In making the foregoing calculation:

(a) *pro forma* effect shall be given to any Indebtedness Incurred, repaid or redeemed during the period (the "Reference Period") commencing on and including the first day of the Four Quarter Period and ending on and including the Transaction Date (other than Indebtedness Incurred or repaid under a revolving credit or similar arrangement (or under any predecessor revolving credit or similar arrangement) in effect on the last day of such Four Quarter Period), in each case as if such Indebtedness had been Incurred, repaid or redeemed on the first day of such Reference Period; *provided* that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Company or such Restricted Subsidiary had not earned any interest income actually earned during such period in respect of the funds used to repay or redeem such Indebtedness;

(b) Consolidated Interest Expense attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Transaction Date (taking into account any Interest Rate Hedging Agreement applicable to such Indebtedness if such Interest Rate Hedging Agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period;

(c) *pro forma* effect will be given to the creation, designation or redesignation of Restricted Subsidiaries and Unrestricted Subsidiaries as if such creation, designation or redesignation had occurred on the first day of such Reference Period;

(d) *pro forma* effect will be given to Asset Dispositions and Asset Acquisitions (including giving *pro forma* effect to the application of proceeds of any Asset Disposition) that occur during such Reference Period as if they had occurred and such proceeds had been applied on the first day of such Reference Period; and

(e) *pro forma* effect will be given to asset dispositions and asset acquisitions (including giving *pro forma* effect to the application of proceeds of any asset disposition) that have been made by any Person that has become a Restricted Subsidiary or has been merged with or into the Company or any Restricted Subsidiary during such Reference Period and that would have constituted Asset Dispositions or Asset Acquisitions had such transactions occurred when such Person was a Restricted Subsidiary as if such asset dispositions or asset acquisitions were Asset Dispositions or Asset Acquisitions that occurred on the first day of such Reference Period;

provided that to the extent that clause (d) or (e) of this sentence requires that *pro forma* effect be given to an Asset Acquisition or Asset Disposition (or asset acquisition or asset disposition), such *pro forma* calculation will be based upon the four full fiscal quarters immediately preceding the Transaction Date of the Person, or division or line of business of the Person, that is acquired or disposed for which financial information is available.

"GAAP" means International Financial Reporting Standards issued by the International Accounting Standards Board as in effect from time to time. All ratios and computations contained or referred to in the Indenture shall be computed in conformity with GAAP applied on a consistent basis.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided* that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Hedging Obligation" of any Person means the obligations of such Person pursuant to any Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement.

"Holder" means the Person in whose name a Note is registered in the Note register.

"Incur" means, with respect to any Indebtedness or Disqualified Stock, to incur, create, issue, assume, Guarantee or otherwise become liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness or Disqualified Stock; *provided* that (1) any Indebtedness and Disqualified Stock of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary and (2) the accretion of original issue discount shall not be considered an Incurrence of Indebtedness. The terms "Incurrence," "Incurred" and "Incurring" have meanings correlative with the foregoing.

"Indebtedness" means, with respect to any Person at any date of determination (without duplication):

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except Trade Payables;

(5) all Capitalized Lease Obligations and Attributable Indebtedness;

(6) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided* that the amount of such Indebtedness shall be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness;

(7) all Indebtedness of other Persons Guaranteed by such Person to the extent such Indebtedness is Guaranteed by such Person;

(8) to the extent not otherwise included in this definition, Hedging Obligations;

(9) all Disqualified Stock issued by such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; and

(10) any Preferred Stock issued by (a) such Person, if such Person is a Restricted Subsidiary or (b) any Restricted Subsidiary of such Person valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends.

Notwithstanding the foregoing, "Indebtedness" shall not include any Entrusted Loans, any capital commitments, deferred payment obligations, pre-sale receipts in advance from customers or any contingent obligations to refund payments (including deposits) to customers (or any guarantee thereof) in connection with mandatory obligations under or pending completion of a customer contract, in each case, entered into in the ordinary course of business and in accordance with customary market practice; *provided* that, in each case, such Indebtedness is not reflected as borrowings on the consolidated balance sheet of the Company (contingent obligations and commitments referred to in a footnote to financial statements and not otherwise reflected as borrowings on the balance sheet will not be deemed to be reflected on such balance sheet).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation; provided

(1) that the amount outstanding at any time of any Indebtedness issued with original issue discount is the face amount of such Indebtedness less the remaining unamortized portion of the original issue discount of such Indebtedness at such time as determined in conformity with GAAP;

(2) that money borrowed and set aside at the time of the Incurrence of any Indebtedness in order to prefund the payment of the interest on such Indebtedness shall not be deemed to be "Indebtedness" so long as such money is held to secure the payment of such interest; and

(3) that the amount of Indebtedness with respect to any Hedging Obligation shall be (i) zero if Incurred pursuant to paragraph (2)(e) under the "Limitation on Indebtedness" covenant, and (ii) equal to the net amount payable by such Person if the Commodity Hedging Agreement, Currency Hedging Agreement or Interest Rate Hedging Agreement giving rise to such Hedging Obligation were terminated at that time due to default by such Person if not Incurred pursuant to such paragraph.

"Independent Third Party" means any Person that is not an Affiliate of the Company.

"Interest Rate Hedging Agreement" means any interest rate swap agreement, interest rate cap agreement, interest rate floor agreement, interest rate future contract, interest rate option agreement or any other similar agreement or arrangement which may consist of one or more of any of the foregoing agreements, designed to manage interest rates and interest rate risk.

"Investment" means:

(1) any direct or indirect advance, loan or other extension of credit to another Person;

(2) any capital contribution to another Person (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others);

(3) any purchase or acquisition of Capital Stock (or options, warrants or other rights to acquire such Capital Stock), Indebtedness, bonds, notes, debentures or other similar instruments or securities issued by another Person; or

(4) any Guarantee of any obligation of another Person.

For the purposes of the provisions of the covenants described under "— Certain Covenants — Designation of Restricted and Unrestricted Subsidiaries" and "— Certain Covenants — Limitation on Restricted Payments": (1) the Company will be deemed to have made an Investment in an Unrestricted Subsidiary in an amount equal to the Fair Market Value of the Company's proportionate interest in the assets (net of the liabilities owed to any Person other than the Company or a Restricted Subsidiary and that are not Guaranteed by the Company or a Restricted Subsidiary) of a Restricted Subsidiary that is designated an Unrestricted Subsidiary calculated as of the time of such designation; and (2) any property transferred to or from any Person shall be valued at its Fair Market Value at the time of such transfer, as determined in good faith by the Board of Directors.

"Investment Grade" means a rating of "Aaa,", "Aa," "A" or "Baa," as modified by a "1," "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or any of its successors or assigns, or a rating of "AAA," "AA," "A," or "BBB," as modified by a "+" or "—" indication, or an equivalent rating representing one of the four highest rating categories, by Fitch or any of its successors or assigns, or the equivalent ratings of any internationally recognized rating agency or agencies, as the case may be, which shall have been designated by the Company as having been substituted for Moody's or Fitch or two of them, as the case may be.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to create any mortgage, pledge, security interest, lien, charge, easement or encumbrance of any kind).

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Net Cash Proceeds" means:

(1) with respect to any Asset Sale (other than the issuance or sale of Capital Stock), the proceeds of such Asset Sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of:

(a) brokerage commissions and other fees and expenses (including fees and expenses of counsel and investment banks) related to such Asset Sale;

(b) provisions for all taxes (whether or not such taxes will actually be paid or are payable) as a result of such Asset Sale without regard to the consolidated results of operations of the Company and the Restricted Subsidiaries, taken as a whole;

(c) payments made to repay Indebtedness or any other obligation outstanding at the time of such Asset Sale that either (x) is secured by a Lien on the property or assets sold or (y) is required to be paid as a result of such sale; and

(d) appropriate amounts to be provided by the Company or any Restricted Subsidiary as a reserve against any liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in conformity with GAAP and reflected in an Officers' Certificate delivered to the Trustee; and

(2) with respect to any Asset Sale consisting of the issuance or sale of Capital Stock, the proceeds of such issuance or sale in the form of cash or cash equivalents, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not interest, component thereof) when received in the form of cash or cash equivalents and proceeds from the conversion of other property received when converted to cash or cash equivalents, net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"Non-Guarantor Subsidiaries" mean Restricted Subsidiaries of the Company other than Subsidiary Guarantors, which include but are not limited to the PRC Subsidiaries, the New Offshore Non-Guarantor Subsidiaries, the Exempted Subsidiaries and the Designated Offshore Non-Guarantor Subsidiaries.

"Offer to Purchase" means an offer to purchase Notes by the Company from the Holders commenced by the Company mailing a notice by first class mail, postage prepaid, to the Trustee and each Holder at its last address appearing in the Note register stating:

(1) the provision in the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;

(2) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed) (the "Offer to Purchase Payment Date");

(3) that any Note not tendered will continue to accrue interest pursuant to its terms;

(4) that, unless the Company defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the Business Day immediately preceding the Offer to Purchase Payment Date;

(6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and

(7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000.

One Business Day prior to the Offer to Purchase Payment Date, the Company shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes or portions thereof to be accepted by the Company for payment on the Offer to Purchase Payment Date. On the Offer to Purchase Payment Date, the Company shall (a) accept for payment on a *pro rata* basis Notes or portions thereof tendered pursuant to an Offer to Purchase; and (b) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Company. The Paying Agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and upon receipt of written order of the Company signed by an Officer the Note Registrar or the authenticating agent shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US$200,000 or any amount in excess thereof which is an integral multiple of US$1,000. The Company will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date. The Company will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable, in the event that the Company is required to repurchase Notes pursuant to an Offer to Purchase.

The materials used in connection with an Offer to Purchase are required to contain or incorporate by reference information concerning the business of the Company and its Subsidiaries which the Company in good faith believes will assist such Holders to make an informed decision with respect to the Offer to Purchase, including a brief description of the events requiring the Company to make the Offer to Purchase, and any other information required by applicable law to be included therein. The offer is required to contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Offer to Purchase.

"Officer" means one of the executive officers of the Company or, in the case of a Restricted Subsidiary, one of the directors or officers of such Restricted Subsidiary.

"Officers' Certificate" means a certificate signed by two Officers; *provided*, *however*, with respect to the Officers' Certificate required to be delivered by any Subsidiary Guarantor under the Indenture, Officers' Certificate means a certificate signed by one Officer if there is only one Officer in such Subsidiary Guarantor at the time such certificate is required to be delivered.

"Offshore Non-Guarantor Subsidiary" means any Offshore Restricted Subsidiary of the Company that does not provide a Subsidiary Guarantee.

"Offshore Restricted Subsidiary" means any Restricted Subsidiary of the Company that is incorporated in any jurisdiction other than the PRC.

"Opinion of Counsel" means a written opinion from legal counsel in form and substance that is reasonably acceptable to the Trustee.

"Original Issue Date" means the date on which the Notes are originally issued under the Indenture.

"Pari Passu Guarantee" means a Guarantee by the Company or any Subsidiary Guarantor of Indebtedness of the Company (including Additional Notes) or another Subsidiary Guarantor; *provided* that (1) the Company and such Subsidiary Guarantor were permitted to Incur such Indebtedness by the covenant described under "— Certain Covenants — Limitation on Indebtedness" and (2) such Guarantee ranks *pari passu* with the Notes or with any outstanding Subsidiary Guarantee of such Subsidiary Guarantor, as the case may be.

"Payment Default" means (1) any default in the payment of interest on any Note when the same becomes due and payable, (2) any default in the payment of principal of (or premium, if any, on) the Notes when the same becomes due and payable at maturity, upon acceleration, redemption or otherwise, (3) the failure by the Company to make or consummate a Change of Control Offer in the manner described under "— Repurchase of Notes upon a Change of Control Triggering Event," or an Offer to Purchase in the manner described under "— Certain Covenants — Limitation on Asset Sales" or (4) any Event of Default specified in clause (5) of the definition of Events of Default.

"Permitted Businesses" means any business which is the same as or ancillary or complementary to any of the businesses of the Company and the Restricted Subsidiaries on the Original Issue Date.

"Permitted Holders" means any or all of the following:

(1) Mr. Zhang Jimin or Ms. Zhang Lili;

(2) any Affiliate (other than an Affiliate as defined in clause (2) of the definition of Affiliate) of either Person specified in clause (1); and

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 80% or more by one or more of the Persons specified in clauses (1) and (2).

"Permitted Investment" means:

(1) any Investment in the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business or a Person which will, upon the making of such Investment, become a Restricted Subsidiary that is primarily engaged in a Permitted Business or will be merged or consolidated with or into, or transfer or convey all or substantially all its assets to, the Company or a Restricted Subsidiary that is primarily engaged in a Permitted Business;

(2) cash or Temporary Cash Investments;

(3) payroll, travel and similar advances made in the ordinary course of business to cover matters that are expected at the time of such advances ultimately to be treated as expenses in accordance with GAAP;

(4) stock, obligations or securities received in satisfaction of judgments;

(5) an Investment in an Unrestricted Subsidiary consisting solely of an Investment in another Unrestricted Subsidiary;

(6) any Investment pursuant to a Hedging Obligation designed solely to protect the Company or any Restricted Subsidiary against fluctuations in commodity prices, interest rates or foreign currency exchange rates;

(7) receivables, trade credits or other current assets owing to the Company or any Restricted Subsidiary, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms;

(8) Investments consisting of consideration received in connection with an Asset Sale under clause 4(b) of, and made in compliance with, the covenant described under "— Certain Covenants — Limitation on Asset Sales";

(9) pledges or deposits (x) with respect to leases or utilities provided to third parties in the ordinary course of business or (y) otherwise described in the definition of "Permitted Liens";

(10) loans or advances to vendors, contractors, suppliers or distributors, including advance payments for equipment and machinery made to the manufacturer thereof, of the Company or any Restricted Subsidiary in the ordinary course of business and dischargeable in accordance with customary trade terms within 90 days;

(11) Investments in existence on the Original Issue Date; and

(12) an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists solely of Common Stock of the Company.

"Permitted Liens" means:

(1) Liens for taxes, assessments, governmental charges or claims that are being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(2) statutory and common law Liens of landlords and carriers, warehousemen, mechanics, suppliers, repairmen or other similar Liens arising in the ordinary course of business and with respect to amounts not yet delinquent or being contested in good faith by appropriate legal or administrative proceedings promptly instituted and diligently conducted and for which a reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made;

(3) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory or regulatory obligations, bankers' acceptances, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of a similar nature incurred in the ordinary course of business (exclusive of obligations for the payment of borrowed money);

(4) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Company and the Restricted Subsidiaries, taken as a whole;

(5) Liens on property of, or on shares of Capital Stock or Indebtedness of, any Person existing at the time such Person (i) becomes a Restricted Subsidiary or (ii) is merged with or into or consolidated with the Company or any Restricted Subsidiary; *provided* that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets of such Person (if such Person becomes a Restricted Subsidiary) or the property or assets acquired by the Company or such Restricted Subsidiary (if such Person is merged with or into or consolidated with the Company or such Restricted Subsidiary); *provided further* that such Liens were not created in contemplation of or in connection with the transactions or series of transactions pursuant to which such Person became a Restricted Subsidiary;

(6) Liens in favor of the Company or any Restricted Subsidiary;

(7) Liens arising from the rendering of a final judgment or order against the Company or any Restricted Subsidiary that do not give rise to an Event of Default;

(8) Liens securing reimbursement obligations with respect to letters of credit, performance and surety bonds and completion guarantees that encumber documents and other property relating to such letters of credit and the products and proceeds thereof;

(9) Liens existing on the Original Issue Date;

(10) Liens securing Indebtedness which is Incurred to refinance Secured Indebtedness which is permitted to be Incurred under clause (2)(d) of the covenant described under "— Certain Covenants — Limitation on Indebtedness," provided that such Liens do not extend to or cover any property or assets of the Company or any Restricted Subsidiary other than the property or assets securing the Indebtedness being refinanced;

(11) Liens securing Hedging Obligations permitted to be Incurred under clause (2)(e) of the covenant described under "— Certain Covenants — Limitation on Indebtedness," provided that (i) Indebtedness relating to any such Hedging Obligation is, and is permitted under the covenant described under "— Certain Covenants — Limitation on Liens" to be, secured by a Lien on the same property securing such Hedging Obligation or (ii) such Liens are encumbering customary initial deposits or margin deposits or are otherwise within the general parameters customary in the industry and incurred in the ordinary course of business;

(12) Liens securing Attributable Indebtedness that is permitted to be Incurred under the Indenture;

(13) any interest or title of a lessor under any Capitalized Lease Obligation permitted to be Incurred under the Indenture; *provided, however*, that the Liens do not extend to any property or assets which is not leased property subject to such Capitalized Lease Obligation;

(14) Liens on deposits securing trade letters of credit (and reimbursement obligations relating thereto) incurred in the ordinary course;

(15) Liens securing Indebtedness permitted under clause (2)(k)(ii) of the covenant described under "— Certain Covenants — Limitation on Indebtedness"; *provided* that such Lien (i) covers only the equipment, property or assets acquired with such Indebtedness and (ii) is created within 180 days of such acquisition;

(16) Liens securing Indebtedness permitted under clause (2)(n) of the covenant described under "— Certain Covenants — Limitation on Indebtedness"; *provided* that (a) such Lien is created prior to, at the time of or within 30 days after entering into the agreement underlying such Indebtedness and (b) the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company (which may be internal consolidated statements) or, if any such property or assets have been acquired since the date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (18) does not exceed 150% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;

(17) any interest or title of a lessor in the property subject to any operating lease;

(18) easements, rights-of-way, municipal and zoning ordinances or other restrictions as to the use of properties in favor of governmental agencies or utility companies that do not materially adversely affect the value of such properties or materially impair the use for the purposes of which such properties are held by the Company or any Restricted Subsidiary;

(19) Liens on deposits made in order to comply with statutory obligations to maintain deposits for workers' compensation claims and other purposes specified by statute made in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(20) Liens on deposits made in order to secure the performance of the Company or any of its Restricted Subsidiaries in connection with the acquisition of real property or land use rights or personal property (including without limitation, Capital Stock) by the Company or any of its Restricted Subsidiaries in the ordinary course of business and not securing Indebtedness of the Company or any Restricted Subsidiary;

(21) Liens incurred on one or more PRC bank accounts to secure Bank Deposit Secured Indebtedness of the type described under clause (2)(m) of the covenant described under "*-Limitation on Indebtedness*";

(22) Liens on deposits or funds held in escrow arrangements securing Indebtedness permitted under clause (2)(i) of the covenant described under the caption "*-Certain Covenants — Limitation on Indebtedness*";

(23) Liens in favor of customs and revenue authorities arising by operation of law to secure payment of customs duties in connection with importation or exportation of goods in the ordinary course of business;

(24) Retention of title reserved by any seller of goods or any Lien imposed, reserved or granted over goods supplied by such seller, in each case in the ordinary course of business;

(25) Liens on real or personal property or assets of any PRC Non-Guarantor Subsidiary securing any Indebtedness of a PRC Non-Guarantor Subsidiary; *provided* that the aggregate book value of property or assets (as reflected in the most recent available consolidated financial statements of the Company or, if any such property or assets have been acquired since the

date of such financial statements, the cost of such property or assets) subject to Liens incurred pursuant to this clause (27) does not exceed 150% of the aggregate principal amount or aggregate committed amount of Indebtedness secured by such Liens;

(26) Liens Incurred on deposits made to secure Entrusted Loans;

(27) Liens on the Capital Stock of the Person that is to be acquired under the relevant Staged Acquisition Agreement securing Indebtedness which is permitted to be Incurred under clause (2)(o) of the covenant described under "— Limitation on Indebtedness"; and

(28) Liens securing Indebtedness which is permitted to be Incurred under clause (2)(p) of the covenant described under "— Certain Covenants-Limitation on Indebtedness".

"Permitted Subsidiary Indebtedness" means Indebtedness of the Non-Guarantor Subsidiaries, taken as a whole; *provided* that, on the date of Incurrence of such Indebtedness, and after giving effect thereto and the application of the proceeds thereof, the aggregate principal amount outstanding of all such Indebtedness (excluding any Indebtedness of any Non-Guarantor Subsidiary permitted under clause (2)(c), (2)(e), (2)(f), (2)(g), (2)(i), (2)(j) or (2)(l) of the covenant described under "— Certain Covenants — Limitation on Indebtedness") does not exceed an amount equal to 20% of Total Assets (or the Dollar Equivalent thereof).

"Person" means any individual, corporation, partnership, limited liability company, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PRC" means the People's Republic of China, excluding Hong Kong Special Administrative Region, Macau and Taiwan for the purposes of the Indenture.

"PRC CJV" means any future Subsidiary that is a Sino-foreign cooperative joint venture enterprise with limited liability, established in the PRC pursuant to the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures adopted on April 13, 1988 (as most recently amended on October 13, 2000) and the Detailed Rules for the Implementation of the Law of the People's Republic of China on Sino-foreign Cooperative Joint Ventures promulgated on September 4, 1995, as such laws and regulations may be amended from time to time.

"PRC CJV Partner" means with respect to a PRC CJV, the other party to the joint venture agreement relating to such PRC CJV with the Company or any Restricted Subsidiary.

"PRC Restricted Subsidiary" means a Restricted Subsidiary organized under the laws of the PRC.

"Preferred Stock" as applied to the Capital Stock of any Person means Capital Stock of any class or classes that by its term is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Rating Agencies" means (1) Moody's and (2) Fitch; *provided* that if Moody's, Fitch, or both of them shall not make a rating of the Notes publicly available, one or more nationally recognized statistical rating organizations (as defined in Rule 436 under the Securities Act), as the case may be, selected by the Company, which shall be substituted for Moody's, Fitch, or both of them, as the case may be.

"Rating Category" means (1) with respect to Moody's, any of the following categories: "Ba," "B," "Caa," "Ca," "C" and "D" (or equivalent successor categories); (2) with respect to Fitch, any of the following categories: "BB," "B," "CCC," "CC," "C" and "D" (or equivalent successor categories); and (3) the equivalent of any such category of Moody's or Fitch used by another Rating Agency. In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories ("1," "2" and "3" for Moody's and "+" and "—" for Fitch; or the equivalent gradations for another Rating Agency) shall be taken into account (e.g., with respect to Fitch, a decline in a rating from "BB+" to "BB," as well as from "BB-" to "B+," will constitute a decrease of one gradation).

"Rating Date" means (i) in connection with a Change of Control Triggering Event, that date which is 90 days prior to the earlier of (x) a Change of Control and (y) a public notice of the occurrence of a Change of Control or of the intention by the Company or any other Person or Persons to effect a Change of Control or (ii) in connection with actions contemplated under "— Consolidation, Merger and Sale of Assets," that date which is 90 days prior to the earlier of (x) the occurrence of any such actions as set forth therein and (y) a public notice of the occurrence of any such actions.

"Rating Decline" means in connection with a Change of Control Triggering Event, the occurrence on, or within six months after, the date, of public notice of the occurrence of a Change of Control or the intention by the Company or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

(a) in the event the Notes are rated by two Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by any one of the two Rating Agencies shall be below Investment Grade;

(b) in the event the Notes are rated by one of the two Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by such Rating Agencies shall be below Investment Grade;

(c) in the event the Notes are rated by two Rating Agencies and are rated below Investment Grade by both such Rating Agencies on the Rating Date, the rating of the Notes by any Rating Agency shall be decreased by one or more gradations (including gradations within Rating Categories as well as between Rating Categories).

"Reference Treasury Dealer" means each of any three investment banks of recognized standing that is a primary U.S. Government securities dealer in the City of New York, selected by the Company in good faith.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 5:00 p.m. (New York City Time) on the third Business Day preceding such redemption date.

"Relevant Non-Guaranteed Portion" means, at any time of determination, the total consolidated assets of all Relevant Offshore Non-Guarantor Subsidiaries attributable to the Company or the Restricted Subsidiaries as shown on the balance sheet of such Relevant Offshore Non-Guarantor Subsidiaries for the most recently ended semi-annual period for which financial statements (which the Company shall use its reasonable best efforts to compile in a timely manner) of the Company and the Restricted Subsidiaries are available; *provided* that, when calculating the Relevant Non-Guaranteed Portion, pro forma effect shall be given to (i) any designation of an Offshore Restricted Subsidiary as a Designated Offshore Non-Guarantor Subsidiary (or any designation of an Offshore Non-Guarantor Subsidiary as a Subsidiary Guarantor) giving rise to the calculation of the Relevant Non-Guaranteed Portion, and (ii) any other Offshore Restricted Subsidiary that was designated as a Designated Offshore Non-Guarantor Subsidiary (or Offshore Non-Guarantor Subsidiary that was designated as a Subsidiary Guarantor) after the end of such semi-annual period.

"Relevant Offshore Non-Guarantor Subsidiary" means any Offshore Restricted Subsidiary of the Company (other than the New Offshore Non-Guarantor Subsidiaries and the Exempted Subsidiaries) that does not provide a Subsidiary Guarantee.

"Replacement Assets" means, on any date, property or assets (other than current assets) of a nature or type or that are used in a Permitted Business, including the Capital Stock of any Person holding such property or assets that is primarily engaged in a Permitted Business and is or will become, upon the acquisition by the Company or any of its Restricted Subsidiaries of such Capital Stock, a Restricted Subsidiary.

"Restricted Subsidiary" means any Subsidiary of the Company other than an Unrestricted Subsidiary.

"S&P" means Standard & Poor's Ratings Services and its successors.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property (whether real, personal or mixed), now owned or hereafter acquired whereby the Company or any Restricted Subsidiary transfers such property to another Person and the Company or any Restricted Subsidiary leases it from such Person.

"Secured Indebtedness" means any Indebtedness of the Company or a Restricted Subsidiary secured by a Lien.

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"Significant Subsidiary" means any Restricted Subsidiary that would constitute a "significant subsidiary" as defined in Article 1, Rule 1–02(w) of Regulation S-X, promulgated pursuant to the United States Securities Act of 1933, as such Regulation is in effect on the date of the Indenture, provided that in each instance in such definition in which the term "10 percent" is used, the term "5 percent" shall be substituted therefor.

"Staged Acquisition Agreement" means an agreement between the Company or a Restricted Subsidiary and an Independent Third Party (a) pursuant to which the Company or such Restricted Subsidiary agrees to acquire not less than a majority of the Capital Stock of a Person for a consideration that is not more than the appraised value of such Capital Stock of such Person (determined by an independent appraisal firm, accountancy firm or investment bank of recognized international standing appointed by the Company) at the time the Company or such Restricted Subsidiary enters into such agreement and (b) which provides that the payment of the purchase price for such Capital Stock is made in more than one installment over a period of time.

"Stated Maturity" means, (1) with respect to any Indebtedness, the date specified in such debt security as the fixed date on which the final installment of principal of such Indebtedness is due and payable as set forth in the documentation governing such Indebtedness and (2) with respect to any scheduled installment of principal of or interest on any Indebtedness, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Indebtedness.

"Subordinated Indebtedness" means any Indebtedness of the Company or any Subsidiary Guarantor that is contractually subordinated or junior in right of payment to the Notes or to any Subsidiary Guarantee, as applicable, pursuant to a written agreement to such effect.

"Subsidiary" means, with respect to any Person, any corporation, association or other business entity of which more than 50% of the voting power of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more other Subsidiaries of such Person.

"Subsidiary Guarantee" means any Guarantee of the obligations of the Company under the Indenture and the Notes by any Subsidiary Guarantor.

"Subsidiary Guarantor" means the initial Subsidiary Guarantors named herein and any other Restricted Subsidiary that Guarantees the obligations of the Company under the Indenture and the Notes; *provided* that "Subsidiary Guarantor" does not include any Person whose Subsidiary Guarantee has been released in accordance with the Indenture and the Notes.

"Temporary Cash Investment" means any of the following:

(1) direct obligations of the United States of America, Hong Kong or any agency of either of the foregoing or obligations fully and unconditionally Guaranteed by the United States of America, Hong Kong or any agency of either of the foregoing, in each case maturing within one year;

(2) demand or time deposit accounts, certificates of deposit and money market deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company that is organized under the laws of the United States of America, any state thereof or Hong Kong and which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$100.0 million (or the Dollar Equivalent thereof) and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank or trust company meeting the qualifications described in clause (2) above;

(4) commercial paper, maturing not more than 180 days after the date of acquisition thereof, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America, any state thereof or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P or Fitch;

(5) securities maturing within one year of the date of acquisition thereof, issued or fully and unconditionally Guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or Moody's or Fitch;

(6) any money market fund that has at least 95.0% of its assets continuously invested in investments of the types described in clauses (1) through (5) above; and

(7) demand or time deposit accounts, certificates of deposit, overnight or call deposits, money market deposits and principal protected structured deposit products (with a term not exceeding one year and which can be withdrawn at any time with no more than six months' notice) with (i) Agricultural Bank of China, Agricultural Development Bank of China, Ankang Rural Commercial Bank, Bank of Beijing Co., Ltd., Bank of Chengdu, Bank of China, Bank of Xi'an, Chang'an Bank, China Construction Bank, China Guangfa Bank, China Minsheng Banking Corp., Ltd., China Zheshang Bank Co., Ltd., Industrial and Commercial Bank of China (Asia) Limited, Huaxia Bank Co., Ltd., Industrial Bank Co., Ltd., Ping An Bank Co., Ltd., Postal Savings Bank of China, Qinnong Bank, Qishang Bank, Rural China Cooperatives, Shanghai Pudong Development Bank, The Hongkong and Shanghai Banking Corporation Limited, Yili Rural Commercial Bank or Zhenan Rural Commercial Bank,, (ii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong whose long-term debt is rated as high or higher than any of those banks described in clause (i) of this paragraph, or (iii) any other bank, trust company or other financial institution organized under the laws of the PRC or Hong Kong; *provided* that, in the case of clause (iii), such deposits do not exceed US$15.0 million (or the Dollar Equivalent thereof) with any single bank or US$45.0 million (or the Dollar Equivalent thereof) in the aggregate on any date of determination.

"Total Assets" means, as of any date, the total consolidated assets of the Company and its Restricted Subsidiaries measured in accordance with GAAP as of the last date of the most recent fiscal quarter for which consolidated financial statements of the Company (which the Company shall use its reasonable best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements) provided that only with respect to clause (2)(k)(ii) of "Certain Covenants — Limitation on Indebtedness" covenant and the definition of "Permitted Subsidiary Indebtedness," Total Assets shall be calculated after giving *pro forma* effect to include the cumulative value of all the equipment, property or assets the purchase of which requires or required the Incurrence of Indebtedness and calculation of Total Assets thereunder in each case as of such date, as measured by the purchase price or cost therefor or budgeted cost provided in good faith by the Company or any of its Restricted Subsidiaries to the bank or other similar financial institutional lender providing such Indebtedness.

"Trade Payables" means, with respect to any Person, any accounts payable or any other indebtedness or monetary obligation to trade creditors created, assumed or Guaranteed by such Person or any of its Subsidiaries arising in the ordinary course of business in connection with the acquisition of goods or services.

"Transaction Date" means, with respect to the Incurrence of any Indebtedness, the date such Indebtedness is to be Incurred and, with respect to any Restricted Payment, the date such Restricted Payment is to be made.

"Unrestricted Subsidiary" means (1) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors in the manner provided in the Indenture and (2) any Subsidiary of an Unrestricted Subsidiary.

"U.S. Government Obligations" means securities that are (1) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (2) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally Guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof at any time prior to the Stated Maturity of the Notes, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt; *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock" means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

"Wholly Owned" means, with respect to any Restricted Subsidiary, the ownership of all of the outstanding Capital Stock of such Subsidiary (other than any director's qualifying shares or Investments by foreign nationals mandated by applicable law) by the Company or one or more Wholly Owned Subsidiaries of the Company; provided that Subsidiaries that are PRC CJVs shall not be considered Wholly Owned Subsidiaries unless such Person or one or more Wholly Owned Subsidiaries of such Person is entitled to 95% or more of the economic benefits distributable by such Subsidiary.

TAXATION

The following summary of certain Jersey, British Virgin Islands and Hong Kong tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this offering memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Notes.

Jersey

The Company is not regarded as resident for tax purposes in Jersey. Therefore, our Company will not be liable to Jersey income tax other than on Jersey source income (except where such income is exempted from income tax pursuant to the Income Tax (Jersey) Law 1961, as amended) and payments in respect of the Notes may be paid by the Company without withholding or deduction for or on account of Jersey income tax. The holders of Notes (other than residents of Jersey) will not be subject to any tax in Jersey in respect of the holding, sale or other disposition of such Notes.

In Jersey, no stamp duty is levied on the issue or transfer of Notes except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer the Notes on the death of a holder of such Notes where such Notes are situated in Jersey. In the case of a grant of probate or letters of administration, stamp duty is levied according to the size of the estate (wherever situated in respect of a holder of Notes domiciled in Jersey, or situated in Jersey in respect of a holder of Notes domiciled outside Jersey) and is payable on a sliding scale at a rate of up to 0.75% of such estate and such duty is capped at £100,000.

Jersey does not otherwise levy taxes upon capital, inheritances, capital gains or gifts nor are there other estate duties.

If you are in doubt as to your tax position, you should consult your professional tax adviser.

British Virgin Islands

There is no income or other tax in the British Virgin Islands imposed by withholding or otherwise on any payment to be made to or by the Subsidiary Guarantors pursuant to the Subsidiary Guarantees.

Hong Kong

Withholding Tax. No withholding tax in Hong Kong is payable on payments of principal (including any premium payable on redemption of the Notes) or interest in respect of the Notes.

Profits Tax. Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business. Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance"), as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Notes where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong and such revenue profits has Hong Kong source.

Interest on the Notes will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong;
- a corporation carrying on a trade, profession or business in Hong Kong; or
- a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Notes where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp Duty. No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside Hong Kong) of a Note.

PRC

Taxation on Interest. As described in the risk factor entitled "We may be deemed PRC resident enterprise under the PRC Enterprise Income Tax Law and be subject to a PRC taxation on our worldwide income", the Company may be treated as a PRC resident enterprise. The PRC tax law, impose withholding a tax at the rate of 10% on interests paid to holders of the Notes that are "non-resident enterprises" so long as such "non-resident enterprise" holder does not have an establishment or place of business in China or, if there is an establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China, to the extent such interests are sourced within China (or at the rate of 20% from interest paid to investors that are non-resident individuals). Pursuant to these provisions of the PRC tax law, despite many uncertainties with respect to their application, if we are considered a PRC resident enterprise, the interest payable to the non-resident enterprise holders on the Notes may be treated as income derived from sources within China and be subject to the PRC withholding tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate will apply to qualified investors in the Notes. The Company currently takes the view that it is not a PRC resident enterprise for these purposes.

Taxation on Capital Gains. PRC tax law imposes a tax at the rate of 10% on capital gains realized by holders of the Notes that are "non-resident enterprises" so long as any such "non-resident enterprise" holder does not have an establishment or place of business in China or, if there is an establishment or place of business in China, the relevant gain is not effectively connected with such establishment or place of business in China, to the extent such capital gains are sourced within China (or at the rate of 20% on capital gains realized by holders that are non-resident individuals). Pursuant to these provisions of the PRC Enterprise Income Tax Law, despite many uncertainties with respect to their application, if we are considered a PRC resident enterprise, the capital gains realized by holders of the Notes may be treated as income derived from sources within China and be subject to the PRC tax. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate will apply to qualified investors in the Notes.

Stamp duty. No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside mainland China) of the Notes.

PLAN OF DISTRIBUTION

Nomura International plc and China International Capital Corporation Hong Kong Securities Limited are acting as the Initial Purchasers. Subject to the terms and conditions stated in the purchase agreement, each Initial Purchaser named below has severally agreed to purchase, and we have agreed to sell to that Initial Purchaser, the principal amount of the Notes set forth opposite the Initial Purchaser's name.

Initial Purchaser	Principal Amount
Nomura International plc	US$300,000,000
China International Capital Corporation Hong Kong Securities Limited	US$300,000,000
Total	US$600,000,000

The purchase agreement provides that the obligations of the Initial Purchasers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Initial Purchasers must purchase all the Notes if they purchase any of the Notes.

The Initial Purchasers propose to resell the Notes at the offering price set forth on the cover page of this offering memorandum outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the Notes are offered may be changed at any time without notice. In addition, we have agreed with the Initial Purchasers that we will pay a commission to certain private banks in connection with the distribution of the Notes to their clients. This commission will be based on the principal amount of the Notes so distributed, and may be deducted from the purchase price for the Notes payable by such private banks upon settlement.

We and the Subsidiary Guarantors have agreed that, for a period of 30 days from the Original Issue Date (as defined in "Description of the Notes"), we and the Subsidiary Guarantors will not, without obtaining the prior written consent of the representatives of the Initial Purchasers, offer, sell, contract to sell, or otherwise dispose of, any debt securities, including debt securities linked to, convertible to or exchangeable with equity securities, issued or guaranteed by us or the Subsidiary Guarantors (other than the Notes or the Subsidiary Guarantees). The representatives of the Initial Purchasers in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Notes will constitute a new class of securities with no established trading market. Application will be made to The Stock Exchange of Hong Kong Limited for the listing of, and permission to deal in, the Notes by way of debt securities to professional investors only. However, we cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Initial Purchasers have advised us that they currently intend to make a market in the Notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, we cannot assure you as to the liquidity of, or the trading market for, the Notes.

Any of the Initial Purchasers (or its affiliates) may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids to the extent permitted by applicable laws and regulations. Over-allotment involves sales in excess of the offering size, which creates a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit any of the Initial Purchasers (as stabilizing manager) to reclaim a selling concession from a dealer when the Notes originally sold by such dealer are purchased in a stabilizing transaction or a covering transaction to cover short positions. Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither we nor the Initial Purchasers make any representation that any of the Initial Purchasers (as stabilizing manager) will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6–1 of the Exchange Act, trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the next succeeding business day should consult their own advisor.

The Initial Purchasers or their affiliates have performed commercial banking, investment banking or advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The Initial Purchasers or its affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of business for which they may receive customary fees and reimbursement of expenses.

We and the Subsidiary Guarantors have agreed to indemnify the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Initial Purchasers may be required to make because of any of those liabilities.

Selling Restrictions

General

No action has been taken or will be taken in any jurisdiction by us or the Initial Purchasers that would permit a public offering of the Notes, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Notes or this offering, in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this offering memorandum nor such other material may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

United States

The Notes and the Subsidiary Guarantees have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States except in transactions exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the Securities Act.

The Initial Purchasers, through their affiliates, acting as selling agents where applicable, propose to offer the Notes to certain persons in offshore transactions in reliance on Regulation S. Terms used in this paragraph have the meanings given to them by Regulation S.

European Economic Area

Each of the Initial Purchasers represents and agrees that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the European Economic Area (‘‘EEA’’).

For the purposes of this provision, the expression ‘‘retail investor’’ means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 14/65/EU (as amended, ‘‘MiFID II’’); or

(ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the ‘‘Insurance Distribution Directive’’), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Furthermore, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available by any person to any retail investor in the EEA.

Consequently no key information document as would be required by Regulation (EU) No 1286/2014 (as amended, the "EU PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

United Kingdom

Each of the Initial Purchasers represents, warrants and agrees that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA") received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Subsidiary Guarantors; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each of the Initial Purchasers has further represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the UK.

For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("EUWA"); or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of UK domestic law by virtue of the EUWA; and

(iii) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Furthermore, the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of UK domestic law by virtue of the EUWA (as amended, the "UK PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Hong Kong

This offering memorandum has not been and will not be registered with the Registrar of Companies in Hong Kong. Accordingly, except as mentioned below, this offering memorandum may not be issued, circulated or distributed in Hong Kong. A copy of this offering memorandum may, however, be issued to a limited number of prospective applicants for the Notes in Hong Kong in a manner which does not constitute an offer of the Notes to the public in Hong Kong or an issue, circulation or distribution in Hong Kong of a prospectus for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). No advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning as defined in the Securities and Futures Ordinance (Chapter 571. of the Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "FIEL"), and disclosure under the FIEL has not been made with respect to the Notes. Accordingly, the Notes may not be offered or sold, directly or indirectly in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese laws and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

Singapore

This offering memorandum or any other material distributed by the Initial Purchasers has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Notes to be issued from time to time by us may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased in reliance of an exemption under Sections 274 or 275 of the SFA, the Notes shall not be sold within the period of six months from the date of the initial acquisition of the Notes, except to any of the following persons:

(a) an institutional investor (as defined in Section 4A of the SFA);

(b) a relevant person (as defined in Section 275(2) of the SFA); or

(c) any person pursuant to an offer referred to in Section 275(1A) of the SFA,

unless expressly specified otherwise in Section 276(7) of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six (6) months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

   (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

   (2) where no consideration is or will be given for the transfer;

   (3) where the transfer is by operation of law; or

(4) as specified in Section 276(7) of the SFA.

PRC

This offering memorandum does not constitute a public offer of the Notes, whether by sale or by subscription, in the PRC. The Notes will not be offered or sold within the PRC by means of this offering memorandum or any other document except pursuant to the applicable laws and regulations of the PRC.

British Virgin Islands

No invitation will be made directly or indirectly to any person resident in the British Virgin Islands to subscribe for any of the Notes.

TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult their legal counsel prior to making any offer, sale, resale, charge or other transfer of the Notes.

The Notes are subject to restrictions on transfer as summarized below. By purchasing the Notes, including the Subsidiary Guarantees (together, the ''Securities''), you will be deemed to have made the following acknowledgments, representations to, and agreements with, us and the Initial Purchasers:

1. You understand and acknowledge that:

   - the Securities have not been registered under the Securities Act or any other applicable securities laws;

   - the Securities are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws;

   - the Securities are being offered and sold only outside of the United States in offshore transactions in reliance on Rule 903 of Regulation S under the Securities Act; and

   - unless so registered, the Securities may not be sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws.

2. You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of ours, that you are not acting on our behalf, and that you are purchasing the Securities in an offshore transaction in accordance with Regulation S.

3. You acknowledge that neither we nor the Initial Purchasers nor any person representing us or the Initial Purchasers has made any representation to you with respect to us or the offering of the Securities, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the Securities. You agree that you have had access to such financial and other information concerning us and the Securities as you have deemed necessary in connection with your decision to purchase the Securities including an opportunity to ask questions of and request information from us.

4. You represent that you are purchasing the Securities for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the Securities in violation of the Securities Act.

5. You acknowledge that each Note will contain a legend substantially to the following effect: THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE ''SECURITIES ACT''), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION.

6. You acknowledge that we, the Initial Purchasers, the Trustee, the Agents and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have made by your purchase of the Securities is no longer accurate, you will promptly notify us, the Trustee, the Agents and the Initial Purchasers. If you are purchasing any Securities as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

RATINGS

The Notes have been provisionally rated "BB" by Fitch and "Ba2" by Moody's. The ratings reflect the rating agencies' assessment of the likelihood of timely payment of the principal of and interest on the Notes. In addition, we have been assigned a corporate credit rating of "Ba2" with a positive outlook by Moody's and "BB" with a positive outlook by Fitch. The ratings do not address the payment of any Additional Amounts and do not constitute recommendations to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. We cannot assure you that the ratings will remain in effect for any given period or that the ratings will not be revised by such rating agencies in the future if in their judgment circumstances so warrant. Each such rating should be evaluated independently of any other rating on the Notes, on other of our securities, or on us.

LEGAL MATTERS

Certain legal matters with respect to the Notes will be passed upon for us by Morgan, Lewis & Bockius as to matters of Hong Kong, United States federal and New York law, Carey Olsen Jersey LLP as to matters of Jersey law, Carey Olsen Hong Kong LLP as to matters of British Virgin Islands law and Jingtian & Gongcheng as to matters of PRC law. Certain legal matters will be passed upon for the Initial Purchasers by Milbank LLP as to matters of United States federal and New York law and Grandall Law Firm as to matters of PRC law.

AUDITOR

The audited consolidated financial statements of our Group as of and for each of the years ended December 31, 2018, 2019 and 2020, included in this offering memorandum, had been audited by Deloitte Touche Tohmatsu, certified public accountants.

For the purpose of the offers and sales outside the United States in reliance on Regulation S, Deloitte Touche Tohmatsu has acknowledged the references to its name and the inclusion of its reports in the form and context in which they are respectively included in this offering memorandum.

GENERAL INFORMATION

CONSENTS

We have obtained all necessary consents, approvals and authorizations in the Jersey, the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Subsidiary Guarantees. The entering into of the Indenture governing the Notes and the issue of the Notes have been approved at a meeting of our board of directors on June 24, 2021.

DOCUMENTS AVAILABLE

For so long as any of the Notes are outstanding, copies of the Indenture governing the Notes may be inspected free of charge during normal business hours on any weekday (except public holidays) at the corporate trust office of the Trustee.

For so long as any of the Notes are outstanding, copies of our audited financial statements for the past two fiscal years, may be obtained during normal business hours on any weekday (except public holidays) at the principal place of business of the Company.

CLEARING SYSTEM AND SETTLEMENT

The Notes have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Notes is set forth below:

ISIN	Common Code
XS2346524783	234652478

Only Notes evidenced by a Global Note have been accepted for clearance through Euroclear, and Clearstream.

LISTING OF THE NOTES

Application will be made to the HKEX for the listing of, and permission to deal in, the Notes by way of debt securities to Professional Investors only. Hong Kong Exchanges and Clearing Limited and the HKEX take no responsibility for the contents of this offering memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum. Admission to and quotation of any Notes on the HKEX is not to be taken as an indication of the merits of the Company, the Subsidiary Guarantors or any other subsidiary or associated company of the Company, the Notes or the Subsidiary Guarantees. The Notes will be traded on the HKEX in a minimum board lot size of US$200,000 for so long as the Notes are listed on the HKEX.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this offering memorandum, our directors were not aware any material adverse changes in the condition (financial or otherwise), trading position or general affairs of our Group since December 31, 2020.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF WEST CHINA CEMENT LIMITED
(incorporated in Jersey with limited liability)

OPINION

We have audited the consolidated financial statements of West China Cement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 139, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment assessment for past due loan receivables	
We identified the impairment assessment of the past due loan receivables as a key audit matter due to the significance of the past due loan receivables to the Group's consolidated financial statements and the involvement of significant judgement and management estimates in assessing the expected credit losses ("ECL") of the Group's past due loan receivables at the end of the reporting period. As disclosed in Note 23 to the consolidated financial statements, as at 31 December 2020, the Group had past due loan receivables of approximately RMB1,023.3 million which represented approximately 5.4% of the total assets of the Group. As detailed in Notes 3 and 4 to the consolidated financial statements, the ECL measurement involves significant management judgement, with the involvement of: (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default ("PD") and loss given default ("LGD"), and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL model.	Our procedures in relation to the impairment assessment of the past due loan receivables included: • Obtaining an understanding of the Group's key controls on how the management estimates the credit loss allowance for the past due loan receivables; • Testing the input data of the ECL model on a sample basis to evaluate the completeness and accuracy of the data input as well as testing the calculation of the ECL model; • Selecting samples to test the reasonableness of future cash flows from borrowers estimated by the Group, including the expected recoverable amounts of collaterals, to assess whether there were material misstatements in the loss allowance; and • With the support of our internal modelling specialist, we have reviewed and assessed on the reasonableness of the key parameters and assumptions used in the ECL model adopted by the management, this included PD, LGD and forward looking information.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Gladys Fung Suet Ngan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2021

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	5	**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	6	**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	7	**(152,663)**	(68,008)
Impairment losses under expected credit loss model, net of reversal	8	**(128,408)**	(36,517)
Share of profit of an associate		**16,628**	22,388
Interest income	9	**195,762**	228,231
Finance costs	10	**(165,184)**	(187,076)
Profit before tax	11	**1,847,456**	2,243,801
Income tax expense	12	**(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
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	14		
— Basic (RMB)		**0.287**	0.331
— Diluted (RMB)		**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	17	**11,161,110**	7,793,345
Right-of-use assets	18	**643,185**	469,021
Mining rights	19	**539,903**	542,352
Other intangible assets	20	**208,186**	199,235
Interest in an associate	22	**77,643**	80,269
Loan receivables	23	**524,091**	724,182
Deferred tax assets	24	**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	26	**23,123**	31,241
Investment in entrusted product	28	**81,855**	181,855
		13,735,914	10,676,611
Current assets			
Inventories	25	**731,434**	665,526
Trade and other receivables and prepayments	26	**1,748,635**	958,525
Loan receivables	23	**1,214,955**	1,055,444
Structure deposits	29	**100,000**	90,000
Restricted/pledged bank deposits	30	**723,831**	354,148
Bank balances and cash	30	**651,463**	779,559
		5,170,318	3,903,202
Current liabilities			
Borrowings	31	**1,878,894**	1,126,000
Trade and other payables	33	**2,734,518**	1,735,544
Dividend payable		**8,000**	–
Contract liabilities	34	**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

At 31 December 2020

	NOTES	2020 RMB'000	2019 RMB'000
Non-current liabilities			
Borrowings	31	**600,548**	1,189,589
Medium-term notes	36	**1,232,842**	521,098
Asset retirement obligation	35	**347,413**	336,398
Deferred tax liabilities	24	**78,701**	63,721
Deferred income	37	**35,301**	34,205
Amount due to a non-controlling shareholder of a subsidiary	38	**1,138,506**	–
		3,433,311	2,145,011
Net assets		**10,527,217**	9,225,664
Capital and reserves			
Share capital	39	**141,837**	141,771
Share premium and reserves	40	**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

The consolidated financial statements on pages 56 to 139 were approved and authorised for issue by the Board of Directors on 29 March 2021 and are signed on its behalf by:

ZHANG JIMIN
DIRECTOR

MA WEIPING
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Equity reserve RMB'000 (Note 40)	Translation reserve RMB'000	Share option reserve RMB'000	Statutory reserve RMB'000 (Note 40)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019	141,771	3,091,812	(306,006)	–	25,223	724,609	3,847,856	7,525,265	73,690	7,598,955
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,801,281	1,801,281	48,248	1,849,529
Transfer to statutory reserve	–	–	–	–	–	324,400	(324,400)	–	–	–
Recognition of equity-settled share-based payments *(Note 43)*	–	–	–	–	264	–	–	264	–	264
Appropriation of maintenance and production funds *(Note a)*	–	–	–	–	–	49,551	(49,551)	–	–	–
Utilisation of maintenance and production funds *(Note a)*	–	–	–	–	–	(37,107)	37,107	–	–	–
Winding of a subsidiary *(Note c)*	–	–	–	–	–	(1,404)	1,404	–	(3,587)	(3,587)
Capital injection by non-controlling interests	–	–	–	–	–	–	–	–	59,000	59,000
Deemed contribution from non-controlling interests *(Note b)*	–	–	–	–	–	–	–	–	227	227
Dividends recognised as distribution *(Note 13)*	–	(273,871)	–	–	–	–	–	(273,871)	–	(273,871)
Dividends recognised as distribution to non-controlling interests	–	–	–	–	–	–	–	–	(4,853)	(4,853)
At 31 December 2019	**141,771**	**2,817,941**	**(306,006)**	**–**	**25,487**	**1,060,049**	**5,313,697**	**9,052,939**	**172,725**	**9,225,664**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**1,560,480**	**1,560,480**	**22,482**	**1,582,962**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**(3,552)**	**–**	**–**	**–**	**(3,552)**	**–**	**(3,552)**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**(3,552)**	**–**	**–**	**1,560,480**	**1,556,928**	**22,482**	**1,579,410**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**160,493**	**(160,493)**	**–**	**–**	**–**
Shares issued for share options exercised *(Note 43)*	**66**	**5,041**	**–**	**–**	**(1,453)**	**–**	**–**	**3,654**	**–**	**3,654**
Appropriation of maintenance and production funds *(Note a)*	**–**	**–**	**–**	**–**	**–**	**56,365**	**(56,365)**	**–**	**–**	**–**
Utilisation of maintenance and production funds *(Note a)*	**–**	**–**	**–**	**–**	**–**	**(22,758)**	**22,758**	**–**	**–**	**–**
Acquisition of non-controlling interests	**–**	**–**	**2,093**	**–**	**–**	**–**	**–**	**2,093**	**(16,953)**	**(14,860)**
Deemed contribution from non-controlling interests *(Note 40(h))*	**–**	**–**	**53,686**	**–**	**–**	**–**	**–**	**53,686**	**37,924**	**91,610**
Dividends recognised as distribution *(Note 13)*	**–**	**(338,498)**	**–**	**–**	**–**	**–**	**–**	**(338,498)**	**–**	**(338,498)**
Dividends recognised as distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,763)**	**(19,763)**
At 31 December 2020	**141,837**	**2,484,484**	**(250,227)**	**(3,552)**	**24,034**	**1,254,149**	**6,680,077**	**10,330,802**	**196,415**	**10,527,217**

Notes:

(a) Pursuant to the relevant People's Republic of China ("PRC") regulations, the Group is required to transfer maintenance and production funds at fixed rates based on relevant bases, such as production volume, to a specific reserve account. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

(b) Amounts represented the dividend payable waived by the non-controlling shareholder of a subsidiary and was thus treated as deemed contribution to the Group.

(c) On 23 September 2019, the Group wound up a non-wholly owned subsidiary resulting in the net assets of that subsidiary being distributed to the respective shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	NOTE	2020 RMB'000	2019 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**1,847,456**	2,243,801
Adjustments for:			
Finance costs		**165,184**	187,076
Interest income		**(195,762)**	(228,231)
Net foreign exchange losses		**149,725**	20,954
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
Loss on disposal of property, plant and equipment		**18,909**	37,662
Fair value gain on investment in entrusted product		**(16,030)**	–
Impairment loss under expected credit loss model, net of reversal	8	**128,408**	36,517
Reversal of write-down of inventories		**(18,726)**	–
Share of profit of an associate		**(16,628)**	(22,388)
Loss on partial redemption of senior notes		**–**	13,435
Government grants released to profit or loss		**(13,221)**	(10,978)
Recognition of equity-settled share-based payments		**–**	264
Operating cash flows before movements in working capital		**2,951,098**	3,115,140
Increase in inventories		**(47,182)**	(174,410)
Increase in trade and other receivables and prepayments		**(320,992)**	(217,048)
Increase in trade and other payables		**378,127**	449,504
Increase (decrease) in contract liabilities		**34,005**	(4,411)
Cash generated from operations		**2,995,056**	3,168,775
Income tax paid		**(312,937)**	(474,010)
Net cash from operating activities		**2,682,119**	2,694,765

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	NOTES	**2020 RMB'000**	2019 RMB'000
INVESTING ACTIVITIES			
Interest received		**195,762**	245,419
Dividend received from an associate		**7,254**	22,780
Purchase of property, plant and equipment		**(2,675,120)**	(1,614,768)
Purchase of mining rights		**(67,880)**	(42,650)
Payments for right-of-use assets		**(188,431)**	(9,971)
Purchase of other intangible assets		**(10,420)**	(1,624)
Purchase of entrusted product		**–**	(181,855)
Purchase of structure deposits		**(100,000)**	(534,337)
Proceeds from disposal of property, plant and equipment		**23,120**	14,960
Proceeds from disposal of structure deposits		**90,000**	455,707
Proceeds from disposal of entrusted product		**116,030**	–
Prepayments for right-of-use assets		**–**	(100,278)
Payment for acquisition of subsidiaries		**(85,200)**	–
Loans to third parties		**(249,770)**	(460,485)
Repayments received for loans to third parties		**204,429**	367,764
Net cash outflow on acquisition of a subsidiary	41	**(22,199)**	–
Winding of a subsidiary		**–**	(3,587)
Advance to a non-controlling shareholder of a subsidiary		**–**	(6,000)
Government grants received for acquisition of property, plant and equipment		**16,300**	–
Advance to third parties		**(94,448)**	(106,414)
Repayment of advances from third parties		**92,268**	24,655
Withdrawal of restricted/pledged bank deposits		**661,782**	341,236
Placement of restricted/pledged bank deposits		**(1,031,465)**	(506,352)
Net cash used in investing activities		**(3,117,988)**	(2,095,800)
FINANCING ACTIVITIES			
New borrowings raised		**2,311,972**	1,316,000
Repayments of borrowings		**(2,166,436)**	(863,571)
Repayments of senior notes including early redemption premium	32	**–**	(2,257,767)
Proceeds from issuance of medium-term notes	36	**700,000**	500,000
Medium-term notes issue costs paid	36	**(2,100)**	(2,250)
Proceeds from issuance of syndicated loan	31	**–**	1,062,690
Syndicated loan issue costs paid	31	**–**	(47,521)
Dividends paid to non-controlling shareholders of a subsidiary		**(11,763)**	(4,853)
Dividends paid		**(338,498)**	(273,871)
Shares issued for share options exercised		**3,654**	–
Capital injection by non-controlling interests		**–**	59,000
Acquisition of non-controlling interests		**(1,579)**	–
Interest paid		**(173,210)**	(193,861)
Net cash from (used in) financing activities		**322,040**	(706,004)
Net decrease in cash and cash equivalents		**(113,829)**	(107,039)
Cash and cash equivalents at 1 January		**779,559**	886,046
Effect of foreign exchange rate changes		**(14,267)**	552
Cash and cash equivalents at 31 December, represented by bank balances and cash		**651,463**	779,559

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

1. GENERAL INFORMATION

West China Cement Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sale of cement in western China, the People's Republic of China (the "PRC").

The Company was incorporated in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD, Channel Islands and the principal place of business is Yaobai R&D Training Center, No. 336 4th Shenzhou Road, Aerospace Industrial Base, Chang'an District, Xi'an, Shaanxi Province, the PRC.

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE").

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

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

2.1 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

2.1 Amendments to IFRSs that are mandatorily effective for the current year *(Cont'd)*

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.

The Group has elected not to apply the optional concentration test on the acquisition of Hongxing Glass Congo SARL ("Hongxing Glass") (as detailed in Note 41) and concluded that such acquisition does not constitute a business upon application of the amendments.

2.2 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.

2. APPLICATION OF AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

2.2 New and amendments to IFRSs in issue but not yet effective *(Cont'd)*

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.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis for preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on HKSE ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, after taking into consideration the events after the reporting period as disclosed in Note 51, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.1 Basis for preparation of consolidated financial statements *(Cont'd)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Basis of consolidation *(Cont'd)*

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations or asset acquisitions

Optional concentration test

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

Asset acquisitions

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

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Business combinations or asset acquisitions *(Cont'd)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in September 2010).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Goodwill *(Cont'd)*

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU(s)") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Interest in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a leasee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative standalone price of the lease component and the aggregate stand-alone price of the non-lease components, including contract for acquisition of ownership interests of a property which includes both leasehold land and non-lease building components, unless such allocation cannot be made reliably.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Leases *(Cont'd)*

The Group as a leasee *(Cont'd)*

Short-term leases and leases of low-values assets
The Group applies the short-term lease recognition exemption to lease of an office that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets
The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities
At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Leases *(Cont'd)*

Sale and leaseback transactions

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred assets and recognised a loan receivable equal to the transfer proceeds within the scope of IFRS 9.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Retirement benefit costs

Payments to the defined contribution retirement plans, including state-managed retirement schemes in the PRC and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments (share options) to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Property, plant and equipment *(Cont'd)*

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Except for mining assets (see Notes (a) and (b) below), depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining assets include primarily the following:

(a) Stripping costs

Stripping costs incurred during the production phase which provide improved access to ore is capitalised into property, plant and equipment as "mining assets" (before production begins) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as mining assets of which it forms part. Capitalised stripping costs are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

(b) Asset retirement obligation

The Group recognises provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mining properties and mining assets under property, plant and equipment when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the mining assets and the cost is depreciated as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The adjusted cost of the asset is depreciated prospectively over the economic life of the assets to which they relate. The unwinding of the discount is shown as finance costs in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Mining rights

The cost of acquiring rights for the Group to extract a mine over a certain period is capitalised and subsequently stated at cost less accumulated amortisation and impairment loss. Amortisation of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on the unit of production method.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In testing a CGU for impairment, corporate assets are allocated to the relevant CGU when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGU.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill *(Cont'd)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Classification and subsequent measurement of financial assets (Cont'd)

All other financial assets are subsequently measured at FVTPL, except that at the date of initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses, net" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivables, other deposits, bank balances and restricted/pledged bank deposits) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other financial assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (Cont'd)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (Cont'd)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (Cont'd)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

3.2 Significant accounting policies *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities including borrowings, trade and other payables, amount due to non-controlling shareholder of a subsidiary, senior notes and medium-term notes are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets

The measurement of impairment losses under IFRS 9 across financial assets measured at amortised costs requires judgement, in particular, the estimation of the amount, timing of future cash flows and forward-looking information when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses practical expedient in estimating ECL on trade receivables which are not assessed individually using provision matrix. The provision rates are based on debtors' aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the Group's trade receivables and the ECL are disclosed in Notes 26 and 47, respectively.

Loan receivables

The Group makes allowance for loan receivables based on the ECL model on an individual basis which requires significant judgement and management estimates. Elements of significant management judgement includes: (i) the selection of appropriate models and key inputs used in the ECL model, including the probability of default and loss given default, and (ii) the selection and use of reasonable and supportable forward-looking information without undue cost or effort in the ECL model..

The information about the Group's loan receivables and the ECL are disclosed in Notes 23 and 47, respectively.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU (or group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2020, the carrying amounts of goodwill is RMB193,357,000 (2019: RMB193,357,000) as disclosed in Note 21.

Assets retirement obligation

The estimation of the liabilities for assets retirement obligation involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including development plan of the mines, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of retirement obligation to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of retirement activities), the revisions to the obligation will be recognised at the appropriate discount rate. The carrying amounts of the assets retirement obligations is RMB347,413,000 (2019: RMB336,398,000) as disclosed in Note 35.

5. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement products. The Group's chief executive officer, being the chief operating decision maker (the "CODM") reviews the sales volume and average selling prices of its cement products by 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 **RMB'000**	2019 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

5. REVENUE AND SEGMENT INFORMATION *(Cont'd)*

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.

6. OTHER INCOME

	2020 **RMB'000**	2019 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.

7. OTHER GAINS AND LOSSES, NET

	2020 **RMB'000**	2019 RMB'000
Fair value gain on investment in 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

	2020 **RMB'000**	2019 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

Details of impairment assessment are set out in Note 47.

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.

9. INTEREST INCOME

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

10. FINANCE COSTS

	2020 **RMB'000**	2019 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 *(Note 35)*	**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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

11. PROFIT BEFORE TAX

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

	2020 **RMB'000**	2019 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).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. 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: *(Note 24)*:		
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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. INCOME TAX EXPENSE *(Cont'd)*

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)
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)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. INCOME TAX EXPENSE *(Cont'd)*

Notes: (Cont'd)

b. *(Cont'd)*

Entities	Place of establishment	Tax rate for the year ended 31 December 2020	2019	Tax benefit
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)
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)
陝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)
陝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)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. INCOME TAX EXPENSE *(Cont'd)*

Notes: (Cont'd)

b. *(Cont'd)*

Entities	Place of establishment	Tax rate for the year ended 31 December 2020	2019	Tax benefit
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)
陝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)
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)
和田堯柏建材有限公司 Hetian Yaobai Building Materials Co., Ltd. * ("Hetian Jiancai")	Xinjiang	**0%**	(vi)	(iv)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. INCOME TAX EXPENSE *(Cont'd)*

Notes: (Cont'd)

b. *(Cont'd)*

Entities	Place of establishment	Tax rate for the year ended 31 December 2020	2019	Tax benefit
陝西豐盛德遠實業有限公司 Shaanxi Fengshengdeyuan Industrial Co., Ltd. * ("Shaanxi Fengsheng")	Shaanxi	**15%**	15%	(v)
西安柏雲智能數據技術有限公司 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.

(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 are hence taxed at 25% during the year ended 31 December 2020.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

12. INCOME TAX EXPENSE *(Cont'd)*

Notes: (Cont'd)

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*

13. DIVIDENDS

	2020 RMB'000	2019 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2020 Interim — nil (2019 Interim: RMB3.6 cents) per share	**–**	197,781
2019 Final — RMB6.3 cents (2018 Final: RMB1.4 cents) per share	**338,498**	76,090
	338,498	273,871

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of RMB8.6 cents (2019: RMB6.3 cents) per ordinary share, in an aggregate amount of RMB467,744,000 (2019: RMB338,498,000), and a special dividend of RMB3.4 cents (2019: nil) per ordinary share, in an aggregate amount of RMB184,922,000 (2019: nil), have been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

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

Number of shares	**2020 '000**	2019 '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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

2020	**Fees RMB'000**	**Salaries and allowances RMB'000**	**Performance related bonus RMB'000**	**Retirement benefits RMB'000**	**Share-based payments RMB'000**	**Total RMB'000**
Executive directors						
Zhang Jimin	**–**	**1,500**	**2,300**	**–**	**–**	**3,800**
Ma Weiping *(Chief Executive)*	**–**	**2,012**	**1,667**	**3**	**–**	**3,682**
Non-executive directors						
Ma Zhaoyang	**347**	**–**	**–**	**–**	**–**	**347**
Liu Yan	**347**	**–**	**–**	**–**	**–**	**347**
Fan Changhong	**347**	**–**	**–**	**–**	**–**	**347**
Independent non-executive directors						
Lee Kong Wai Conway	**347**	**–**	**–**	**–**	**–**	**347**
Zhu Dong	**347**	**–**	**–**	**–**	**–**	**347**
Tam King Ching Kenny	**347**	**–**	**–**	**–**	**–**	**347**
	2,082	**3,512**	**3,967**	**3**	**–**	**9,564**

2019	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonus RMB'000	Retirement benefits RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors						
Zhang Jimin	–	1,500	2,300	13	40	3,853
Ma Weiping *(Chief Executive)*	–	2,017	1,670	32	93	3,812
Non-executive directors						
Ma Zhaoyang	354	–	–	–	8	362
Liu Yan	354	–	–	–	–	354
Qin Hongji (resigned on 15 July 2019)	192	–	–	–	–	192
Fan Changhong (appointed on 15 July 2019)	162	–	–	–	–	162
Independent non-executive directors						
Lee Kong Wai Conway	354	–	–	–	8	362
Wong Kun Kau (resigned on 16 May 2019)	133	–	–	–	8	141
Zhu Dong (appointed on 15 July 2019)	162	–	–	–	–	162
Tam King Ching Kenny	354	–	–	–	8	362
	2,065	3,517	3,970	45	165	9,762

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Cont'd)*

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

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or as compensation for loss of office (2019: nil).

Performance related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2019: nil).

16. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year include two directors (2019: two) of whose remuneration are set out in Note 15 above. The remaining three (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 **RMB'000**	2019 RMB'000
Salaries and allowances	**4,955**	3,798
Retirement benefits	**8**	81
Share-based payments	**–**	40
	4,963	3,919

The above employees' emoluments were within the following bands:

	Number of employees	
	2020	2019
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**3**	1

During the year, no emoluments were paid by the Group to these individuals as an inducement to join or as compensation for loss of office (2019: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic and other equipment	Machinery	Mining assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2019	3,815,215	156,511	229,736	6,564,858	1,086,382	558,546	12,411,248
Additions	15,590	101,649	50,623	143,009	295,775	862,203	1,468,849
Transfers	192,426	33,819	15,223	124,243	34,373	(400,084)	–
Disposals	(48,539)	(14,690)	(6,358)	(80,794)	–	–	(150,381)
At 31 December 2019	3,974,692	277,289	289,224	6,751,316	1,416,530	1,020,665	13,729,716
Exchange realignment	–	(1,060)	(746)	(1,424)	–	(256,871)	(260,101)
Additions	14,489	61,947	101,545	70,705	23,114	2,648,615	2,920,415
Acquisition of a subsidiary	–	–	–	–	–	93,987	93,987
Assets injection by non-controlling interests	–	–	–	–	–	1,520,381	1,520,381
Transfers	290,634	10,753	199,988	346,839	114,612	(962,826)	–
Disposals	(23,423)	(9,211)	(7,222)	(143,939)	–	–	(183,795)
At 31 December 2020	**4,256,392**	**339,718**	**582,789**	**7,023,497**	**1,554,256**	**4,063,951**	**17,820,603**
ACCUMULATED DEPRECIATION							
At 1 January 2019	1,305,360	25,663	221,499	3,322,447	356,081	–	5,231,050
Depreciation charge	166,207	39,744	38,339	490,318	68,472	–	803,080
Disposals	(28,046)	(6,008)	(4,489)	(59,216)	–	–	(97,759)
At 31 December 2019	1,443,521	59,399	255,349	3,753,549	424,553	–	5,936,371
Depreciation charge	186,965	49,543	38,363	499,667	90,350	–	864,888
Disposals	(11,703)	(6,021)	(6,030)	(118,012)	–	–	(141,766)
At 31 December 2020	**1,618,783**	**102,921**	**287,682**	**4,135,204**	**514,903**	**–**	**6,659,493**
CARRYING VALUES							
At 31 December 2020	**2,637,609**	**236,797**	**295,107**	**2,888,293**	**1,039,353**	**4,063,951**	**11,161,110**
At 31 December 2019	2,531,171	217,890	33,875	2,997,767	991,977	1,020,665	7,793,345

Details of property, plant and equipment pledged are set out in Note 46.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

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

The annual rates of depreciation for above items of property, plant and equipment, other than construction in progress and mining assets, are as follows:

Category of property, plant and equipment	Useful life
Buildings	20 years
Motor vehicles	8 years
Electronic and other equipment	5 years
Machinery	12 years

Mining assets are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

18. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000
As at 31 December 2020	
Carrying amount	643,185
As at 31 December 2019	
Carrying amount	469,021

	2020 **RMB'000**	2019 RMB'000
Depreciation charge	**14,267**	14,013
Total cash outflow for leases	**188,431**	9,971
Additions to right-of-use assets	**188,431**	9,971

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB177,852,000 (2019: RMB37,112,000) in which the Group is in the process of obtaining. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights. Details of right-of-use assets pledged are set out in Note 46.

Right-of-use assets are depreciated on a straight-line basis over the shorter of 50 years and the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

19. MINING RIGHTS

	RMB'000
COST	
At 1 January 2019	426,402
Addition	233,411
At 31 December 2019	659,813
Addition	18,710
At 31 December 2020	678,523
AMORTISATION	
At 1 January 2019	99,476
Charge for the year	17,985
At 31 December 2019	117,461
Charge for the year	21,159
At 31 December 2020	138,620
CARRYING AMOUNT	
At 31 December 2020	539,903
At 31 December 2019	542,352

Mining rights are granted from the Department of Natural Resources of Shaanxi Province, Guizhou Province and Xinjiang Uygur Autonomous Region in the PRC.

Mining rights are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

As at 31 December 2020, the Group has obtained all mining right certificates. As at 31 December 2019, carrying amount of RMB13,956,000 in respect of the mining right certificate under which the Group is in the process of obtaining. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these mining rights.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

20. OTHER INTANGIBLE ASSETS

	Goodwill	Customer relationships	Computer software	Emission rights	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST					
At 1 January 2019	193,357	20,610	6,387	–	220,354
Addition	–	–	1,624	–	1,624
At 31 December 2019	193,357	20,610	8,011	–	221,978
Addition	–	–	8,537	1,883	10,420
At 31 December 2020	193,357	20,610	16,548	1,883	232,398
ACCUMULATED AMORTISATION					
At 1 January 2019	–	18,980	1,813	–	20,793
Charge for the year	–	1,630	320	–	1,950
At 31 December 2019	–	20,610	2,133	–	22,743
Charge for the year	–	–	1,462	7	1,469
At 31 December 2020	–	20,610	3,595	7	24,212
CARRYING AMOUNT					
At 31 December 2020	193,357	–	12,953	1,876	208,186
At 31 December 2019	193,357	–	5,878	–	199,235

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

Customer relationships *(Note)*	10 years
Computer software	5 years
Emission rights	20 years

Note: The customer relationships amounting to RMB20,610,000 arose from the acquisition of 商洛堯柏秀山水泥有限公司 Shangluo Yaobai Xiushan Cement Co., Ltd. * ("Xiushan Yaobai"), a Company's subsidiary, in December 2009. They are amortised over a period of 10 years and was fully amortised during the year ended 31 December 2019.

* *The English name is for identification purpose only*

21. IMPAIRMENT TESTING ON GOODWILL

Goodwill is tested for impairment annually or more frequently when circumstances indicate the carrying value may be impaired. Goodwill balances at end of each reporting period were attributable specifically to the six individual CGU, respectively. The carrying amounts of goodwill are as follows:

	2020 RMB'000	2019 RMB'000
Cement plant — Xiushan Yaobai	45,274	45,274
Cement plant — Luxin	49,133	49,133
Cement plant — Shifeng	55,872	55,872
Cement plant — Fuping	7,258	7,258
Cement plant — Yaowangshan Cement Co., Ltd ("Yaowangshan")	29,613	29,613
Commercial mixed station — Shaanxi Fengsheng Deyuan Industrial Limited Company ("Shaanxi Fengsheng")	6,207	6,207
	193,357	193,357

The recoverable amounts of the above CGUs have been determined based on the value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period. The terminal growth of 2.6% (2019:5.7%) and pre-tax discount rate of 15% (2019: 14%) were applied, which is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rates. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, which is determined based on the unit's past performance and management's expectations for the market development. According to the result of the analysis, the management did not identify an impairment for the above CGUs to which the goodwill are allocated during the years ended 31 December 2020 and 2019. The management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the above CGUs to exceed the recoverable amounts of respective CGUs.

22. INTEREST IN AN ASSOCIATE

	2020 RMB'000	2019 RMB'000
Unlisted equity investment, at cost	31,425	31,425
Share of post-acquisition profits and other comprehensive income, net of dividends received	46,218	48,844
	77,643	80,269

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

Name of Entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting right held by the Group		Principal activity
			2020	2019	2020	2019	
Yaobai Environmental Technology Engineering Co., Ltd. ("Yaobai Environmental")	China	Shaanxi	20%	20%	20%	20%	Treatment of dangerous and hazardous waste

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22. INTEREST IN AN ASSOCIATE *(Cont'd)*

Summarised financial information of the associate

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

Yaobai Environmental

	2020 **RMB'000**	2019 RMB'000
Current assets	**150,096**	151,008
Non-current assets	**321,346**	308,804
Current liabilities	**84,894**	60,134
Revenue	**170,086**	185,882
Profit and total comprehensive income for the year	**83,142**	111,940
Dividends receivable from the associate during the year	**19,254**	22,780

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

	2020 **RMB'000**	2019 RMB'000
Net assets of Yaobai Environmental	**386,548**	399,678
Proportion of the Group's ownership interest in Yaobai Environmental	**20%**	20%
The Group's share of net assets of Yaobai Environmental	**77,310**	79,936
Others	**333**	333
Carrying amount of the Group's interest in Yaobai Environmental	**77,643**	80,269

23. LOAN RECEIVABLES

	2020 RMB'000	2019 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	1,779,626
Analysed as:		
Current	**1,214,955**	1,055,444
Non-current	**524,091**	724,182
	1,739,046	1,779,626

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.

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23. LOAN RECEIVABLES *(Cont'd)*

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. Details of impairment assessment are set out in Note 47.

24. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2020 **RMB'000**	2019 RMB'000
Deferred tax assets	**42,673**	36,557
Deferred tax liabilities	**(78,701)**	(63,721)
	(36,028)	(27,164)

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24. DEFERRED TAX *(Cont'd)*

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the current and prior years:

	Allowance for doubtful debts and accruals	Deferred income	Tax losses	Assets booked at fair value on acquisition	Withholding tax on undistributed profits of PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	33,212	11,600	22,055	(58,036)	(50,000)	(41,169)
Credited (charged) to profit or loss	4,506	(2,441)	(21,764)	4,730	30,000	15,031
Effect of change in tax rate	(981)	(45)	–	–	–	(1,026)
At 31 December 2019	36,737	9,114	291	(53,306)	(20,000)	(27,164)
Credited (charged) to profit or loss	12,793	363	(282)	4,301	(31,185)	(14,010)
Effect of change in tax rate	(5,058)	(1,864)	–	12,068	–	5,146
At 31 December 2020	44,472	7,613	9	(36,937)	(51,185)	(36,028)

At the end of the reporting period, the Group had unused tax losses of RMB40,006,000 (2019: RMB55,129,000) available for offsetting against future profits. A deferred tax asset has been recognised in respect of RMB36,000 (2019: RMB1,164,000) of such losses.

No deferred tax have been recognised in respect of the tax losses of RMB39,970,000 (2019: RMB53,965,000) due to unpredictability of future profit streams. The unused tax losses not recognised will be expired in the following year ending 31 December:

	2020	2019
	RMB'000	RMB'000
2021	**–**	2,986
2022	**–**	9,306
2023	**–**	12,185
2024	**17,931**	29,488
2025	**22,039**	–
	39,970	53,965

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2020, the Group recognised deferred taxation in respect of withholding tax of RMB51,185,000 (2019: RMB20,000,000) for undistributed earnings of certain PRC subsidiaries.

As at 31 December 2020, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB4,840,264,000 (2019: RMB4,928,235,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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For the year ended 31 December 2020

25. INVENTORIES

	2020 **RMB'000**	2019 RMB'000
Raw materials and consumables	**362,860**	357,105
Work in progress	**226,127**	189,051
Finished goods	**142,447**	119,370
	731,434	665,526

26. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2020 **RMB'000**	2019 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

Details of trade receivables pledged are set out in Note 46.

26. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Cont'd)*

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.

(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 **RMB'000**	2019 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.

Details of impairment assessment of trade and other receivables are set out in Note 47.

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27. TRANSFER OF FINANCIAL ASSETS

The following was the Group's financial assets as at 31 December 2020 and 2019 that were transferred to suppliers by endorsing the bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to the bills receivables, it continues to recognise the full carrying amount of the receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	2020 **RMB'000**	2019 RMB'000
Carrying amount of transferred assets	**493,764**	31,191
Carrying amount of associated liabilities	**493,764**	31,191
Net position	**–**	–

28. INVESTMENT IN ENTRUSTED PRODUCT

Balance of RMB81,855,000 (2019: RMB181,855,000) represents an investment in entrusted product named "國民信託穩鑫1號", with a contractual term of three years, which is classified as financial assets at FVTPL.

The scope of investment covers the purchase or reverse report of central bank bills, treasury bonds, financial bonds, short-term financing bonds, medium-term bills, corporate bonds and other types of standardised financial products listed and traded in the inter-bank market etc.. The return of the entrusted product is based on the performance of the entrusted product adjusted by related custodian fee. During the year ended 31 December 2020, the Group redeemed entrusted product of RMB100,000,000 (2019: Nil).

29. STRUCTURE DEPOSITS

Balance at 31 December 2019 represents the structure deposits placed in the bank with maturity of 1 year. In accordance with the relevant terms of the deposits, the expected yield rate was floating and linked with US$ 3-month LIBOR. The balance was mature and redeemed during the year ended 31 December 2020.

During the year ended 31 December 2020, the Group invested RMB100,000,000 in another structure deposits product of "芙蓉景程*月月得益4號" issued by the Bank of Chengdu, with a contractual term of 35 days. The investment scope covers the purchase of central bank bills, treasury bonds, financial bonds, short-term financing bonds, medium-term bills, corporate bonds and corporate bonds and other types of standardised financial products listed and traded in the inter-bank market etc.. The return of the financial asset is based on the performance of the underlying investment scope. The financial product has been matured and redeemed in January 2021.

30. BANK BALANCES AND CASH/RESTRICTED/PLEDGED BANK DEPOSITS

	2020	2019
	RMB'000	RMB'000
Restricted/pledged bank deposits		
— denominated in RMB	**723,831**	354,148
Bank balances and cash		
— denominated in RMB	**490,763**	747,552
— denominated in US$	**133,083**	6,849
— denominated in other currency	**27,617**	25,158
	651,463	779,559

Bank balances and restricted/pledged bank deposits carry interest at market rates of 0.30% to 2.75% (2019: 0.10% to 2.75%) per annum.

Restricted/pledged bank deposits represent bank deposits of RMB158,397,000, RMB328,434,000 and RMB237,000,000 (2019: RMB240,224,000, RMB113,924,000 and nil) set aside as securities deposits for projects bidding, bills payable and bank loans (Note 46), respectively. The Group used the trade facilities in projects bidding process which were required by contractors.

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31. BORROWINGS

	2020 RMB'000	2019 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 RMB'000	2019 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

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31. BORROWINGS *(Cont'd)*

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%

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 46.

32. SENIOR NOTES

On 4 September 2014, the Company issued 6.5%, five-year senior notes with an aggregated principal amount of US$400,000,000 due in 2019 (the "2019 Senior Notes") at 100% of the face value. The effective interest rate was approximately 6.80% per annum after adjusting for transaction costs. The 2019 Senior Notes were listed on the HKSE and guaranteed by certain subsidiaries of the Company and secured by pledges of the shares of these subsidiaries.

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

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

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

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

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32. SENIOR NOTES *(Cont'd)*

In June 2019, the Company early redeemed and repaid US$120 million (equivalent to RMB827 million), plus the applicable redemption premium of US$2 million (equivalent to RMB13.4 million). The outstanding balance of US$200 million (equivalent to RMB1,418 million) was due and repaid in full in September 2019.

	2020 **RMB'000**	2019 RMB'000
Carrying amount at 1 January	**–**	2,188,003
Interest expenses	**–**	90,766
Redemption premium on partial redemption of senior notes	**–**	13,435
Interest paid	**–**	(82,893)
Exchange losses	**–**	48,456
Partial redemption including early redemption premium	**–**	(840,187)
Repayment on maturity	**–**	(1,417,580)
Carrying amount at 31 December	**–**	–

33. TRADE AND OTHER PAYABLES

	2020 **RMB'000**	2019 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 *(Note 37)*	**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.

33. TRADE AND OTHER PAYABLES *(Cont'd)*

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 RMB'000	2019 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

34. CONTRACT LIABILITIES

	2020 RMB'000	2019 RMB'000
	260,594	226,589

As at 1 January 2019, contract liabilities amounted to RMB231,000,000.

Contract liabilities at the end of the reporting period represent the advances from customers in respect of cement sales contracts.

35. ASSET RETIREMENT OBLIGATION

	2020 RMB'000	2019 RMB'000
At 1 January	**336,398**	45,935
Addition *(Note)*	**20,297**	288,943
Unwinding of discount	**17,078**	1,520
Utilisation of provision	**(26,360)**	–
At 31 December	**347,413**	336,398

Note: According to a regulation issued in 2009 by the Ministry of Land and Resources of the PRC, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognised for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. These amounts will be settled when environmental restoration is undertaken, generally at the end of a mining life. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly. The Group does not expect any significant retirement of assets in the next twelve months.

During the year ended 31 December 2020, the Group recognised assets retirement obligation of RMB20,297,000 (2019: RMB288,943,000) relating to the acquired mining assets as disclosed in Note 17.

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36. 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 **RMB'000**	2019 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

37. DEFERRED INCOME

	2020 **RMB'000**	2019 RMB'000
Government grants relating to acquisition of property, plant and equipment *(Note)*	**48,262**	45,183
Less: current portion *(Note 33)*	**(12,961)**	(10,978)
	35,301	34,205

Note: The amount represents unconditional government grants received by the Group's subsidiaries for acquisition of property, plant and equipment. The balance will be amortised based on the useful lives of respective property, plant and equipment from 5 to 12 years. RMB13,221,000 (2019: RMB10,978,000) was released to profit or loss and recorded in other income in the current reporting period.

38. AMOUNT DUE TO NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

During the year ended 31 December 2019, pursuant to a cooperation agreement entered into, among an indirect wholly-owned subsidiary of the Company and the other three non-controlling shareholders, the Group formed a non-wholly owned subsidiary, Moçambique Dugongo Cimentos, S.A. ("Dugongo") in Africa.

During the year ended 31 December 2020, one of the non-controlling shareholders contributed the capital in the form of assets and liabilities to Dugongo. These assets, with original carrying amount of approximately US$201,804,000 (equivalent to RMB1,428,771,000), was revalued at approximately of US$214,758,000 (equivalent to RMB1,520,381,000) at the time of injection. Dugongo was liable to take up the respective payable of approximately US$201,804,000 (equivalent to RMB1,428,771,000) as a result of such injection. The balance as at the end of the reporting period represents the amount that is due to the non-controlling shareholder of the subsidiary which is non-interest bearing and is repayable after one year pursuant to an agreement signed between the non-controlling shareholder and Dugongo.

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39. SHARE CAPITAL

	Number of shares	Share capital	
			Shown in the consolidated financial statements
	'000	GBP'000	RMB'000
Ordinary shares of 0.002 Great Britain Pound ("GBP") each			
Authorised:			
At 1 January 2019, 31 December 2019 and 2020	10,000,000	20,000	
Issued and fully paid:			
At 1 January 2019 and 31 December 2019	5,435,133	10,868	141,771
Exercise of share options *(Note 43)*	3,750	8	66
At 31 December 2020	5,438,883	10,876	141,837

40. RESERVES

Equity reserve

Equity reserve comprises:

(a) On 27 October 2006, the Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. The difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date amounted to RMB341,304,000 resulting from this reverse acquisition was debited to equity reserve.

(b) On 10 January 2011, the Group signed an agreement with the non-controlling shareholder of Longqiao Yaobai to acquire the remaining 20% equity interests in Longqiao Yaobai from the non-controlling shareholder. The difference amounted to RMB8,124,000 between the consideration paid of RMB25,000,000 and the non-controlling interest decreased of RMB33,124,000 was credited directly to equity reserve.

(c) On 19 March 2012, the Group signed an agreement with the non-controlling shareholder of 安康堯柏江華水泥有限公司 Ankang Yaobai Jianghua Cement Co., Ltd.* ("Jianghua Yaobai") to acquire the remaining 20% equity interests in Jianghua Yaobai from the non-controlling shareholder. The difference amounted to RMB30,916,000 between the consideration paid of RMB50,000,000 and the non-controlling interest decreased of RMB80,916,000 was credited directly to equity reserve.

(d) On 14 November 2013, the Group signed an agreement with the non-controlling shareholder of Guizhou Linshan to acquire the remaining 20% equity interests in Guizhou Linshan from the non-controlling shareholder. The difference amounted to RMB3,604,000 between the consideration paid of RMB58,680,000 and the non-controlling interest decreased of RMB55,076,000 was debited directly to equity reserve.

* *The English name is for identification purpose only*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

40. RESERVES *(Cont'd)*

Equity reserve *(Cont'd)*

(e) On 9 February 2018, the Group entered an agreement with the non-controlling shareholders of 陝西建達信工程有限公司 Jiandaxin Engineering Inspection Company* ("Jiandaxin") to acquire the remaining 55% equity interests in Jiandaxin from the non-controlling shareholders. The difference amounted to RMB138,000 between the consideration paid of RMB1,088,000 and the non-controlling interest decreased of RMB950,000 was debited directly to equity reserve.

(f) On 5 August 2020, the Group signed an agreement with the non-controlling shareholder of 陝西新意達恒眾混凝土有限公司 Shaanxi Xinyida Hengzhong Concrete Company Limited* ("Xinyida Hengzhong") to acquire 9.6% equity interests in Xinyida Hengzhong from the non-controlling shareholder. The difference amounted to RMB3,651,000 between the consideration of RMB3,360,000 and the non-controlling interest decreased of RMB7,011,000 was debited directly to equity reserve.

(g) On 21 November 2020, the Group entered into an agreement with the non-controlling shareholder of 陝西柏宏歐利塑業有限公司 Shaanxi Baihong Ouli Suye Company Limited* ("Baihong Ouli") to acquire the remaining 20% equity interests in Baihong Ouli from the non-controlling shareholder. The difference amounted to RMB1,558,000 between the consideration of RMB11,500,000 and the non-controlling interest increased of RMB9,942,000 was credited directly to equity reserve.

(h) As described in Note 38 above, one of the non-controlling shareholders contributed the capital in the form of assets and liabilities to Dugongo. The difference of RMB89,477,000 (after deducting the capital contribution of RMB2,133,000 by the non-controlling shareholder) was deemed as the contribution from the non-controlling shareholder. Amount of RMB53,686,000 was directly credited to the equity reserve which represents the portion attributed to the Group as a result of such injection.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the group companies established in the PRC, the group companies in the PRC are required to appropriate 10% of the profit after tax determined under the accounting principles and financial regulations applicable in the PRC to the statutory reserve until the balances reach 50% of their respective registered capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital.

In addition, pursuant to the relevant PRC regulations, the Group is required to transfer maintenance and production funds at fixed rates based on relevant bases, such as production volume, to a specific reserve account. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY

On 31 March 2020, the Group acquired an entire interest in Hongxing Glass at a cash consideration of RMB43,000,000. Hongxing Glass is principally engaged in the manufacture and sales of glass and was acquired with the objective of diversifying the Group's business. The transaction was accounted for as purchase of assets and liabilities. As of 31 December 2020, the manufacture plant is under construction. Details are summarised as below:

Consideration transferred

	RMB'000
Cash	43,000

* *The English name is for identification purpose only*

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For the year ended 31 December 2020

41. ACQUISITION OF ASSETS AND LIABILITIES THROUGH ACQUISITION OF A SUBSIDIARY *(Cont'd)*

Assets acquired and liabilities recognised at the date of acquisition were as follow:

	RMB'000
Assets	
Other receivables	8,464
Bank balances and cash	20,801
Property, plant and equipment	93,987
Liabilities	
Trade and other payables	(41,265)
Borrowings	(38,987)
Net assets	43,000

Net cash outflow arising on acquisition of Hongxing Glass

	RMB'000
Consideration paid in cash	43,000
Less: bank balances and cash acquired	(20,801)
	22,199

42. CAPITAL COMMITMENTS

	2020 RMB'000	2019 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,942,054**	2,298,051

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43. SHARE-BASED PAYMENTS

The Company's current share option scheme was adopted pursuant to a resolution of board of directors passed on 31 March 2010 for the primary purpose of providing incentives to directors and eligible employees through the subscription of the Company's shares, and will expire 10 years after the date of grant ("Post-IPO Share Option Scheme").

The total number of shares in respect of options may be granted under the Post-IPO Share Option Scheme is not permitted to exceed 10% of the issued share capital of the Company as at 23 August 2010, which aggregated at 411,533,185 shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant. Options may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall not be more than 10 years from the date of grant of options. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 23 March 2011, 22 March 2013, 24 March 2014 and 13 April 2015, the Company granted a total of 18,400,000 ("First Issuance"), 34,000,000 ("Second Issuance"), 52,100,000 ("Third Issuance") and 29,100,000 options ("Forth Issuance"), respectively, to directors, senior management and staff, and the estimated fair value of the four option issuances using the Black-Scholes option pricing model was approximately HK$1.04, HK$0.58, HK$0.41 and HK$0.56 at the respective grant date.

The share options granted are exercisable within a period of 10 years after the corresponding vesting periods (4 years) succeeding the specific grant date of each individual tranche under a particular issuance, subject to the fulfilment of certain non-market performance condition, for example, the share options of a specific tranche would vest if the growth in profit after tax of the Group during the year ending on the vesting date (Year 1) equal or exceed 15% as compared to the previous financial year (Year 0). In the event when the growth is less than 15%, the share options will not be immediately forfeited and the vesting will delay until the compound growth in profit after tax of the Group in the following financial year (Year 2) equal or exceed 15% as compared to that of Year 0. Where profit after tax of the Group does not meet the growth requirements in both circumstances above, the share options of the said tranche will not vest.

Fair value of the share options

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate excluding non-market performance condition. Changes in variables and assumptions may result in changes in the fair value of the options.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

43. SHARE-BASED PAYMENTS *(Cont'd)*

Fair value of the share options *(Cont'd)*

The following table disclose the details of the share options held by the employees (including the directors) and movements in such holdings during the years ended 31 December 2020 and 2019:

Year ended 31 December 2020

					Number of options ('000)				
	Date of grant	Weighted average remaining contractual life	Exercise period of tranches under the issuance	Exercise price	Outstanding at 1.1.2020	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2020
First Issuance	23 March 2011	3 months	23 March 2012 to 22 March 2021	HK$3.41	1,100	–	–	–	1,100
Second Issuance	22 March 2013	2 years 3 months	22 March 2014 to 21 March 2023	HK$1.25	11,275	–	1,225	–	10,050
Third Issuance	24 March 2014	3 years 3 months	24 March 2015 to 23 March 2024	HK$0.91	24,075	–	2,175	–	21,900
Forth Issuance	13 April 2015	4 years 3 months	13 April 2016 to 12 April 2025	HK$1.45	25,050	–	350	–	24,700
					61,500	–	3,750	–	57,750
Exercisable at the end of the year									57,750
Weighted average exercise price									HK$1.25

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43. SHARE-BASED PAYMENTS *(Cont'd)*

Fair value of the share options *(Cont'd)*

Year ended 31 December 2019

					Number of options ('000)				
	Date of grant	Weighted average remaining contractual life	Exercise period of tranches under the issuance	Exercise price	Outstanding at 1.1.2019	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2019
First Issuance	23 March 2011	1 year 3 months	23 March 2012 to 22 March 2021	HK$3.41	1,100	–	–	–	1,100
Second Issuance	22 March 2013	3 years 3 months	22 March 2014 to 21 March 2023	HK$1.25	11,275	–	–	–	11,275
Third Issuance	24 March 2014	4 years 3 months	24 March 2015 to 23 March 2024	HK$0.91	24,075	–	–	–	24,075
Forth Issuance	13 April 2015	5 years 3 months	13 April 2016 to 12 April 2025	HK$1.45	25,050	–	–	–	25,050
					61,500	–	–	–	61,500
Exercisable at the end of the year									61,500
Weighted average exercise price									HK$1.24

No share-based payment expense was recognised in relation to the share options granted by the Company in the current year (2019: RMB264,000).

During the year ended 31 December 2020, 350,000 share options were exercised at the exercise price of HK$1.45 per share or approximately RMB1.22 per share at the weighted average exchange rate or HK$1: RMB0.84, 2,175,000 share options were exercised at the exercise price of HK$0.91 per share or approximately RMB0.77 per share at the weighted average exchange rate of HK$1: RMB0.84 and 1,225,000 share options were exercised at the exercise price of HK$1.25, or approximate RMB1.05 per share at weighted average exchange rate of HK$1: RMB0.84. No share options were exercised during the year ended 31 December 2019.

During the years ended 31 December 2020 and 2019, no share options were lapsed or expired.

44. RETIREMENT BENEFITS PLANS

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

The employees of the Group's subsidiaries in the PRC are members of a state-managed defined contribution retirement scheme operated by the PRC government. The subsidiary is required to contribute 20% of payroll costs to the retirement scheme subject to certain cap as governed by the social fund bureau. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

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44. RETIREMENT BENEFITS PLANS *(Cont'd)*

The total expense recognised in the profit or loss of RMB4,646,000 (2019: RMB48,167,000) represents contributions paid or payable under the retirement benefit scheme.

45. RELATED PARTY DISCLOSURES

The Group has paid or payable to the key management for employee services. The key management includes directors (executive and non-executive) of the Company and senior management of the Group.

Key management compensation

	2020 RMB'000	2019 RMB'000
Salaries and other short-term employee benefits	**15,686**	14,286
Post-employment benefits	**26**	159
Share-based payments	**–**	228
	15,712	14,673

46. 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 RMB'000	2019 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 the 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.

47. FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (borrowings, medium-term notes and senior notes as detailed in Notes 31, 36 and 32, offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves as disclosed in the consolidated statement of changes in equity).

The directors of the Company review the capital structure on a semi-annual basis. In order to maintain or adjust the capital structure, the Group will balance its overall capital structure through adjusting the payment of dividends paid to shareholders, issuance of new shares or issue of new debt or the redemption of existing debt.

b. Categories of financial instruments

	2020 **RMB'000**	2019 RMB'000
Financial assets		
— Loans and receivables at amortised cost (including cash and cash equivalents)	**4,555,918**	3,718,193
— Investment in entrusted products	**81,855**	181,855
— Structure deposits	**100,000**	90,000
Financial liabilities		
— Amortised cost	**7,482,109**	4,474,932

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivables, entrusted products, structure deposits, restricted/pledged bank deposits, bank balances and cash, trade and other payables, amounts due to non-controlling shareholders of subsidiaries, borrowings and medium-term notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate risk. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risk.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Market risks *(Cont'd)*

(i) Foreign currency risk

The Group undertakes transactions, mainly the issuance of senior notes, borrowings and new shares, denominated in foreign currencies other than the functional currency of RMB. Hence, exposures to exchange rate fluctuations arise.

The Group does not use derivative financial instruments to hedge its foreign currency risk. However, the Group monitors foreign currency exposure and will consider hedging significant exposure should the need arise. The carrying amounts of Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2020 RMB'000	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
The US$	**406,777**	1,005,353	**133,083**	6,849
The Central African CFA franc ("XAF")	**107,065**	–	**15,506**	–
	513,842	1,005,353	**148,589**	6,849
Other foreign currency (including HK$, US$, Euros ("EUR"), MZN, ETB ("Ethiopian Birr"), and Singapore Dollar)	**–**	–	**12,111**	25,158

The Group is mainly exposed to the fluctuation in US$ and XAF against RMB.

The directors' assessment of the reasonably possible change in foreign exchange rate is 5% (2019: 5%) which is also the sensitivity rate used when reporting foreign currency risk internally to key management personnel. For a 5% weakening of RMB against the relevant foreign currencies, there will be a decrease in post-tax profit for the year of RMB13,697,000 (2019: RMB37,444,000) and there would be an equal but opposite impact on the profit or loss for the year for a 5% strengthen of RMB against relevant foreign currencies.

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to loan receivables, fixed-rate borrowings, medium-term notes and senior notes (as detailed in Notes 23, 31, 36 and 32, respectively).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (as detailed in Note 31).

The Group does not have formal policies on managing interest rate risk. However, the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Market risks *(Cont'd)*

(ii) Interest rate risk *(Cont'd)*

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure for variable-rate borrowings at the end of each reporting period. For variable-rate borrowings, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2020 would be decreased/increased by approximately RMB2,957,000 (2019: RMB4,520,000).

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to its trade and other receivables, loan receivables, bank balances and cash, and restricted/pledged bank deposits. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associates with loan receivables is mitigated because they are secured over the assets pledged by the third parties as disclosed in Note 23.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has formulated a defined trade credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Normally, the Group does not obtain collateral from customers. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances individually for significant balances and insignificant balances with specific risks, and based on provision matrix for the remaining trade receivables as stated below.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a large number of cement sales customers and independent third parties.

The Group measures ECL allowance for most of its trade receivables using a provision matrix by debtors' aging because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2020 and 2019 within lifetime ECL. Debtors with significant outstanding balances with gross carrying amounts of RMB47,841,000 (2019: RMB71,498,000) as at 31 December 2020 were assessed individually.

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Trade receivables arising from contracts with customers *(Cont'd)*

As at 31 December 2020

	Average loss rate	**Gross carrying amounts RMB'000**
Current (not past due)	**0.7%**	**293,632**
1 to 90 days past due	**2.0%**	**193,677**
91 to 360 days past due	**15.2%**	**200,720**
Over 360 days past due	**54.4%**	**43,123**
		731,152

As at 31 December 2019

	Average loss rate	Gross carrying amounts RMB'000
Current (not past due)	0.3%	196,954
1 to 90 days past due	1.2%	75,155
91 to 360 days past due	3.6%	93,280
Over 360 days past due	60.6%	24,367
		389,756

The estimated loss rates are estimated based on historically observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort, such as economic data and forecasts published by governmental bodies and industrial information published by relevant institutions. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

During the year ended 31 December 2020, the Group provided RMB40,106,000 (2019: RMB6,691,000) as an additional impairment allowance for trade receivables based on the provision matrix.

The Group's trade receivables backed by bills represent the bills issued by banks and trust company with high credit ratings and therefore are considered to be low credit risk. During the years ended 31 December 2020 and 2019, the directors of the Company consider that ECL on trade receivables backed by bills was insignificant.

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47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Loan receivables

Credit risk of loan receivables is monitored by the dedicated credit risk department of the Group responsible for the review and managing of credit risk for all corporate loan borrowers. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process aims to allow the Group to define the terms of the loans as well as assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Group monitors credit risk of loan receivables regularly by reviewing changes in creditworthiness of the loan borrowers, past collection history, subsequent settlement of each loan borrower, and also relevant collaterals and guarantees as well as forward-looking information, in order to mitigate the risk of significant exposure from bad debts.

Credit risk is often greater when the loan borrowers are concentrated in one single industry or geographical location or have comparable economic characteristics. The loan borrowers of the Group are located in different provinces of the PRC and are from different industries. As the loan borrowers of the Group are widely dispersed and are engaged in different industries, there is no significant credit risk concentration within the Group's loan receivables.

In assessing the impairment under ECL model upon application of IFRS 9, the Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Loan receivables
Low risk	Debtor has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due date but usually settle in full	Lifetime ECL – not credit-impaired	12m ECL
Doubtful	There has been significant increase in credit risk since initial recognition through information development internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficult and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

The Group considers a loan receivable in default and therefore as loss in internal credit rating (credit-impaired) for ECL calculations in all cases when there is evidence indicating the asset is credit-impaired. As part of a qualitative creditworthiness assessment of whether a loan borrower is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the loan borrower as in default and therefore assessed as Loss for ECL calculations or whether other internal credit rating is appropriate.

Notes to the Consolidated Financial Statements

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47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Bank balances and cash, and restricted/pledged bank deposits

The credit risks on bank balances and cash, and restricted/pledged bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Other receivables/amount due from non-controlling shareholder of a subsidiary

Other receivables and amount due from non-controlling shareholder of a subsidiary that are measured at amortised cost were considered of low credit risk, and thus the impairment provision recognised during the year was limited to 12m ECL.

For other receivables, the management make periodic individual assessment on the recoverability based historical settlement records, past experience, quantitative and qualitative information that is reasonable and supportive forward-looking information.

For amounts due from non-controlling shareholder of subsidiaries, the Group is able to control the future distribution of profits and the dividend payable to these non-controlling shareholders can be used to net off with the amounts due from these non-controlling shareholders and thus the management is of the opinion that the risk on ECL is limited.

The tables detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	2020 Gross carrying amount		2019 Gross Carrying amount	
					RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost								
— Loan receivables	23	N/A	Low risk	12m ECL	830,030		1,768,830	
			Doubtful	Lifetime ECL – not credit-impaired	967,140		–	
			Loss	Lifetime ECL – credit-impaired	53,193	1,850,363	36,192	1,805,022
— Trade receivables backed by bills	26	N/A	*(note 2)*	12m ECL	539,557	539,557	189,676	189,676
— Trade receivables	26	N/A	*(note 3)*	Lifetime ECL (provision matrix)	727,748		382,858	
			Watch list	Lifetime ECL (significant balances, individually assessed)	47,841		71,498	
			Loss	Credit-impaired	3,404	778,993	6,898	461,254
— Other receivables	26	N/A	*(note 1)*	12m ECL	177,713	177,713	172,131	172,131
— Dividend receivables	26	N/A	*(note 1)*	12m ECL	12,000	12,000	–	–
— Amount due from a non-controlling shareholder of a subsidiary	26	N/A	*(note 1)*	12m ECL	–	–	6,000	6,000
— Bank balances	30	AA+	N/A	12m ECL	647,820	647,820	778,050	778,050
— Restricted/pledged bank deposits	30	AA+	N/A	12m ECL	723,831	723,831	354,148	354,148

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Notes:

1. Apart from trade receivables, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due	Total
	RMB'000	RMB'000	RMB'000
2020			
Other receivables	**–**	**177,713**	**177,713**
Dividend receivables	**–**	**12,000**	**12,000**
2019			
Other receivables	–	172,131	172,131
Amount due from a non-controlling shareholder of a subsidiary	–	6,000	6,000

2. The Group set different categories for customers settling with bills according to the internal credit rating assessment. The Group does not accept bills from customers with lower credit ratings.

3. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances. The Group determines the ECL on these items by using a provision matrix, grouped by past due status.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit–impaired)	Lifetime ECL (credit–impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2019	8,030	5,613	13,643
Changes due to financial instruments recognised as at 1 January 2019:			
— Transfer to credit-impaired	(431)	431	–
— Impairment losses recognised	6,982	854	7,836
— Impairment losses reversed	(6,725)	–	(6,725)
New financial assets originated or purchased	6,352	–	6,352
As at 31 December 2019	14,208	6,898	21,106
Changes due to financial instruments recognised as at 1 January 2020:			
— Transfer to credit-impaired	(542)	542	–
— Impairment losses recognised	11,589	191	11,780
— Impairment losses reversed	(5,206)	(4,227)	(9,433)
New financial assets originated or purchased	38,823	–	38,823
As at 31 December 2020	58,872	3,404	62,276

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

	2020		2019	
	Increase/(decrease) in lifetime ECL		Increase/(decrease) in lifetime ECL	
	(not credit impaired) RMB'000	(credit impaired) RMB'000	(not credit impaired) RMB'000	(credit impaired) RMB'000
One trade debtor with a gross carrying amount of RMB3,404,000 (2019: RMB6,898,000) defaulted and transferred to credit-impaired	**(542)**	**542**	(431)	431
Settlement in full of trade debtors with a gross carrying amount of RMB234,934,000 (2019: RMB22,263,000)	**(5,206)**	**(4,227)**	(6,725)	–
New trade receivables with gross carrying amount of RMB735,870,000 (2019: RMB436,887,000)	**38,823**	**–**	6,352	–

The following tables show reconciliation of loss allowances that has been recognised for loan receivables.

	12m ECL RMB'000	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2019	19,645	–	–	19,645
Changes due to financial instruments recognised as at 1 January 2019:				
— Transfer to credit-impaired	(150)	–	150	–
— Impairment losses recognised	523	–	7,347	7,870
— Impairment losses reversed	(6,383)	–	–	(6,383)
New financial assets originated or purchased	4,052	–	212	4,264
As at 31 December 2019	17,687	–	7,709	25,396
Changes due to financial instruments recognised as at 1 January 2020:				
— Transfer to credit-impaired	(176)	–	176	–
— Transfer to lifetime ECL	(10,790)	10,790	–	–
— Impairment losses recognised	5,441	43,238	36,206	84,885
— Impairment losses reversed	(1,876)	(129)	(6)	(2,011)
New financial assets originated or purchased	3,047	–	–	3,047
As at 31 December 2020	13,333	53,899	44,085	111,317

The average loss rate of loan receivables for the year is 6.0% (2019: 1.4%).

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For the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Changes in the loss allowance for loan receivables are mainly due to:

	31 December 2020		
		Increase (decrease) in lifetime ECL	
	Increase (decrease) in 12m ECL RMB'000	**Not credit– impaired RMB'000**	**Credit– impaired RMB'000**
Advance of new loan receivables	**3,047**	**–**	**–**
Settlement in full of loan receivables	**(1,876)**	**(129)**	**(6)**
Past due loan receivables	**(5,525)**	**54,028**	**36,382**
	(4,354)	**53,899**	**36,376**

	31 December 2019		
		Increase (decrease) in lifetime ECL	
	Increase (decrease) in 12m ECL RMB'000	Not credit– impaired RMB'000	Credit– impaired RMB'000
Advance of new loan receivables	4,052	–	212
Settlement in full of loan receivable	(6,383)	–	–
Past due loan receivables	373	–	7,497
	(1,958)	–	7,709

The changes in the loss allowance for other receivables is RMB1,317,000 (2019: RMB1,333,000) for the year ended 31 December 2020 and the Group write off other receivables of RMB3,000 (2019: RMB499,000) during the year. The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the year ended 31 December 2019, the directors of the Company considers there is an significant increase in the credit risk of RMB21,970,000 due from non-controlling shareholder of a subsidiary and the amount is fully impaired. The Group has assessed that the expected loss rate of the remaining balance due from non-controlling shareholder of a subsidiary was immaterial and hence no loss allowance was recognised.

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirement. The Group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities, by continuing monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. To the extent that interest payments are floating rate the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	More than 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2020							
Trade and other payables	–	2,623,319	–	–	–	2,623,319	2,623,319
Amount due to non-controlling shareholder of a subsidiary		–	1,138,506	–	–	1,138,506	1,138,506
Borrowings							
— variable rates	4.91%	326,057	523,933	–	–	849,990	788,483
— fixed rates	4.04%	1,590,654	8,483	25,449	135,474	1,760,060	1,690,959
Dividend payables	–	8,000	–	–	–	8,000	8,000
Medium-term notes (including related interest)	7.25%	127,833	567,750	736,750	–	1,432,333	1,232,842
		4,675,863	2,238,672	762,199	135,474	7,812,208	7,482,109

	Weighted average interest rate %	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019						
Trade and other payables	–	1,638,245	–	–	1,638,245	1,638,245
Borrowings						
— variable rates	5.18	71,991	399,292	927,847	1,399,130	1,199,589
— fixed rates	4.55	1,140,056	–	–	1,140,056	1,116,000
Medium-term notes (including related interest)	7.50	37,500	37,500	518,750	593,750	521,098
		2,887,792	436,792	1,446,597	4,771,181	4,474,932

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

47. FINANCIAL INSTRUMENTS *(Cont'd)*

d. Fair values of financial instruments

The fair values of financial assets and financial liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except for investment in entrusted product and structure deposits measured at FVTPL, the Group does not hold any other financial instruments measured at fair value.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Name	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)
	31/12/2020 RMB'000	31/12/2019 RMB'000		
Investment in entrusted product	**81,855**	181,855	Level 2	Based on the net asset values of the trust, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.
Structure deposits	**100,000**	–	Level 3 *(Note)*	Discounted cash flow. Future cash flow are estimated based on the net asset values of the investment portfolios and market interest rates of the portfolios
Structure deposits	**–**	90,000	Level 3 *(Note)*	Discounted cash flow. Future cash flow are estimated based on US$ 3-Month LIBOR (from observable yield curve at the end of the reporting period) and contracted interest rate, discounted at a rate that reflects the credit risk of various counterparties.

Note: In the opinion of the management of the Group, the fluctuations in the key unobservable inputs in determining the fair value of the structure deposits are not significant to the Group, accordingly, no sensitivity analysis is presented.

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Senior Notes RMB'000	Medium-term Notes RMB'000	Dividend payables RMB'000	Interest payables RMB'000 *(Note)*	Total RMB'000
At 1 January 2019	863,571	2,188,003	–	–	43,893	3,095,467
New borrowings raised	1,316,000	–	–	–	–	1,316,000
Repayments of borrowings	(863,571)	–	–	–	–	(863,571)
Proceeds from issuance of syndicated loan	1,062,690	–	–	–	–	1,062,690
Syndicated loan issue costs paid	(47,521)	–	–	–	–	(47,521)
Proceeds from issuance of medium-term notes	–	–	500,000	–	–	500,000
Medium-term notes issue cost paid	–	–	(2,250)	–	–	(2,250)
Repayments and redemption of senior notes including early redemption premium	–	(2,257,767)	–	–	–	(2,257,767)
Interest paid	–	(82,893)	–	–	(110,968)	(193,861)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	(4,853)	–	(4,853)
Dividends paid	–	–	–	(273,871)	–	(273,871)
Non-cash financing activities:						
Interest expenses	–	90,766	25,598	–	79,457	195,821
Foreign exchange (gain) loss	(15,580)	48,456	–	–	–	32,876
Redemption premium on partial redemption of senior notes	–	13,435	–	–	–	13,435
Dividends declared	–	–	–	278,724	–	278,724
Accrued transaction cost	–	–	(2,250)	–	–	(2,250)
At 31 December 2019	2,315,589	–	521,098	–	12,382	2,849,069
New borrowings raised	2,311,972	–	–	–	–	2,311,972
Repayments of borrowings	(2,166,436)	–	–	–	–	(2,166,436)
Proceeds from issuance of medium-term notes	–	–	700,000	–	–	700,000
Medium-term notes issue cost paid	–	–	(2,100)	–	–	(2,100)
Interest paid	(123,938)	–	(37,500)	–	(11,772)	(173,210)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	(11,763)	–	(11,763)
Dividends paid	–	–	–	(338,498)	–	(338,498)
Non-cash financing activities:						
Interest expenses	143,051	–	55,544	–	–	198,595
Foreign exchange gain	(39,783)	–	–	–	–	(39,783)
Dividends declared	–	–	–	358,261	–	358,261
Acquisition of a subsidiary	38,987	–	–	–	–	38,987
Accrued transaction cost	–	–	(4,200)	–	–	(4,200)
At 31 December 2020	2,479,442	–	1,232,842	8,000	610	3,720,894

Note: Interest payables are included in trade and other payables (Note 33).

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49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of subsidiaries	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company		Principal activities
				2020	2019	
Directly held						
West China BVI	Ordinary	British Virgin Islands	HK$7,800	**100%**	100%	Investment holding
Faithful Alliance Limited ("Faithful Alliance") 集誠有限公司	Ordinary	Hong Kong	HK$100	**100%**	100%	Investment holding
Shaanxi Yaobai 堯柏特種水泥集團有限公司	Ordinary	Shaanxi, PRC	RMB1,890,000,000	**100%**	100%	Production and sale of cement
Lantian Yaobai 西安藍田堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement
Ankang Yaobai Cement Co., Ltd. 安康堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB345,000,000	**100%**	100%	Production and sale of cement
Hanzhong Yaobai Cement Co., Ltd. 漢中堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB135,000,000	**100%**	100%	Production and sale of cement
Hanzhong Mianxian 漢中勉縣堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB140,000,000	**100%**	100%	Production and sale of cement
Xi'an Yaobai Material Co., Ltd. 西安市堯柏物資有限公司	Ordinary	Shaanxi, PRC	RMB35,000,000	**100%**	100%	Purchase and sale of raw materials
Hanzhong Xixiang Yaobai Cement Co., Ltd. 漢中西鄉堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB105,000,000	**100%**	100%	Production and sale of cement
Longqiao Yaobai 商洛堯柏龍橋水泥有限公司	Ordinary	Shaanxi, PRC	RMB125,000,000	**100%**	100%	Production and sale of cement
Xiushan Yaobai 商洛堯柏秀山水泥有限公司	Ordinary	Shaanxi, PRC	RMB20,000,000	**100%**	100%	Production and sale of cement
Jianghua Yaobai 安康堯柏江華水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**100%**	100%	Production and sale of cement
Hancheng Yaobai 韓城堯柏陽山莊水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**80%**	80%	Production and sale of cement
Luxin 和田魯新建材有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	**100%**	100%	Production and sale of cement
Hetian Yaobai 和田堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB236,000,000	**100%**	100%	Production and sale of cement
Shifeng 實豐水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement

Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

Name of subsidiaries	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company 2020	2019	Principal activities
Fuping 富平水泥有限公司	Ordinary	Shaanxi, PRC	RMB597,000,000	**100%**	100%	Production and sale of cement
Guizhou Linshan 貴州麟山水泥有限公司	Ordinary	Guizhou, PRC	RMB233,381,000	**100%**	100%	Production and sale of cement
Yili Yaobai Cement Co., Ltd. 伊犁堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement
Yaowangshan 銅川藥王山生態水泥有限公司	Ordinary	Shaanxi, PRC	RMB50,000,000	**100%**	100%	Production and sale of cement
Guangxin International Financial Leasing Co., Ltd. ("Guangxin International") 光信國際融資租賃有限公司	Ordinary	Shaanxi, PRC	RMB420,000,000	**100%**	100%	Finance lease business
Guangxin Yili 光信(伊犁)融資租賃有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	**100%**	100%	Finance lease business
Zhonggang Logistics 西安中港智慧物流有限公司	Ordinary	Shaanxi, PRC	RMB30,000,000	**100%**	100%	Transportation
Pucheng Yaobai 蒲城堯柏特種水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**100%**	100%	Production and sale of cement
Shaanxi Fuda Mining Engineering Co., Ltd 陝西富達礦山工程有限公司	Ordinary	Shaanxi, PRC	RMB40,000,000	**100%**	100%	Production and sale of cement
Shaanxi Fengsheng 陝西豐盛德遠實業有限公司	Ordinary	Shaanxi, PRC	RMB50,000,000	**55%**	55%	Production and sale of cement
West International Holding Limited 西部國際控股有限公司	Ordinary	Hong Kong	HK$100	**100%**	100%	Investment holding
Shaanxi Xinyida Jiancai Construction Materials Development Co,, Ltd. 陝西新意達建材產業發展有限公司	Ordinary	Shaanxi, PRC	RMB81,951,600	**60%**	60%	Sale of cement and related material
Dugongo	Ordinary	Moçambique	MTN 100,000	**60%**	N/A	Production and sale of cement and related material
Hongxing Glass	Ordinary	Republic of Congo	XAF100,000,000	**100%**	N/A	Production and sale of glass

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49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

(a) Except for West China BVI, Faithful Alliance, Dugongo and Hongxing Glass, the above English names of the entities have not been registered with the authorities and are used throughout the consolidated financial statements for discussion only.

(b) Other than Shaanxi Yaobai and Fuping which are wholly-owned foreign enterprises held directly by Faithful Alliance and Guangxin Yili, which is sino-foreign owned by Faithful Alliance and Guangxin International, all other subsidiaries established in the PRC are domestic companies held directly/indirectly by Shaanxi Yaobai.

(c) Except for Shaanxi Yaobai which issued medium-term note during the year ended 31 December 2020, none of the other subsidiaries had issued any debt securities at the end of the year.

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

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

Name of subsidiaries	Place of registration/ incorporation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2020	2019	**2020 RMB'000**	2019 RMB'000	**2020 RMB'000**	2019 RMB'000
Hancheng Yaobai	Shaanxi, PRC	**20%**	20%	**16,169**	15,339	**51,488**	51,319
Shaanxi Fengsheng	Shaanxi, PRC	**45%**	45%	**12,959**	5,567	**39,173**	29,977
Individually immaterial subsidiaries with non-controlling interests						**105,754**	91,429
Total						**196,415**	172,725

49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

Hancheng Yaobai

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

	2020 RMB'000	2019 RMB'000
Current assets	**89,585**	57,069
Non-current assets	**221,164**	257,240
Current liabilities	**52,807**	57,134
Non-current liabilities	**500**	583
Equity attributable to owners of the Company	**205,954**	205,273
Non-controlling interests	**51,488**	51,319
Revenue	**358,714**	393,681
Expenses	**277,868**	316,986
Profit for the year	**80,846**	76,695
Profit attributable to owners of the Company	**64,677**	61,356
Profit attributable to non-controlling interests	**16,169**	15,339
Dividends paid to non-controlling interests of Hancheng Yaobai	**16,000**	–
Deemed contribution from non-controlling shareholder	**–**	227
Net cash inflow from operating activities	**98,707**	10,705
Net cash outflow from investing activities	**(101,652)**	(10,320)
Net cash outflow from financing activities	**(2,000)**	(35,390)
Net cash outflow	**(4,945)**	(35,005)

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49. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

Shaanxi Fengsheng

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

	2020 **RMB'000**	2019 RMB'000
Current assets	**123,513**	74,534
Non-current assets	**23,303**	27,367
Current liabilities	**59,764**	35,286
Equity attributable to owners of the Company	**47,879**	36,638
Non-controlling interests	**39,173**	29,977
Revenue	**171,230**	119,436
Expenses	**142,433**	107,064
Profit for the year	**28,797**	12,372
Profit attributable to owners of the Company	**15,838**	6,805
Profit attributable to non-controlling interests	**12,959**	5,567
Dividends paid to non-controlling interests of Shaanxi Fengsheng	**3,763**	–
Net cash inflow from operating activities	**5,962**	5,522
Net cash outflow from investing activities	**(449)**	(787)
Net cash outflow from financing activities	**(5,110)**	(4,754)
Net cash inflow (outflow)	**403**	(19)

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50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2020 RMB'000	2019 RMB'000
Non-current assets		
Unlisted investments in subsidiaries	**1,700,742**	1,700,742
Amounts due from subsidiaries	**2,121,105**	2,052,385
Property, plant and equipment	**114**	8
	3,821,961	3,753,135
Current asset		
Bank balances and cash	**28,367**	30,075
Current liability		
Other payables	**178,698**	18,015
Net current (liabilities) assets	**(150,331)**	12,060
Total assets less current liabilities	**3,671,630**	3,765,195
Non-current liability		
Borrowings	**178,483**	1,005,353
Net assets	**3,493,147**	2,759,842
Capital and reserves		
Share capital	**141,837**	141,771
Share premium and reserves	**3,351,310**	2,618,071
	3,493,147	2,759,842

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50. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Movements in reserves

	Share premium RMB'000	Share option reserve RMB'000	(Accumulated losses)/retained earnings RMB'000	Total RMB'000
At 1 January 2019	3,091,812	25,223	(18,950)	3,098,085
Loss and total comprehensive expense for the year	–	–	(206,407)	(206,407)
Recognition of equity-settled share-based payments *(Note 43)*	–	264	–	264
Dividends recognised as distribution	(273,871)	–	–	(273,871)
At 31 December 2019	**2,817,941**	**25,487**	**(225,357)**	**2,618,071**
Profit and total comprehensive income for the year	**–**	**–**	**1,068,149**	**1,068,149**
Shares issued for share options exercised *(Note 43)*	**5,041**	**(1,453)**	**–**	**3,588**
Dividends recognised as distribution	**(338,498)**	**–**	**–**	**(338,498)**
At 31 December 2020	**2,484,484**	**24,034**	**842,792**	**3,351,310**

51. EVENTS AFTER THE REPORTING PERIOD

(a) On 31 July 2020, Shaanxi Yaobai entered into share purchase agreements to acquire 97.5% equity interest of Kangding Paomashan Cement Ltd ("Kangding Paomashan") for an aggregate consideration of RMB729.4 million. During the year ended 31 December 2020, the Group had paid deposits of RMB62.5 million for the acquisition of Kangding Paomashan. The acquisition has not completed as of the date of this report.

(b) On 12 January 2021, Dugongo signed a three-party debt transferring agreement with an independent third party and the non-controlling shareholder of the subsidiary to transfer the full amount due to the non-controlling shareholder of the subsidiary as disclosed in Note 38 to the consolidated financial statements to the independent third party. In addition, pursuant to a repayment agreement duly signed between Dugongo and the independent third party on 18 February 2021, an amount of US$34,000,000 (equivalent to RMB221,846,000) is due to repay within 2021.

As at 31 December 2020, the Group had unutilised loan facilities for working capital purpose of RMB2,494,217,000 and unused medium-term notes of RMB300,000,000 readily available for drawdown within the next twelve months from the date of the approval of these consolidated financial statements. Based on the Company's forecasts and projections of business performance, taking into account of operating as well as capital expenditure and availability of the facilities, the directors of the Company are of the view that the Group is able to maintain its existing operation.

In view of these circumstances, the director of the Company expect that the Group will have sufficient liquidity to finance its operations for the next twelve months from the date of approval of consolidated financial statements. Therefore, the consolidated financial statements have been prepared on going concern basis. The going concern basis assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF WEST CHINA CEMENT LIMITED
(incorporated in Jersey with limited liability)

OPINION

We have audited the consolidated financial statements of West China Cement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 135, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Revenue recognised from contracts with customers	
We identified revenue recognised from contracts with customers as a key audit matter because revenue is one of the key performance indicators of the Group and the amount is significant to the consolidated financial statements. As disclosed in Note 5 to the consolidated financial statements, the Group recognised revenue from contracts with customers amounted to RMB7,247.4 million for the year ended 31 December 2019. The Group enters into contracts with customers for sales of cement products. Revenue is recognised at a point in time when control of the goods underlying the particular performance obligation is transferred to the customer. The accounting policy for revenue recognition is disclosed in Note 3 to the consolidated financial statements.	Our procedures in relation to the revenue recognised from contracts with customers included: • Understanding, evaluating and testing key controls over recognition of revenue from sales of cement products; • Obtaining customer contracts by customer categories on a sample basis, to inspect terms and conditions of revenue recognition used to ledger records with reference to the requirements of prevailing accounting standards; • Performing analytical procedures to assess the reasonableness of unit sales price, gross profit margin, production volume, and utilisation rate; • Obtaining confirmations directly from major customers, on a sample basis; and • Testing sales transactions, on a sample basis, to delivery notes and other sales documents to assess the appropriateness of revenue recognition.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent Auditor's Report

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

The engagement partner on the audit resulting in the independent auditor's report is Fung Hin Chiu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 March 2020

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**7,247,389**	5,911,744
Cost of sales		**(4,806,905)**	(3,925,988)
Gross profit		**2,440,484**	1,985,756
Other income	6	**287,753**	343,986
Impairment loss under expected credit loss model, net of reversal	7	**(36,517)**	(8,387)
Selling and marketing expenses		**(57,406)**	(54,136)
Administrative expenses		**(382,353)**	(336,745)
Other gains and losses, net	8	**(71,703)**	(233,828)
Share of profit of an associate		**22,388**	23,683
Interest income	9	**228,231**	140,578
Finance costs	10	**(187,076)**	(228,796)
Profit before tax	11	**2,243,801**	1,632,111
Income tax expense	12	**(394,272)**	(451,648)
Profit and total comprehensive income for the year		**1,849,529**	1,180,463
Attributable to:			
— Owners of the Company		**1,801,281**	1,159,449
— Non-controlling interests		**48,248**	21,014
		1,849,529	1,180,463
Earnings per share			
— Basic (RMB)	14	**0.331**	0.213
— Diluted (RMB)	14	**0.331**	0.213

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	17	**7,793,345**	7,180,198
Right-of-use assets	18	**469,021**	–
Prepaid lease payments	19	**–**	459,275
Mining rights	20	**542,352**	326,926
Other intangible assets	21	**199,235**	199,561
Interest in an associate	23	**80,269**	80,661
Loan receivables	24	**724,182**	837,203
Deferred tax assets	25	**36,557**	39,110
Amount due from a non-controlling shareholder of a subsidiary	27	**–**	15,218
Prepayments for construction in progress		**518,276**	101,002
Prepayments for right-of-use assets		**100,278**	–
Debt instruments at fair value through other comprehensive income	28	**181,855**	–
		10,645,370	9,239,154
Current assets			
Inventories	26	**665,526**	491,116
Loan receivables	24	**1,055,444**	855,453
Trade and other receivables and prepayments	27	**800,090**	477,284
Bill receivables at fair value through other comprehensive income	29	**189,676**	253,972
Financial assets at fair value through profit or loss	30	**90,000**	–
Restricted/pledged bank deposits	31	**354,148**	189,032
Bank balances and cash	31	**779,559**	886,046
		3,934,443	3,152,903
Current liabilities			
Borrowings	32	**1,126,000**	863,571
Senior notes	33	**–**	2,188,003
Trade and other payables	34	**1,735,544**	1,152,034
Contract liabilities	35	**226,589**	231,000
Income tax payable		**121,005**	186,738
		3,209,138	4,621,346
Net current assets (liabilities)		**725,305**	(1,468,443)
Total assets less current liabilities		**11,370,675**	7,770,711

Consolidated Statement of Financial Position

At 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liabilities			
Borrowings	32	**1,189,589**	–
Medium-term notes	36	**521,098**	–
Asset retirement obligation	37	**336,398**	45,935
Deferred tax liabilities	25	**63,721**	80,279
Deferred income	38	**34,205**	45,542
		2,145,011	171,756
Net assets		**9,225,664**	7,598,955
Capital and reserves			
Share capital	39	**141,771**	141,771
Share premium and reserves	40	**8,911,168**	7,383,494
Equity attributable to owners of the Company		**9,052,939**	7,525,265
Non-controlling interests		**172,725**	73,690
		9,225,664	7,598,955

The consolidated financial statements on pages 52 to 135 were approved and authorised for issue by the Board of Directors on 31 March 2020 and are signed on its behalf by:

ZHANG JIMIN
DIRECTOR

MA WEIPING
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Equity reserve**	**Share option reserve**	**Statutory reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000 (*Note 40*)	RMB'000	RMB'000 (*Note 40*)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	141,549	3,291,021	(305,868)	28,858	581,360	2,831,656	6,568,576	50,032	6,618,608
Profit and total comprehensive income for the year	–	–	–	–	–	1,159,449	1,159,449	21,014	1,180,463
Transfer to statutory reserve	–	–	–	–	116,272	(116,272)	–	–	–
Recognition of equity-settled share-based payments *(Note 43)*	–	–	–	1,037	–	–	1,037	–	1,037
Shares issued for share options exercised *(Note 39)*	222	15,153	–	(4,672)	–	–	10,703	–	10,703
Acquisition of a subsidiary *(Note 41)*	–	–	–	–	–	–	–	19,467	19,467
Acquisition of non-controlling interests *(Note 40)*	–	–	(138)	–	–	–	(138)	(950)	(1,088)
Appropriation of maintenance and production funds *(note a)*	–	–	–	–	32,653	(32,653)	–	–	–
Utilisation of maintenance and production funds *(note a)*	–	–	–	–	(5,326)	5,326	–	–	–
Capital injection by non-controlling interests	–	–	–	–	–	–	–	12,100	12,100
Winding of a subsidiary	–	–	–	–	(350)	350	–	–	–
Dividends recognised as distribution *(Note 13)*	–	(214,362)	–	–	–	–	(214,362)	–	(214,362)
Dividends recognised as distribution to non-controlling interests	–	–	–	–	–	–	–	(27,973)	(27,973)
At 31 December 2018	**141,771**	**3,091,812**	**(306,006)**	**25,223**	**724,609**	**3,847,856**	**7,525,265**	**73,690**	**7,598,955**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,801,281**	**1,801,281**	**48,248**	**1,849,529**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**324,400**	**(324,400)**	**–**	**–**	**–**
Recognition of equity-settled share-based payments *(Note 43)*	**–**	**–**	**–**	**264**	**–**	**–**	**264**	**–**	**264**
Appropriation of maintenance and production funds *(note a)*	**–**	**–**	**–**	**–**	**49,551**	**(49,551)**	**–**	**–**	**–**
Utilisation of maintenance and production funds *(note a)*	**–**	**–**	**–**	**–**	**(37,107)**	**37,107**	**–**	**–**	**–**
Winding of a subsidiary *(note c)*	**–**	**–**	**–**	**–**	**(1,404)**	**1,404**	**–**	**(3,587)**	**(3,587)**
Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**59,000**	**59,000**
Deemed contribution from non-controlling interests *(note b)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**227**	**227**
Dividends recognised as distribution *(Note 13)*	**–**	**(273,871)**	**–**	**–**	**–**	**–**	**(273,871)**	**–**	**(273,871)**
Dividends recognised as distribution to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,853)**	**(4,853)**
At 31 December 2019	**141,771**	**2,817,941**	**(306,006)**	**25,487**	**1,060,049**	**5,313,697**	**9,052,939**	**172,725**	**9,225,664**

Notes:

(a) Pursuant to the relevant People's Republic of China ("PRC") regulations, the Group is required to transfer maintenance and production funds at fixed rates based on relevant bases, such as production volume, to a specific reserve account. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

(b) Amounts represent the dividend payable waived by the non-controlling shareholders of a subsidiary and is thus treated as deemed contribution to the Group.

(c) On 23 September 2019, the Group wound up a non-wholly owned subsidiary resulting in the net assets of that subsidiary being distributed to the respective shareholders.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	NOTE	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**2,243,801**	1,632,111
Adjustments for:			
Finance costs		**187,076**	228,796
Interest income		**(228,231)**	(140,578)
Net foreign exchange loss		**20,954**	139,643
Depreciation of property, plant and equipment		**803,080**	764,792
Depreciation of right-of-use assets		**14,013**	–
Amortisation of prepaid lease payments		**–**	13,788
Amortisation of mining rights		**17,985**	7,312
Amortisation of other intangible assets		**1,950**	2,167
Loss on disposal of property, plant and equipment		**37,662**	6,777
Gain on disposal of prepaid lease payment		**–**	(189)
Impairment loss under expected credit loss model, net of reversal	7	**36,517**	8,387
Share of profit of an associate		**(22,388)**	(23,683)
Redemption premium on partial redemption of senior notes		**13,435**	8,993
Government grants released to profit or loss		**(10,978)**	(10,327)
Recognition of equity-settled share-based payments		**264**	1,037
Operating cash flows before movements in working capital		**3,115,140**	2,639,026
Increase in inventories		**(174,410)**	(50,312)
Increase in trade and other receivables, prepayments and bill receivables		**(298,807)**	(40,448)
Increase in trade and other payables, and contract liabilities		**445,093**	312,210
Cash generated from operations		**3,087,016**	2,860,476
Income tax paid		**(474,010)**	(357,863)
Net cash from operating activities		**2,613,006**	2,502,613

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	NOTES	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Interest received		**245,419**	123,390
Dividend received from an associate		**22,780**	–
Purchase of property, plant and equipment		**(1,614,768)**	(749,056)
Purchase of mining rights		**(42,650)**	(88,627)
Payments for right-of-use assets/prepaid lease payment		**(9,971)**	(957)
Purchase of other intangible assets		**(1,624)**	(4,399)
Purchase of debt instruments at fair value through other comprehensive income		**(181,855)**	–
Purchase of financial asset at fair value through profit or loss		**(534,337)**	–
Proceeds from disposal of property, plant and equipment		**14,960**	8,528
Proceeds from disposal of prepaid lease payments		**–**	410
Proceeds from disposal of financial assets at fair value through profit or loss		**455,707**	–
Prepayments for right-of-use assets		**(100,278)**	–
Loans to third parties		**(460,485)**	(1,393,838)
Repayments received for loans to third parties		**367,764**	525,661
Net cash outflow on acquisition of subsidiaries	41	**–**	11
Winding of a subsidiary		**(3,587)**	–
Payment received from non-controlling shareholder of a subsidiary		**–**	2,950
Advance to a non-controlling shareholder of a subsidiary		**(6,000)**	–
Government grants received for acquisition of property, plant and equipment		**–**	6,622
Withdrawal of restricted/pledged bank deposits		**341,236**	15,204
Placement of restricted/pledged bank deposits		**(506,352)**	(127,223)
Net cash used in investing activities		**(2,014,041)**	(1,681,324)
FINANCING ACTIVITIES			
New borrowings raised		**1,316,000**	804,171
Repayments of borrowings		**(863,571)**	(684,600)
Repayments of senior notes including early redemption premium	33	**(2,257,767)**	(562,440)
Proceeds from issuance of medium-term notes	36	**500,000**	–
Medium-term notes issue costs paid	36	**(2,250)**	–
Repayments of short-term notes		**–**	(400,000)
Proceeds from issuance of syndicated loan	32	**1,062,690**	–
Syndicated loan issue costs paid	32	**(47,521)**	–
Dividends paid to non-controlling shareholders of a subsidiary		**(4,853)**	(19,450)
Dividends paid		**(273,871)**	(214,362)
Shares issued for share options exercised		**–**	10,703
Capital injection by non-controlling interests		**59,000**	12,100
Acquisition of non-controlling interests		**–**	(1,088)
Interest paid		**(193,861)**	(256,761)
Net cash used in financing activities		**(706,004)**	(1,311,727)
Net decrease in cash and cash equivalents		**(107,039)**	(490,438)
Cash and cash equivalents at 1 January		**886,046**	1,375,353
Effect of foreign exchange rate changes		**552**	1,131
Cash and cash equivalents at 31 December, represented by bank balances and cash		**779,559**	886,046

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL INFORMATION

West China Cement Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sale of cement in western China, the People's Republic of China (the "PRC").

The Company was incorporated in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD, Channel Islands and the principal place of business is Yaobai R&D Training Center, No. 336 4th Shenzhou Road, Aerospace Industrial Base, Chang'an District, Xi'an, Shaanxi Province, the PRC.

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE").

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time in the current year:

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to IFRSs	*Annual Improvements to IFRS Standards 2015–2017 Cycle*

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

IFRS 16 *Leases*

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

New and amendments to IFRSs that are mandatorily effective for the current year *(Cont'd)*

IFRS 16 *Leases* *(Cont'd)*

As a leasee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid lease payments by applying IFRS 16.C8(b)(ii) transition.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the followings:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon the application of IFRS 16		
— Reclassified from prepaid lease payments	(i)	473,063

Note:

(i) Upfront payments for leasehold lands in the PRC for own used properties were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current portion (included in trade and other receivables and prepayments) and non-current portion of prepaid lease payments amounting to RMB13,788,000 and RMB459,275,000 respectively were reclassified to right-of-use assets.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

New and amendments to IFRSs that are mandatorily effective for the current year *(Cont'd)*

IFRS 16 *Leases* *(Cont'd)*

Sales and leaseback transactions

The Group acts as a buyer-lessor

In accordance with the transitional provisions of IFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of IFRS 16, the Group as a buyer-lessor does not recognise the transferred asset if such transfer does not satisfy the requirements of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as a sale. Since upon discharging all the obligations by the relevant seller-leasee, the Group will return the ownership title of the assets to the lessees automatically, the Group accounted for these sale and leaseback transactions as financing arrangements under IFRS 9 *Financial Instruments* ("IFRS 9").

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the change have not been included.

Impact on the consolidated statement of financial position

	Carrying amounts previously reported at 31 December 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at 1 January 2019 RMB'000
Non-current assets			
Prepaid lease payments	459,275	(459,275)	–
Right-of-use assets	–	473,063	473,063
Current assets			
Trade and other receivables and prepayments	477,284	(13,788)	463,496

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

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*[1]
Amendments to IFRS 3	*Definition of a Business*[2]
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 and IAS 8	*Definition of Material*[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[5]

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for annual periods beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Amendments to IFRS 3 Definition of a Business

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;

- clarify that 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; and

- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

New and amendments to IFRSs in issue but not yet effective *(Cont'd)*

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial positions and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in IFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

Other than set out above, the directors of the Company anticipate that the application of the other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on HKSE and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard;

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU(s)") (or group of CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

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

Interest in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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

Revenue from contracts with customers *(Cont'd)*

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as a leasee (upon application of IFRS 16 in accordance with transitions in Note 2)

Short-term leases and leases of low-values assets

The Group applies the short-term lease recognition exemption to lease of an office that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

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

Leases *(Cont'd)*

The Group as a leasee (upon application of IFRS 16 in accordance with transitions in Note 2) *(Cont'd)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a leasee (prior to 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Leases *(Cont'd)*

Sale and leaseback transactions (upon application of IFRS 16 since 1 January 2019)

The Group applies the requirements of IFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a buyer-lessor

For a transfer of asset that does not satisfy the requirements of IFRS 15 to be accounted for as a sale of asset, the Group as a buyer-lessor does not recognise the transferred assets and recognised a loan receivable equal to the transfer proceeds within the scope of IFRS 9.

Sale and leaseback transactions (prior to 1 January 2019)

The accounting treatment of a sale and leaseback transaction depends on the type of lease involved. The leaseback may be a finance lease if it meets the condition that substantially all the risks and rewards of ownership remain with the lessee, or it may be an operating lease (in which case, some significant risks and rewards of ownership have been transferred to the purchaser).

The Group as a buyer-lessor

For sale and leaseback transactions which are in substance a financing arrangement under IFRS 9, the Group as a buyer-lessor does not recognise the transferred asset and recognises a loan receivable equal to the net investment in the lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Effective from 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the defined contribution retirement plans, including state-managed retirement schemes in the PRC and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

Equity-settled share-based payment transactions

Equity-settled share-based payments (share options) to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

Property, plant and equipment *(Cont'd)*

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Except for mining assets (see notes (a) and (b) below), depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining assets include primarily the following:

(a) Stripping costs

Stripping costs incurred during the production phase which provide improved access to ore is capitalised into property, plant and equipment as "mining assets" (before production begins) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as mining assets of which it forms part. Capitalised stripping costs are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

(b) Asset retirement obligation

The Group recognises provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mining properties and mining assets under property, plant and equipment when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the mining assets and the cost is depreciated as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The adjusted cost of the asset is depreciated prospectively over the economic life of the assets to which they relate. The unwinding of the discount is shown as finance costs in profit or loss.

Mining rights

The cost of acquiring rights for the Group to extract a mine over a certain period is capitalised and subsequently stated at cost less accumulated amortisation and impairment loss. Amortisation of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on the unit of production method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets — research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Classification and subsequent measurement of financial assets *(Cont'd)*

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income
Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments/bill receivables classified as at FVTOCI
Subsequent changes in the carrying amounts for debt instruments/bill receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments/bill receivables are recognised in other comprehensive income and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments/bill receivables. When these debt instruments/bill receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses, net" line item.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivables, bank balances, restricted/pledged bank deposits, amount due from a non-controlling shareholder of a subsidiary, and bill receivables and debt instruments measured at FVTOCL) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and insignificant balances with specific risks. All other assets are assessed collectively using a provision matrix with appropriate groupings.

For all other financial assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets *(Cont'd)*

(i) Significant increase in credit risk *(Cont'd)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets *(Cont'd)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, and loan receivables are each assessed as a separate group; amount due from a non-controlling shareholder is assessed for ECL on an individual basis);

- Past-due status; and

- Nature, size and industry of debtors;

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments/bill receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, loan receivables, restricted/pledged bank deposits and amount due from a non-controlling shareholder of a subsidiary where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments/bill receivables that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of the debt instruments/bill receivables.

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

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument/bill receivables classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities including borrowings, trade and other payables, senior notes and medium-term notes are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Impairment of financial assets

The measurement of impairment losses under IFRS 9 across financial assets measured at amortised costs and FVTOCI requires judgement, in particular, the estimation of the amount, timing of future cash flows and forward-looking information when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the trade receivables which are individually insignificant. The provision rates are based on debtors' aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the Group's trade receivables and the ECL are disclosed in Notes 27 and 47, respectively.

Loan receivables

The Group makes allowance for loan receivables based on the ECL model on an individual basis which requires considerable amount of judgement.

In assessing ECL of loan receivables, management adopts internal credit risk grading system which is built on loan borrowers' past-due status. Elements of key accounting judgements and estimates incorporated as the key variables in ECL model include assigning probability of default to individual credit risk grade, assessing if there has been a significant increase in credit risk, considering qualitative creditworthiness, collateral values and determining associations between macroeconomic scenarios and economic inputs. The assessment of the credit risk of loan receivables involves high degree of estimation and uncertainty. The provision of ECL is sensitive to changes in estimates.

The information about the Group's loan receivables and the ECL are disclosed in Notes 24 and 47, respectively.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU (or group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU (or a group of CGUs) and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2019, the carrying amounts of goodwill is RMB193,357,000 (2018: RMB193,357,000) as disclosed in Note 22.

Assets retirement obligation

The estimation of the liabilities for assets retirement obligation involves the estimates of the amount and timing for the future cash spending as well as the discount rate used for reflecting current market assessments of the time value of money and the risks specific to the liability. The Group considers the factors including development plan of the mines, the geological structure of the mining regions and reserve volume to determine the scope, amount and timing of retirement obligation to be performed. Determination of the effect of these factors involves judgements from the Group and the estimated liabilities may turn out to be different from the actual expenditure to be incurred. The discount rate used by the Group may also be altered to reflect the changes in the market assessments of the time value of money and the risks specific to the liability, such as change of the borrowing rate and inflation rate in the market. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of retirement activities), the revisions to the obligation will be recognised at the appropriate discount rate. The carrying amounts of the assets retirement obligations is RMB336,398,000 (2018: RMB45,935,000) as disclosed in Note 37.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement products. The Group's chief executive officer, the chief operating decision maker (the "CODM") reviews the sales volume and average selling prices of its cement products by four areas, namely central and southern Shaanxi, Xinjiang and Guizhou. 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, including the financial implications from loan receivables. Accordingly, no further segment information of operating and reportable segment has been disclosed in the consolidated financial statements.

	2019 RMB'000	2018 RMB'000
Geographical markets		
Central Shaanxi	**3,322,621**	2,412,713
Southern Shaanxi	**2,782,957**	2,501,516
Xinjiang	**800,369**	606,172
Guizhou	**341,442**	391,343
	7,247,389	5,911,744

All of the Group's revenue for the years ended 31 December 2019 and 2018 are derived from the sale of cements products to customers in the western part of the PRC.

Revenue is recognised at a point in time when control of the goods has 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 2019 and 2018. All of the Group's non-current assets are located in the PRC.

During the year ended 31 December 2019, RMB231,000,000 (2018: RMB158,559,000) 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.

6. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Tax refund *(Note)*	**269,634**	316,183
Government grant, including release from deferred income	**18,102**	27,803
Others	**17**	–
	287,753	343,986

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

7. IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	2019	2018
	RMB'000	RMB'000
Impairment losses (recognised) reversed on:		
— Trade receivables	**(7,463)**	4,159
— Loan receivables	**(5,751)**	(11,395)
— Other receivables	**(1,333)**	(1,151)
— Amount due from non-controlling shareholder of a subsidiary *(Note)*	**(21,970)**	–
	(36,517)	(8,387)

Details of impairment assessment for the years ended 31 December 2019 and 2018 are set out in Note 47.

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

8. OTHER GAINS AND LOSSES, NET

	2019	2018
	RMB'000	RMB'000
Net foreign exchange losses *(Note (a))*	**(21,506)**	(127,550)
Loss on disposal of property, plant and equipment	**(37,662)**	(6,777)
Redemption premium on partial redemption of senior notes *(Note (b))*	**(13,435)**	(8,993)
Donation *(Note (c))*	**(3,695)**	(87,953)
Others	**4,595**	(2,555)
	(71,703)	(233,828)

Notes:

(a) The amounts mainly relate to the translation of the senior notes, syndicated loan and purchase of financial product from United States Dollar ("US$") to RMB for each of the two years ended 31 December 2019.

(b) During the year ended 31 December 2019, the Company exercised its early redemption option to early redeem and repaid the outstanding senior notes of US$120 million (equivalent to RMB827 million) (2018: US$80 million, equivalent to RMB553 million), plus the applicable redemption premium of US$2.0 million (equivalent to RMB13.4 million) (2018: US$1.3 million, equivalent to RMB9.0 million).

(c) Included in the amount for the year ended 31 December 2018 was charitable donations of RMB80,000,000 made by the Group through Yaobai Education Assistance Foundation established in 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

9. INTEREST INCOME

	2019 RMB'000	2018 RMB'000
Interest income from:		
— loan receivables	**212,995**	127,790
— bank deposits	**15,236**	12,788
	228,231	140,578

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on:		
— bank loans	**79,457**	42,213
— senior notes	**90,766**	183,831
— medium-term notes	**25,598**	–
— short-term notes	**–**	5,068
	195,821	231,112
Less: amount capitalised	**(10,265)**	(4,187)
	185,556	226,925
Unwinding of discount *(Note 37)*	**1,520**	1,871
	187,076	228,796

Borrowing costs capitalised during the year arose on the general borrowing pool, and are calculated by applying a capitalisation rate of 6.48% (2018: 6.16%) per annum to expenditure on qualifying assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11. PROFIT BEFORE TAX

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

	2019 **RMB'000**	2018 RMB'000
Depreciation and amortisation:		
Depreciation of property, plant and equipment	**803,080**	764,792
Depreciation of right-of-use assets	**14,013**	–
Amortisation of prepaid lease payments	**–**	13,788
Amortisation of mining rights	**17,985**	7,312
Amortisation of other intangible assets	**1,950**	2,167
Total depreciation and amortisation	**837,028**	788,059
Capitalised in inventories	**(768,336)**	(734,432)
	68,692	53,627
Research and development costs recognised as an expense (included in cost of sales)	**304,788**	195,108
Auditors' remuneration	**3,244**	3,039
Staff costs (including directors' emoluments):		
Salaries and allowances	**542,544**	398,015
Share-based payments	**264**	1,037
Retirement benefits	**48,167**	38,315
Total staff costs	**590,975**	437,367
Capitalised in inventories	**(379,223)**	(273,775)
	211,752	163,592
Cost of inventories recognised as expenses	**4,502,117**	3,723,581

12. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax:		
PRC enterprise income tax ("EIT")	**387,512**	402,310
Withholding tax	**66,018**	40,000
	453,530	442,310
Over provision in prior years:		
PRC EIT	**(45,253)**	–
Deferred tax (Note 25):		
Current year	**(15,031)**	6,905
Attributable to change in tax rate	**1,026**	2,433
	(14,005)	9,338
Income tax expense	**394,272**	451,648

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.

No provision for Hong Kong Profits Tax has been made as the Group's income neither arise in, nor is derived from, Hong Kong.

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.

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12. INCOME TAX EXPENSE *(Cont'd)*

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

	2019 **RMB'000**	2018 RMB'000
Profit before tax	**2,243,801**	1,632,111
Tax at domestic income tax rate of 25% (2018: 25%)	**560,950**	408,139
Tax effects on:		
Expenses not deductible for tax purpose	**57,201**	100,118
Income not taxable for tax purpose	**(17,008)**	(24,290)
Additional tax benefit applicable to the Group *(Note (a))*	**(54,048)**	–
Tax holiday and concession rates of group entities *(Note (b))*	**(150,502)**	(87,418)
Tax effect of share of profit of an associate	**(5,597)**	(5,921)
Change in tax rate for deferred tax assets recognised	**1,026**	2,433
Tax on interest income on intra-group loans *(Note (c))*	**4,762**	6,801
Withholding tax on undistributed profits of PRC subsidiaries *(Note (d))*	**36,018**	50,000
Tax losses not recognised as deferred tax assets	**7,372**	3,046
Utilisation of tax losses previously not recognised as deferred tax assets	**(358)**	–
Recognition of deferred tax assets on tax losses generated in previous years	**(291)**	(1,260)
Over provision in respect of prior years	**(45,253)**	–
Tax expense for the year	**394,272**	451,648

Notes:

(a) Pursuant to the relevant tax rules and regulation in the PRC, expenses in research nature are deductible at 75% (2018: 75%) of such expenses incurred additionally. The related tax benefit is amounted to RMB54,048,000 (2018: nil) for the year ended 31 December 2019.

(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** **2019**	2018	**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)
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)

12. INCOME TAX EXPENSE *(Cont'd)*

Notes: (Cont'd)

(b) *(Cont'd)*

Entities	Place of establishment	Tax rate for the year ended 31 December 2019	2018	Tax benefit
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%**	25%	(i)
西安光信小額貸款有限公司 Xi'an Guangxin Microfinance Co., Ltd. *	Shaanxi	**15%**	25%	(i)
光信(伊犁)融資租賃有限公司 Guangxin (Yili) Financial Leasing Co., Ltd. * ("Guangxin Yili")	Xinjiang	**0%**	0%	(ii)
陝西柏安外加劑有限公司 Shaanxi Baian Admixture Co., Ltd. *	Shaanxi	**20%**	25%	(iii)
墨玉堯柏建材有限公司 Moyu Yaobai Building Materials Co., Ltd. *	Xinjiang	**20%**	(iv)	(iii)
渭南華源碩混凝土有限公司 Weinan Huayuanshuo Concrete Co., Ltd. *	Shaanxi	**20%**	(iv)	(iii)
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	**20%**	(iv)	(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%**	(iv)	(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%**	(iv)	(iii)
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	**20%**	(iv)	(iii)

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12. INCOME TAX EXPENSE *(Cont'd)*

Notes: (Cont'd)

(b) *(Cont'd)*

Entities	Place of establishment	Tax rate for the year ended 31 December 2019	2018	Tax benefit
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	**20%**	(iv)	(iii)
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	**20%**	(iv)	(iii)
西安新柏騰鴻旅遊有限公司 Xinbai Tenghong Travel Co., Ltd. *	Shaanxi	**20%**	(iv)	(iii)
陝西柏源盛通人力資源有限公司 Baiyuan Shengtong Human Resources Co., Ltd. *	Shaanxi	**20%**	(iv)	(iii)

(i) Concession rate of 15% granted by the local tax authorities in western region expiring in 2020.

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

(iii) These entities are entitled to a concession rate of 20% available to 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) Subsidiaries established in 2019.

(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*

13. DIVIDENDS

	2019 RMB'000	2018 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 Interim — RMB3.6 cents (2018 Interim: RMB1.2 cents) per share	**197,781**	65,057
2018 Final — RMB1.4 cents (2017 Final: RMB2.6 cents) per share	**76,090**	149,305
	273,871	214,362

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of RMB6.3 cents (2018: RMB1.4 cents) per ordinary share, in an aggregate amount of RMB342,413,000 (2018: RMB76,090,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

14. 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:

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,801,281**	*1,159,449*

Number of shares	2019 '000	2018 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,435,133**	5,433,980
Effect of dilutive potential ordinary shares from share options issued by the Company	**5,595**	8,946
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,440,728**	5,442,926

The computation of diluted earnings per share in 2019 and 2018 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.

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15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

2019	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonus RMB'000	Retirement benefits RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors						
Zhang Jimin	–	1,500	2,300	13	40	3,853
Ma Weiping *(Chief Executive)*	–	2,017	1,670	32	93	3,812
Non-executive directors						
Ma Zhaoyang	354	–	–	–	8	362
Liu Yan	354	–	–	–	–	354
Qin Hongji (resigned on 15 July 2019)	192	–	–	–	–	192
Fan Changhong (appointed on 15 July 2019)	162	–	–	–	–	162
Independent non-executive directors						
Lee Kong Wai Conway	354	–	–	–	8	362
Wong Kun Kau (resigned on 16 May 2019)	133	–	–	–	8	141
Zhu Dong (appointed on 15 July 2019)	162	–	–	–	–	162
Tam King Ching Kenny	354	–	–	–	8	362
	2,065	3,517	3,970	45	165	9,762

2018	Fees RMB'000	Salaries and allowances RMB'000	Performance related bonus RMB'000	Retirement benefit RMB'000	Share-based payments RMB'000	Total RMB'000
Executive directors						
Zhang Jimin	–	1,500	1,000	3	182	2,685
Ma Weiping *(Chief Executive)*	–	2,000	1,354	40	384	3,778
Non-executive directors						
Ma Zhaoyang	342	–	–	–	39	381
Liu Yan	342	–	–	–	–	342
Qin Hongji (resigned on 15 July 2019)	342	–	–	–	–	342
Independent non-executive directors						
Lee Kong Wai Conway	342	–	–	–	39	381
Wong Kun Kau (resigned on 16 May 2019)	342	–	–	–	39	381
Tam King Ching Kenny	342	–	–	–	39	381
	2,052	3,500	2,354	43	722	8,671

15. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Cont'd)*

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

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

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or as compensation for loss of office (2018: Nil).

Performance related bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2018: Nil).

16. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year include two directors (2018: two) of whose remuneration are set out in Note 15 above. The remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and allowances	**3,798**	2,364
Retirement benefits	**81**	96
Share-based payments	**40**	234
	3,919	2,694

The above employees' emoluments were within the following bands:

	Number of employees	
	2019	2018
Nil to HK$1,000,000	**–**	2
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	–

During the year, no emoluments were paid by the Group to these individuals as an inducement to join or as compensation for loss of office (2018: Nil).

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17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic and other equipment	Machinery	Mining assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2018	3,658,280	71,374	192,933	6,384,928	943,475	386,606	11,637,596
Additions	20,958	61,445	28,616	60,906	80,818	545,984	798,727
Acquisition of a subsidiary *(Note 41)*	7,249	6,252	452	5,984	–	4,211	24,148
Transfers	138,861	24,547	12,622	140,136	62,089	(378,255)	–
Disposals	(10,133)	(7,107)	(4,887)	(27,096)	–	–	(49,223)
At 31 December 2018	3,815,215	156,511	229,736	6,564,858	1,086,382	558,546	12,411,248
Additions	15,590	101,649	50,623	143,009	295,775	862,203	1,468,849
Transfers	192,426	33,819	15,223	124,243	34,373	(400,084)	–
Disposals	(48,539)	(14,690)	(6,358)	(80,794)	–	–	(150,381)
At 31 December 2019	**3,974,692**	**277,289**	**289,224**	**6,751,316**	**1,416,530**	**1,020,665**	**13,729,716**
ACCUMULATED DEPRECIATION							
At 1 January 2018	1,115,185	16,348	168,951	2,893,710	305,982	–	4,500,176
Depreciation charge	192,495	14,905	56,698	450,595	50,099	–	764,792
Disposals	(2,320)	(5,590)	(4,150)	(21,858)	–	–	(33,918)
At 31 December 2018	1,305,360	25,663	221,499	3,322,447	356,081	–	5,231,050
Depreciation charge	162,484	35,667	50,139	486,318	68,472	–	803,080
Disposals	(28,046)	(6,008)	(4,489)	(59,216)	–	–	(97,759)
At 31 December 2019	**1,439,798**	**55,322**	**267,149**	**3,749,549**	**424,553**	**–**	**5,936,371**
CARRYING VALUES							
At 31 December 2019	**2,534,894**	**221,967**	**22,075**	**3,001,767**	**991,977**	**1,020,665**	**7,793,345**
At 31 December 2018	2,509,855	130,848	8,237	3,242,411	730,301	558,546	7,180,198

Details of property, plant and equipment pledged are set out in Note 46.

The annual rates of depreciation for above items of property, plant and equipment, other than construction in progress and mining assets, are as follows:

Category of property, plant and equipment	**Useful life**
Buildings	20 years
Motor vehicles	8 years
Electronic and other equipment	5 years
Machinery	12 years

Mining assets are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

18. RIGHT-OF-USE ASSETS

	Leasehold land RMB'000
As at 1 January 2019	
Carrying amount	473,063
As at 31 December 2019	
Carrying amount	469,021
For the year ended 31 December 2019	
Depreciation charge	14,013
Total cash outflow for leases	9,971
Additions to right-of-use assets	9,971

The Group has obtained the land use right certificates for all leasehold lands except for leasehold lands with carrying amount of RMB37,112,000 (2018: prepaid lease payments of RMB34,121,000) in which the Group is in the process of obtaining. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights. Details of right-of-use assets pledged are set out in Note 46.

Right-of-use assets are depreciated on a straight-line basis over the shorter of 50 years and the lease term.

19. PREPAID LEASE PAYMENTS

	2018 RMB'000
Analysed for reporting purposes as:	
Current asset *(Note 27)*	13,788
Non-current asset	459,275
	473,063

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20. MINING RIGHTS

	RMB'000
COST	
At 1 January 2018	337,775
Addition	88,627
At 31 December 2018	426,402
Addition	233,411
At 31 December 2019	659,813
AMORTISATION	
At 1 January 2018	92,164
Charge for the year	7,312
At 31 December 2018	99,476
Charge for the year	17,985
At 31 December 2019	117,461
CARRYING AMOUNT	
At 31 December 2019	542,352
At 31 December 2018	326,926

Mining rights are granted from the Department of Natural Resources of Shaanxi Province, Guizhou Province and Xinjiang Uygur Autonomous Region in the PRC.

Mining rights are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

As at 31 December 2019, carrying amount of RMB13,956,000 (2018: RMB7,420,000) in respect of the mining right certificate under which the Group is in the process of obtaining. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these mining rights.

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21. OTHER INTANGIBLE ASSETS

	Goodwill	Customer relationships	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2018	187,150	20,610	1,988	209,748
Addition	–	–	4,399	4,399
Acquisition of a subsidiary *(Note 41)*	6,207	–	–	6,207
At 31 December 2018	193,357	20,610	6,387	220,354
Addition	–	–	1,624	1,624
At 31 December 2019	193,357	20,610	8,011	221,978
ACCUMULATED AMORTISATION				
At 1 January 2018	–	16,965	1,661	18,626
Charge for the year	–	2,015	152	2,167
At 31 December 2018	–	18,980	1,813	20,793
Charge for the year	–	1,630	320	1,950
At 31 December 2019	–	20,610	2,133	22,743
CARRYING AMOUNT				
At 31 December 2019	193,357	–	5,878	199,235
At 31 December 2018	193,357	1,630	4,574	199,561

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

Customer relationships *(Note)*	10 years
Computer software	5 years

Note: The customer relationships amounting to RMB20,610,000 arose from the acquisition of 商洛堯柏秀山水泥有限公司 Shangluo Yaobai Xiushan Cement Co., Ltd. * ("Xiushan Yaobai"), a Company's subsidiary, in December 2009. They are amortised over a period of 10 years.

* *The English name is for identification purpose only*

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22. IMPAIRMENT TESTING ON GOODWILL

Goodwill is tested for impairment annually or more frequently when circumstances indicate the carrying value may be impaired. Goodwill balances at end of each reporting period were attributable specifically to the six individual CGU, respectively. The carrying amounts of goodwill are as follows:

	2019 **RMB'000**	2018 RMB'000
Cement plant — Xiushan Yaobai	**45,274**	45,274
Cement plant — Luxin	**49,133**	49,133
Cement plant — Shifeng	**55,872**	55,872
Cement plant — Fuping	**7,258**	7,258
Cement plant — Yaowangshan Cement Co., Ltd. ("Yaowangshan")	**29,613**	29,613
Commercial mixed station — Shaanxi Fengsheng Deyuan Industrial Limited Company ("Shaanxi Fengsheng") *(Note 41)*	**6,207**	6,207
	193,357	193,357

The recoverable amounts of the above CGUs have been determined based on the value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period. The estimated growth rate for subsidiaries in different provinces ranges from 0% to 8% (2018: 0% to 7%), and pre-tax discount rate of 14% (2018: 14%) were applied, which is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rates. Other key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. According to the result of the analysis, the management did not identify an impairment for the above CGUs to which the goodwill are allocated during the years ended 31 December 2019 and 2018.

23. INTEREST IN AN ASSOCIATE

	2019 RMB'000	2018 RMB'000
Unlisted equity investment, at cost	**31,425**	31,425
Share of post-acquisition profits and other comprehensive income, net of dividends received	**48,844**	49,236
	80,269	80,661

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

Name of Entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting right held by the Group		Principal activity
			2019	2018	2019	2018	
Yaobai Environmental Technology Engineering Co., Ltd. ("Yaobai Environmental")	China	Shaanxi	**20%**	20%	**20%**	20%	Treatment of dangerous and hazardous waste

Summarised financial information of the associate

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

Yaobai Environmental

	2019 RMB'000	2018 RMB'000
Current assets	**151,008**	234,705
Non-current assets	**308,804**	189,960
Current liabilities	**60,134**	23,027
Non-current liabilities	**–**	–
Revenue	**185,882**	162,857
Profit and total comprehensive income for the year	**111,940**	118,415
Dividends receivable from the associate during the year	**22,780**	–

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

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23. INTERST IN AN ASSOCIATE *(Cont'd)*

Yaobai Environmental *(Cont'd)*

	2019 RMB'000	2018 RMB'000
Net assets of Yaobai Environmental	399,678	401,638
Proportion of the Group's ownership interest in Yaobai Environmental	20%	20%
The Group's share of net assets of Yaobai Environmental	79,936	80,328
Others	333	333
Carrying amount of the Group's interest in Yaobai Environmental	80,269	80,661

24. LOAN RECEIVABLES

	2019 RMB'000	2018 RMB'000
Loans collateralised by property, plant and equipment *(Note a)*	1,157,376	1,160,301
Entrusted loan *(Note b)*	200,000	200,000
Loans collateralised by receivables *(Note (b))*	383,800	352,000
Small loans *(Note (c))*	63,846	–
	1,805,022	1,712,301
Less: allowance for credit losses	(25,396)	(19,645)
	1,779,626	1,692,656
Analysed as:		
Current	1,055,444	855,453
Non-current	724,182	837,203
	1,779,626	1,692,656

Notes to the Consolidated Financial Statements

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24. LOAN RECEIVABLES *(Cont'd)*

Notes:

(a) As at 31 December 2019 and 2018, 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 its certain assets to the Group and leased back those assets;

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

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

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

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

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

	2019 **RMB'000**	2018 RMB'000
Within one year	**1,055,444**	855,453
In more than one year but not more than two years	**724,182**	300,720
In more than two years but not more than five years	**–**	536,483
	1,779,626	1,692,656

The ranges of effective rates on the Group's loan receivables was 10% to 24% per annum as at 31 December 2019 (2018: 6% to 18.3%).

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

Included in the carrying amount of loans receivables as at 31 December 2019 is accumulated impairment losses of RMB25,396,000 (2018: RMB19,645,000).

As at 31 December 2019, carrying amount of loan receivables of RMB36,192,000 (2018: nil) which are past due at report date. Details of impairment assessment are set out in Note 47.

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For the year ended 31 December 2019

25. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	**36,557**	39,110
Deferred tax liabilities	**(63,721)**	*(80,279)*
	(27,164)	*(41,169)*

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Allowance for doubtful debts and accruals RMB'000	**Deferred income** RMB'000	**Tax losses** RMB'000	**Assets booked at fair value on acquisition** RMB'000	**Withholding tax on undistributed profits of PRC subsidiaries** RMB'000	**Total** RMB'000
At 1 January 2018	27,066	14,448	29,585	(62,930)	(40,000)	(31,831)
Credited (charged) to profit or loss	7,102	(1,371)	(7,530)	4,894	(10,000)	(6,905)
Effect of change in tax rate	(956)	(1,477)	–	–	–	(2,433)
At 31 December 2018	33,212	11,600	22,055	(58,036)	(50,000)	(41,169)
Credited (charged) to profit or loss	4,506	(2,441)	(21,764)	4,730	30,000	15,031
Effect of change in tax rate	(981)	(45)	–	–	–	(1,026)
At 31 December 2019	36,737	9,114	291	(53,306)	(20,000)	(27,164)

At the end of the reporting period, the Group has unused tax losses of RMB55,129,000 (2018: RMB115,293,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,164,000 (2018: RMB88,220,000) of such losses.

25. DEFERRED TAX *(Cont'd)*

No deferred tax have been recognised in respect of the tax losses of RMB53,965,000 (2018: RMB27,073,000) due to unpredictability of future profit streams. The unused tax losses not recognised will be expired in the following year ending 31 December:

	2019 RMB'000	2018 RMB'000
2021	**2,986**	5,582
2022	**9,306**	9,306
2023	**12,185**	12,185
2024	**29,488**	–
	53,965	27,073

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 31 December 2019, the Group recognised deferred taxation in respect of withholding tax of RMB20,000,000 (2018: RMB50,000,000) for undistributed earnings of certain PRC subsidiaries.

As at 31 December 2019, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB5,350,240,000 (2018: RMB3,784,443,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials and consumables	**357,105**	249,971
Work in progress	**189,051**	121,336
Finished goods	**119,370**	119,809
	665,526	491,116

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27. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2019 **RMB'000**	2018 RMB'000
Trade receivables	**461,254**	195,396
Less: Allowance for credit losses	**(21,106)**	(13,643)
	440,148	181,753
Other receivables *(Note a)*	**172,131**	54,671
Less: Allowance for credit losses	**(3,095)**	(2,261)
	169,036	52,410
Interest receivable	**–**	17,188
VAT recoverable	**101,680**	87,642
VAT refund receivable	**26,119**	37,558
Amount due from a non-controlling shareholder of a subsidiary *(Note b)*	**6,000**	21,743
Prepayments to suppliers	**57,107**	80,420
Prepaid lease payments *(Note 19)*	**–**	13,788
	800,090	492,502
Less: Non-current portion of amount due from a non-controlling shareholder of a subsidiary *(Note b)*	**–**	(15,218)
	800,090	477,284

Details of trade receivables pledged are set out in Note 46.

Notes:

(a) Included in other receivables represent amounts of RMB106,414,000 (2018: RMB24,655,000) advances to third parties. The amounts are non-interest bearing.

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") will 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 has yet to establish 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. As at the date of this report, the Joint Venture has not been incorporated.

The remaining balances as at 31 December 2019 and 2018 represent the advances to other third parties which were non-interest bearing and repayable on demand.

(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 the amount of which will be recovered by offsetting the future dividend payable to non-controlling shareholder of the subsidiary.

The amount due from a non-controlling shareholder of a subsidiary as of 31 December 2018 represents advances for procuring the acquisition of various mining rights by the non-controlling shareholder on behalf of the Group which was fully impaired during the year ended 31 December 2019 (Note 7).

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB147,421,000.

27. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Cont'd)*

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2019 RMB'000	2018 RMB'000
0 to 90 days	**195,057**	106,589
91 to 180 days	**75,113**	60,197
181 to 360 days	**159,716**	2,372
361 to 720 days	**9,766**	6,702
Over 720 days	**496**	5,893
	440,148	181,753

As at 31 December 2019, total bills received amounting to RMB189,676,000 (2018: RMB253,972,000) are held by the Group, of which certain bills were further endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed in Note 29. All bills received by the Group are with a maturity period of less than one year.

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 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB243,882,000 (2018: RMB112,794,000) which are past due as at the reporting date. Out of the past due balances, RMB169,836,000 (2018: RMB6,895,000) 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.

Details of impairment assessment of trade and other receivables are set out in Note 47.

28. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at FVTOCI of RMB181,855,000 represents an investment in an entrusted product named "國民信託穩鑫1號", with a contractual term of three years, which is held under a business model of collecting cash flows and selling to the issuer at the discretion of the Group, and is classified as debt instruments at FVTOCI.

The scope of investment covers the purchase or reverse repo of central bank bills, treasury bonds, financial bonds, short-term financing bonds, medium-term bills, corporate bonds and corporate bonds and other types of standardised financial products listed and traded in the inter-bank market etc.. The return of the debt instruments at FVTOCI is based on the performance of the entrusted product adjusted by related custodian fee.

Details of the impairment assessment of debt instruments at FVTOCI are set out in Note 47.

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29. BILL RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Bill receivables of RMB189,676,000 (2018: RMB253,972,000) are held under a business model of collecting cash flows and endorsing to suppliers, and are classified as debt instruments at FVTOCI.

As at 31 December 2019, bill receivables of RMB31,191,000 (2018: RMB44,296,000) were endorsed to suppliers on a full recourse basis. As the Group has not transferred substantially all the risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables and the corresponding trade payables.

Details of impairment assessment of bill receivables at FVTOCI are set out in Note 47.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Balance as at 31 December 2019 represented the structured deposits of RMB90,000,000 placed in the bank with maturity period of 1 year. In accordance with the relevant terms of the deposits, the expected yield rate is floating and linked with US$ 3-month London Interbank Offered Rate ("LIBOR"), which is recognised as financial assets at FVTPL.

31. BANK BALANCES AND CASH/RESTRICTED/PLEDGED BANK DEPOSITS

	2019 **RMB'000**	2018 RMB'000
Restricted/pledged bank deposits		
— denominated in RMB	**354,148**	189,032
Bank balances and cash		
— denominated in RMB	**747,552**	845,680
— denominated US$	**6,849**	35,359
— denominated in other currency	**25,158**	5,007
	779,559	886,046

Bank balances and restricted/pledged bank deposits carry interest at market rates of 0.10% to 2.75% (2018: 0.25% to 2.75%) per annum.

Restricted/pledged bank deposits represent bank deposits of RMB240,224,000, RMB113,924,000 and Nil (2018: RMB67,007,000, RMB12,025,000 and RMB110,000,000) set aside as securities deposits for projects bidding, bills payable and bank loans, respectively (Note 46). The Group used the trade facilities in projects bidding process which were required by contractors.

32. BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured bank loans	**1,316,000**	863,571
Unsecured — syndicated loan *(Note)*	**999,589**	–
	2,315,589	863,571
Carrying amount repayable as follows:		
— Within one year	**1,126,000**	863,571
— More than one year but not more than two years	**472,159**	–
— More than two years but not more than five years	**717,430**	–
	2,315,589	863,571
Less: Amount due for settlement within one year and shown under current liabilities	**(1,126,000)**	(863,571)
Amounts shown under non-current liabilities	**1,189,589**	–

Note: On 5 September 2019, the Company entered into term and revolving credit facilities agreement with a syndicate of financial institutions for a loan of US$150,000,000 (equivalent to RMB1,062,690,000) for a period of 3 years ("Syndicate Loan"). The Syndicated Loan carried variable interest rate of 3% plus LIBOR with effective interest rate of 6.86% per annum as at year end date after adjusted for transaction cost of US$6,708,000 (equivalent to RMB47,521,000).

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

	2019 RMB'000	2018 RMB'000
Fixed rate borrowings		
— expiring within one year	**1,116,000**	703,571
Variable rate borrowings		
— expiring within one year	**10,000**	160,000
— expiring more than one year but not more than two years	**472,159**	–
— expiring more than two years but not more than five years	**717,430**	–
	2,315,589	863,571

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For the year ended 31 December 2019

32. BORROWINGS *(Cont'd)*

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

	2019	2018
Effective interest rate per annum:		
Fixed rate borrowings	**2.90% to 6.12%**	2.90% to 5.82%
Variable rate borrowings	**5.46% to 7.12%**	5.46%

Included in borrowing represents carrying amount of 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 46.

33. SENIOR NOTES

On 4 September 2014, the Company issued 6.5%, five-year senior notes with an aggregated principal amount of US$400,000,000 due in 2019 (the "2019 Senior Notes") at 100% of the face value. The effective interest rate is approximately 6.80% per annum after adjusted for transaction costs. The 2019 Senior Notes are listed on the HKSE and guaranteed by certain subsidiaries of the Company and secured by pledges of the shares of these subsidiaries.

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

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

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

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

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33. SENIOR NOTES *(Cont'd)*

In June 2019, the Company early redeemed and repaid US$120 million (equivalent to RMB827 million) (2018: US$80 million, equivalent to RMB553 million), plus the applicable redemption premium of US$2 million (equivalent to RMB13.4 million) (2018: US$1.3 million, equivalent to RMB9.0 million). The outstanding balance of US$200 million (equivalent to RMB1,148 million) was due and repaid in full in September 2019.

	2019 **RMB'000**	2018 RMB'000
Carrying amount at 1 January	**2,188,003**	2,596,470
Interest expenses	**90,766**	183,831
Redemption premium on partial redemption of senior notes	**13,435**	8,993
Interest paid	**(82,893)**	(179,625)
Exchange losses	**48,456**	140,774
Partial redemption including early redemption premium	**(840,187)**	(562,440)
Repayment on maturity	**(1,417,580)**	–
Carrying amount at 31 December	**–**	2,188,003

34. TRADE AND OTHER PAYABLES

	2019 **RMB'000**	2018 RMB'000
Trade payables	**992,162**	713,154
Bill payables	**256,218**	40,000
	1,248,380	753,154
Amount due to non-controlling shareholder of a subsidiary	**–**	1,888
Payables for constructions and equipment purchase	**10,490**	34,926
Other tax liabilities	**86,321**	90,248
Payroll and welfare payable	**73,617**	66,023
Interest payable	**12,382**	43,893
Other payables *(Note)*	**246,182**	109,093
Deposits payables	**47,194**	42,095
Deferred income — current portion *(Note 38)*	**10,978**	10,714
	1,735,544	1,152,034

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 2019 represents an amount of RMB137,854,000 (2018: nil) payable to the Department of Land and Resource of Fuping County which is expected to be settled in 2020.

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34. TRADE AND OTHER PAYABLES *(Cont'd)*

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

	2019 **RMB'000**	2018 RMB'000
0 to 90 days	**697,675**	579,338
91 to 180 days	**150,404**	101,986
181 to 360 days	**120,106**	16,380
361 to 720 days	**14,908**	9,698
Over 720 days	**9,069**	5,752
	992,162	713,154

Bills payables are mainly due within six months based on the issuance date.

35. CONTRACT LIABILITIES

	2019 **RMB'000**	2018 RMB'000
	226,589	231,000

As at 1 January 2018, contract liabilities amounted to RMB158,559,000.

Contract liabilities at the end of the reporting period represent the advances from customers in respect of cement sales contracts.

36. 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 adjusted for transaction costs of RMB4,500,000.

	2019 **RMB'000**
Carrying amount at 1 January	**–**
Proceeds from issuance	**500,000**
Interest expenses	**25,598**
Transaction cost	**(4,500)**
Carrying amount at 31 December	**521,098**

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37. ASSET RETIREMENT OBLIGATION

	2019 RMB'000	2018 RMB'000
At 1 January	**45,935**	23,417
Addition *(Note)*	**288,943**	20,647
Unwinding of discount	**1,520**	1,871
At 31 December	**336,398**	45,935

Note: According to a regulation issued in 2009 by the Ministry of Land and Resources of the PRC, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognised for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. These amounts will be settled when environmental restoration is undertaken, generally at the end of a mining life. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly. The Group does not expect any significant retirement of assets in the next twelve months.

During the year ended 31 December 2019, the Group recognised assets retirement obligation of RMB288,943,000 (2018: RMB20,647,000) relating to the acquired mining assets as disclosed in Note 17.

38. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants relating to acquisition of property, plant and equipment *(Note)*	**45,183**	56,256
Less: current portion *(Note 34)*	**(10,978)**	(10,714)
	34,205	45,542

Note: The amount represents unconditional government grants received by the Group's subsidiaries for acquisition of property, plant and equipment. The balance will be amortised based on the useful lives of respective property, plant and equipment from 5 to 12 years. RMB10,978,000 (2018: RMB10,327,000) was released to profit or loss and recorded in other income in the current reporting period.

39. SHARE CAPITAL

		Share capital	
	Number of shares '000	GBP'000	Shown in the consolidated financial statements RMB'000
Ordinary shares of 0.002 Great Britain Pound ("GBP") each			
Authorised:			
At 1 January 2018, 31 December 2018 and 2019	10,000,000	20,000	
Issued and fully paid:			
At 1 January 2018	5,422,533	10,843	141,549
Exercise of share options *(Note 43)*	12,600	25	222
At 31 December 2018 and 2019	5,435,133	10,868	141,771

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40. RESERVES

Equity reserve

Equity reserve comprises:

(a) On 27 October 2006, the Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. The difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date amounted to RMB341,304,000 resulting from this reverse acquisition was debited to equity reserve.

(b) On 10 January 2011, the Group signed an agreement with the non-controlling shareholder of Longqiao Yaobai to acquire the remaining 20% equity interests in Longqiao Yaobai from the non-controlling shareholder. The difference amounted to RMB8,124,000 between the consideration paid of RMB25,000,000 and the non-controlling interest decreased of RMB33,124,000 was credited directly to equity reserve.

(c) On 19 March 2012, the Group signed an agreement with the non-controlling shareholder of 安康堯柏江華水泥有限公司 Ankang Yaobai Jianghua Cement Co., Ltd. * ("Jianghua Yaobai") to acquire the remaining 20% equity interests in Jianghua Yaobai from the non-controlling shareholder. The difference amounted to RMB30,916,000 between the consideration paid of RMB50,000,000 and the non-controlling interest decreased of RMB80,916,000 was credited directly to equity reserve.

(d) On 14 November 2013, the Group signed an agreement with the non-controlling shareholder of Guizhou Linshan to acquire the remaining 20% equity interests in Guizhou Linshan from the non-controlling shareholder. The difference amounted to RMB3,604,000 between the consideration paid of RMB58,680,000 and the non-controlling interest decreased of RMB55,076,000 was debited directly to equity reserve.

(e) On 9 February 2018, the Group entered an agreement with the non-controlling shareholders of 陝西建達信工程有限公司 Jiandaxin Engineering Inspection Company * ("Jiandaxin") to acquire the remaining 55% equity interests in Jiandaxin from the non-controlling shareholders. The difference amounted to RMB138,000 between the consolidated paid of RMB1,088,000 and the non-controlling interest decreased of RMB950,000 was debited directly to equity reserve.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the group companies established in the PRC, the group companies in the PRC are required to appropriate 10% of the profit after tax determined under the accounting principles and financial regulations applicable in the PRC to the statutory reserve until the balances reach 50% of their respective registered capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital.

In addition, pursuant to the relevant PRC regulations, the Group is required to transfer maintenance and production funds at fixed rates based on relevant bases, such as production volume, to a specific reserve account. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve account to retained earnings.

* *The English name is for identification purpose only*

41. ACQUISITION OF A SUBSIDIARY

On 2 May 2018, the Group acquired a 55% controlling equity interest in Shaanxi Fengsheng by an agreed capital injection of RMB30,000,000 to Shaanxi Fengsheng.

Shaanxi Fengsheng is principally engaged in production and sales of concrete and other cement products in Shaanxi Province, the PRC. It was acquired with the primary objective of further improving the Group's presence in the local market.

Acquisition-related costs incurred are immaterial and have been recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets and liabilities recognised at the date of acquisition

	Shaanxi Fengsheng RMB'000
Assets	
Trade and other receivables and prepayments	9,581
Inventories	4,644
Bank balances and cash	30,011
Property, plant and equipment	24,148
Liabilities	
Trade and other payables	(25,124)
Net assets	43,260

The trade and other receivables acquired (which principally comprised trade receivables) with gross contractual amounts of RMB9,581,000 represents its fair value, of which in the opinion of the directors of the Company is expected to be fully recoverable within one year.

Non-controlling interests

The non-controlling interest of 45% in Shaanxi Fengsheng at the acquisition date was measured by reference to the proportionate fair value of the net assets of Shaanxi Fengsheng and amounted to RMB19,467,000.

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41. ACQUISITION OF A SUBSIDIARY *(Cont'd)*

Goodwill arising on acquisition

	Shaanxi Fengsheng RMB'000
Consideration	30,000
Add: Non-controlling interests	19,467
Less: Recognised amount of net identifiable assets acquired	(43,260)
Goodwill arising on acquisition	6,207

The consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies and future market development in downstream cement industry. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The initial accounting has been completed and the amount of goodwill arising on acquisition has been finalised during the year ended 31 December 2019.

Net cash inflow arising on acquisition

	Shaanxi Fengsheng RMB'000
Consideration paid in cash	(30,000)
Cash and cash equivalent balances acquired	30,011
	11

Impact of acquisition on the results of the Group

Included in the profit for the year ended 31 December 2018 was a profit of RMB7,828,000 attributable to Shaanxi Fengsheng. Revenue for the year ended 31 December 2018 included RMB124,998,000 in respect of Shaanxi Fengsheng.

Had the acquisition been completed on 1 January 2018, revenue for the year ended 31 December 2018 of the Group would have been RMB5,914,641,000, and the profit for the year ended 31 December 2018 would have been RMB1,178,594,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had Shaanxi Fengsheng been acquired at the beginning of the year ended 31 December 2018, the directors of the Company calculated depreciation and amortisation of property, plant and equipment based on the recognised amounts of property, plant and equipment at the date of the acquisition.

42. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,298,051**	127,384

43. SHARE-BASED PAYMENTS

The Company's current share option scheme was adopted pursuant to a resolution of board of directors passed on 31 March 2010 for the primary purpose of providing incentives to directors and eligible employees through the subscription of the Company's shares, and will expire 10 years after the date of grant ("Post-IPO Share Option Scheme").

The total number of shares in respect of options may be granted under the Post-IPO Share Option Scheme is not permitted to exceed 10% of the issued share capital of the Company as at 23 August 2010, which aggregated at 411,533,185 shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant. Options may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall not be more than 10 years from the date of grant of options. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 23 March 2011, 22 March 2013, 24 March 2014 and 13 April 2015, the Company granted a total of 18,400,000 ("First Issuance"), 34,000,000 ("Second Issuance"), 52,100,000 ("Third Issuance") and 29,100,000 options ("Forth Issuance"), respectively, to directors, senior management and staff, and the estimated fair value of the four option issuances using the Black-Scholes option pricing model was approximately HK$1.04, HK$0.58, HK$0.41 and HK$0.56 at the respective grant date.

The share options granted are exercisable within a period of 10 years after the corresponding vesting periods (4 years) succeeding the specific grant date of each individual tranche under a particular issuance, subject to the fulfilment of certain non-market performance condition, for example, the share options of a specific tranche would vest if the growth in profit after tax of the Group during the year ending on the vesting date (Year 1) equal or exceed 15% as compared to the previous financial year (Year 0). In the event when the growth is less than 15%, the share options will not be immediately forfeited and the vesting will delay until the compound growth in profit after tax of the Group in the following financial year (Year 2) equal or exceed 15% as compared to that of Year 0. Where profit after tax of the Group does not meet the growth requirements in both circumstances above, the share options of the said tranche will not vest.

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For the year ended 31 December 2019

43. SHARE-BASED PAYMENTS *(Cont'd)*

Fair value of the share options

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate excluding non-market performance condition. Changes in variables and assumptions may result in changes in the fair value of the options.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

The following table disclose the details of the share options held by the employees (including the directors) and movements in such holdings during the years ended 31 December 2019 and 2018:

Year ended 31 December 2019

					Number of options ('000)				
	Date of grant	Weighted average remaining contractual life	Exercise period of tranches under the issuance	Exercise price	Outstanding at 1.1.2019	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2019
First Issuance	23 March 2011	2 years 3 months	23 March 2012 to 22 March 2021	HK$3.41	1,100	–	–	–	1,100
Second Issuance	22 March 2013	3 years 3 months	22 March 2014 to 21 March 2023	HK$1.25	11,275	–	–	–	11,275
Third Issuance	24 March 2014	4 years 3 months	24 March 2015 to 23 March 2024	HK$0.91	24,075	–	–	–	24,075
Forth Issuance	13 April 2015	5 years 3 months	13 April 2016 to 12 April 2025	HK$1.45	25,050	–	–	–	25,050
					61,500	–	–	–	61,500
Exercisable at the end of the year									61,500
Weighted average exercise price									HK$1.24

43. SHARE-BASED PAYMENTS *(Cont'd)*

Fair value of the share options *(Cont'd)*

Year ended 31 December 2018

	Date of grant	Weighted average remaining contractual life	Exercise period of tranches under the issuance	Exercise price	Number of options ('000) Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2018
First Issuance	23 March 2011	3 years 3 months	23 March 2012 to 22 March 2021	HK$3.41	1,100	–	–	–	1,100
Second Issuance	22 March 2013	4 years 3 months	22 March 2014 to 21 March 2023	HK$1.25	15,175	–	3,900	–	11,275
Third Issuance	24 March 2014	5 years 3 months	24 March 2015 to 23 March 2024	HK$0.91	33,400	–	8,350	975	24,075
Forth Issuance	13 April 2015	6 years 3 months	13 April 2016 to 12 April 2025	HK$1.45	25,400	–	350	–	25,050
					75,075	–	12,600	975	61,500
Exercisable at the end of the year									55,150
Weighted average exercise price									HK$1.24

During the year ended 31 December 2019, a share-based payment expense of RMB264,000 was recognised in relation to share options granted by the Company (2018: RMB1,037,000).

During the year ended 31 December 2019, no share options were exercised, lapsed or expired. During the year ended 31 December 2018, 12,600,000 share options were exercised at the weighted exercise price of HK$1.03 per share or approximate RMB0.85 per share, with the weighted average share price of HK$1.42 per share.

44. RETIREMENT BENEFITS PLANS

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

The employees of the Group's subsidiaries in the PRC are members of a state-managed defined contribution retirement scheme operated by the PRC government. The subsidiary is required to contribute 20% of payroll costs to the retirement scheme subject to certain cap as governed by the social fund bureau. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The total expense recognised in the profit or loss of RMB48,167,000 (2018: RMB38,315,000) represents contributions paid or payable under the retirement benefit scheme.

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45. RELATED PARTY DISCLOSURES

The Group has paid or payable to the key management for employee services. The key management includes directors (executive and non-executive) of the Company and senior management of the Group.

Key management compensation

	2019 RMB'000	2018 RMB'000
Salaries and other short-term employee benefits	**14,286**	10,812
Post-employment benefits	**159**	180
Share-based payments	**228**	1,024
	14,673	12,016

46. 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:

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	**2,734,801**	1,899,516
Trade receivables	**186,944**	–
Right-of-use assets	**140,813**	–
Pledged bank deposits	**113,924**	122,025
Financial assets at fair value though profit or loss	**90,000**	–
Prepaid lease payments	**–**	123,229
Bill receivables at FVTOCI	**25,800**	11,570
	3,292,282	2,156,340

During the year ended 31 December 2019, the Group pledged its equity interests in three subsidiaries, 漢中勉縣堯柏水泥有限公司 Hanzhong Mianxian Yaobai Cement Co., Ltd * ("Hanzhong Mianxian"), Xiushan Yaobai and 貴州麟山水泥有限公司 Guizhou Linshan Cement Co., Ltd*, to the bank to secure a banking facility totalling RMB420,000,000 for a period of one year which has already been drawn down as at 31 December 2019. The pledge will be released upon the repayment of the borrowing to the bank.

* The English name is for identification purpose

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47. FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (borrowings, medium term notes and senior notes as detailed in Notes 32, 36 and 33, offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves as detailed in the consolidated statement of changes in equity).

The directors of the Company review the capital structure on a semi-annual basis. In order to maintain or adjust the capital structure, the Group will balance its overall capital structure through adjust the payment of dividends paid to shareholders, issue new shares or issue of new debt or the redemption of existing debt.

b. Categories of financial instruments

	2019 **RMB'000**	2018 RMB'000
Financial assets		
— Loans and receivables at amortised cost (including cash and cash equivalents)	**3,528,517**	3,040,828
— Bill receivables at FVTOCI	**189,676**	253,972
— Debt instruments at FVTOCI	**181,855**	–
— Financial asset at FVTPL	**90,000**	–
Financial liabilities		
— Amortised cost	**4,474,932**	4,102,646

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivables, bill receivables and debt instruments measured at FVTOCI, financial asset at FVTPL, restricted/pledged bank deposits, bank balances and cash, trade and other payables, borrowings, senior notes and medium-term notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate risk. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk

The Group undertakes transactions, mainly the issuance of senior notes and new shares, denominated in foreign currencies other than the functional currency of RMB. Hence, exposures to exchange rate fluctuations arise.

The Group does not use derivative financial instruments to hedge its foreign currency risk. However, the Group monitors foreign currency exposure and will consider hedging significant exposure should the need arise. The carrying amounts of Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		**Assets**	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
The US$				
— Bank balances and cash	**–**	–	**6,849**	35,359
— Borrowings	**1,005,353**	–	**–**	–
— Senior notes (including related interest)	**–**	2,231,895	**–**	–
Other foreign currency (including HK$, GBP and Singapore Dollar)				
— Bank balances and cash	**–**	–	**25,158**	5,007

The Group is mainly exposed to the fluctuation in US$ against RMB.

The directors' assessment of the reasonably possible change in foreign exchange rate is 5% (2018: 5%) which is also the sensitivity rate used when reporting foreign currency risk internally to key management personnel. For a 5% weakening of RMB against US$, there will be a decrease in profit for the year of RMB37,444,000 (2018: RMB82,370,000) and there would be an equal but opposite impact on the profit or loss for the year for a 5% strengthen of RMB against US$.

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Market risks *(Cont'd)*

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to loans receivables, fixed-rate borrowings, medium-term notes and senior notes notes (as detailed in Notes 24, 32, 36 and 33, respectively).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (as detailed in Note 32).

The Group does not have formal policies on managing interest rate risk. However, the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure for variable-rate bank borrowings at the end of each reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would be decreased/increased by approximately RMB4,520,000 (2018: RMB600,000).

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to its trade and other receivables, loan receivables, amount due from a non-controlling shareholder of a subsidiary, bill receivables at FVTOCI and debt instruments at FVTOCI, bank balances and cash, and restricted/pledged bank deposits. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the credit risks associates with loan receivables is mitigated because they are secured over the assets pledged by the third parties as disclosed in Note 24.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has formulated a defined trade credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Normally, the Group does not obtain collateral from customers. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances individually for significant balances and insignificant balances with specific risks, and based on provision matrix for the remaining trade receivables as stated below.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a large number of cement sales customers and independent third parties.

The Group measures ECL allowance for most of its trade receivables using a provision matrix by debtors' aging because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Trade receivables arising from contracts with customers *(Cont'd)*

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2019 and 2018 within lifetime ECL. Debtors with significant outstanding balances and debtors that are credit impaired with gross carrying amounts of RMB71,498,000 (2018: RMB61,960,000) and RMB25,835,000 (2018: RMB26,277,000), respectively, as at 31 December 2019 were assessed individually.

As at 31 December 2019

	Average loss rate	**Gross carrying amounts RMB'000**
Current (not past due)	**0.3%**	**196,916**
1 to 90 days past due	**0.8%**	**74,610**
91 to 270 days past due	**3.1%**	**92,395**
		363,921

As at 31 December 2018

	Average loss rate	Gross carrying amounts RMB'000
Current (not past due)	0.3%	39,434
1 to 90 days past due	0.8%	60,675
91 to 270 days past due	2.2%	7,050
		107,159

The estimated loss rates are estimated based on historically observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort, such as economic data and forecasts published by governmental bodies and industrial information published by relevant institutions. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

During the year ended 31 December 2019, the Group provided RMB5,463,000 (2018: RMB1,569,000) impairment allowance for trade receivables based on the provision matrix.

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Loan receivables

Credit risk of loan receivables is monitored by the dedicated credit risk department of the Group responsible for the review and managing of credit risk for all corporate loan borrowers. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process aims to allow the Group to define the terms of the loans as well as assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Group monitors credit risk of loan receivables regularly by reviewing changes in creditworthiness of the loan borrowers, past collection history, subsequent settlement of each loan borrower, and also relevant collaterals and guarantees as well as forward-looking information, in order to mitigate the risk of significant exposure from bad debts.

Credit risk is often greater when the loan borrowers are concentrated in one single industry or geographical location or have comparable economic characteristics. The loan borrowers of the Group are located in different provinces of the PRC and are from different industries. As the loan borrowers of the Group are widely dispersed and are engaged in different industries, there is no significant credit risk concentration within the Group's loan receivables.

In assessing the impairment of loan receivables under ECL model upon application of IFRS 9, the Group adopts internal credit risk grading system for these loan receivables which comprise the following categories:

Internal credit rating	Stage	Description	Loan receivables
Low risk	Stage 1	Debtor has a low risk of default and does not have any past-due amounts	12m ECL
Watch list	Stage 2	Debtor repays after due dates but usually settle within 30 days	12m ECL
Doubtful	Stage 2	Debtor is more than 30 days past due on its contractual payments	Lifetime ECL — not credit-impaired
Loss	Stage 3	Debtor is more than 90 days past due on its contractual payments	Lifetime ECL — credit-impaired
Write-off	Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The Group considers a loan receivable defaulted and therefore on Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As part of a qualitative creditworthiness assessment of whether a loan borrower is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the loan borrower as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Bill receivables at FVTOCI/debt instruments at FVTOCI

The Group's bill receivables at FVTOCI, debt instruments at FVTOCI are issued by banks and trust company with high credit ratings and therefore are considered to be low credit risk. During the years ended 31 December 2019 and 2018, the directors of the Company consider that ECL on bill receivables at FVTOCI and debt instruments at FVTOCI was insignificant.

Bank balances and cash, and restricted/pledged bank deposits

The credit risks on bank balances and cash, and restricted/pledged bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

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47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Other receivables/amount due from a non-controlling shareholder of a subsidiary

Other receivables and amount due from non-controlling shareholder of a subsidiary that are measured at amortised cost were considered low credit risk, and thus the impairment provision recognised during the year was limited to 12m ECL.

The projections and likelihood of occurrence involved in ECL are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Group has a concentration of credit risk as 62% (2018: 45%) of the other receivables was advances to third parties as at 31 December 2019. In order to minimise the risk, the Group has closely monitored and made periodic individual assessment on the recoverability of the third parties.

The tables detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	2019 Gross carrying amount		2018 Gross carrying amount	
					RMB'000	RMB'000	RMB'000	RMB'000
Debt instruments at FVTOCI								
— varieties of products	28	N/A	*(Note 1)*	12m ECL	**181,855**	**181,855**	–	–
Bill receivables at FVTOCL	29	A	*(Note 2)*	12m ECL	**189,676**	**189,676**	253,972	253,972
Financial assets at amortised cost								
— Loans receivables	24	N/A	*(Note 3)*	12m ECL	**1,768,830**		1,712,301	
				Credit-impaired	**36,192**	**1,805,022**	–	1,712,301
— Trade receivables	27	N/A	*(Note 4)*	Lifetime ECL (provision matrix)	**363,921**		107,159	
				Lifetime ECL (significant balances, individually assessed)	**71,498**		61,960	
				Credit-impaired	**25,835**	**461,254**	26,277	195,396
— Other receivables	27	N/A	*(Note 3)*	12m ECL	**172,131**	**172,131**	54,671	54,671
— Amount due from a non-controlling shareholder of a subsidiary	27	N/A	*(Note 3)*	12m ECL	**6,000**	**6,000**	21,743	21,743
— Bank balances	31	AA+	N/A	12m ECL	**778,050**	**778,050**	886,046	886,046
— Restricted/ pledged bank deposits	31	AA+	N/A	12m ECL	**354,148**	**354,148**	189,032	189,032

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Other receivables/amount due from a non-controlling shareholder of a subsidiary *(Cont'd)*

Notes:

1. For debt instruments at FVTOCI, the investment scopes cover the purchase or reverse repo of central bank bills, treasury bonds, etc. The return of the debt instruments at FVTOCI is based on the performance of the entrusted product adjusted by related custodian fee.

2. The Group set different categories for customers settling with bills according to internal credit rating assessment. The Group do not accept bills from customers with lower credit ratings.

3. Apart from trade receivables, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due RMB'000	Not past due/ No fixed repayment terms RMB'000	Total RMB'000
2019			
Loan receivables	**36,192**	**1,768,830**	**1,805,022**
Other receivables	**–**	**172,131**	**172,131**
Amount due from a non-controlling shareholder of a subsidiary	**–**	**6,000**	**6,000**
2018			
Loan receivables	–	1,712,301	1,712,301
Other receivables	–	54,671	54,671
Amount due from a non-controlling shareholder of a subsidiary	–	21,743	21,743

4. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the ECL on these items by using a provision matrix, grouped by past due status.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	4,792	13,010	17,802
Changes due to financial instruments recognised as at 1 January 2018:			
— Transfer to credit-impaired	(4,106)	4,106	–
— Impairment losses recognised	–	3,001	3,001
— Impairment losses reversed	(823)	(7,906)	(8,729)
New financial assets originated or purchased	1,569	–	1,569
As at 31 December 2018	1,432	12,211	13,643
Changes due to financial instruments recognised as at 1 January 2019:			
— Transfer to credit-impaired	(40)	40	–
— Impairment losses recognised	–	8,725	8,725
— Impairment losses reversed	(1,392)	(5,333)	(6,725)
New financial assets originated or purchased	5,463	–	5,463
As at 31 December 2019	5,463	15,643	21,106

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47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Other receivables/amount due from a non-controlling shareholder of a subsidiary *(Cont'd)*

The following tables show reconciliation of loss allowances that has been recognised for loan receivables.

	12m ECL	Lifetime ECL (credit-impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2018	8,250	–	8,250
Changes due to financial instruments recognised as at 1 January 2018:			
— Impairment losses recognised	5	–	5
— Impairment losses reversed	(3,778)	–	(3,778)
New financial assets originated or purchased	15,168	–	15,168
As at 31 December 2018	19,645	–	19,645
Changes due to financial instruments recognised as at 1 January 2019:			
— Transfer to credit-impaired	(150)	150	–
— Impairment losses recognised	523	7,347	7,870
— Impairment losses reversed	(6,383)	–	(6,383)
New financial assets originated or purchased	4,052	212	4,264
As at 31 December 2019	17,687	7,709	25,396

The average loss rate of loan receivables for the year is 1.4% (2018: 1.1%).

47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Other receivables/amount due from a non-controlling shareholder of a subsidiary *(Cont'd)*

Changes in the loss allowance for loan receivables are mainly due to:

	31 December 2019		
		Increase (decrease) in lifetime ECL	
	Increase (decrease) in 12m ECL RMB'000	Not credit-impaired RMB'000	Credit-impaired RMB'000
Advance of new loan receivables	**4,052**	**–**	**212**

	31 December 2018		
		Increase (decrease) in lifetime ECL	
	Increase (decrease) in 12m ECL RMB'000	Not credit-impaired RMB'000	Credit-impaired RMB'000
Advance of new loan receivables	15,168	–	–

The changes in the loss allowance for other receivables is RMB1,333,000 (2018: RMB1,151,000) for the year ended 31 December 2019 and the Group write off other receivables of RMB499,000 (2018: nil) during the year. The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

During the year ended 31 December 2019, the directors of the Company consider there is an significant increase in the credit risk of RMB21,970,000 due from non-controlling shareholder of a subsidiary and the amount is fully impaired. The Group has assessed that the expected loss rate of the remaining balance due from non-controlling shareholder of a subsidiary was immaterial and hence no loss allowance was recognised.

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47. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirement. The Group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities, by continuing monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. To the extent that interest payments are floating rate the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2019						
Trade and other payables	–	1,638,245	–	–	1,638,245	1,638,245
Borrowings						
— variable rates	5.18	71,991	399,292	927,847	1,399,130	1,199,589
— fixed rates	4.55	1,140,056	–	–	1,140,056	1,116,000
Medium-term notes (including related interest)	7.50	37,500	37,500	518,750	593,750	521,098
		2,887,792	436,792	1,446,597	4,771,181	4,474,932

	Weighted average interest rate %	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018						
Trade and other payables	–	1,051,072	–	–	1,051,072	1,051,072
Borrowings						
— variable rates	5.46	161,077	–	–	161,077	160,000
— fixed rates	4.64	724,256	–	–	724,256	703,571
Senior notes (including related interest)	6.50	2,340,700	–	–	2,340,700	2,188,003
		4,277,105	–	–	4,277,105	4,102,646

47. FINANCIAL INSTRUMENTS *(Cont'd)*

d. Fair values of financial instruments

The fair values of financial assets and financial liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except for bill receivables at FVTOCI and debt instruments measured at FVTOCI and financial asset at FVTPL, the Group does not hold any other financial instruments measured at fair value.

Bill receivables at FVTOCI is measured at fair value at the end of each reporting period. However, the directors of the Company are of the view that the fair value of bill receivables is close to its carrying amounts given all bill receivables will mature within one year.

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

	2019		2018	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Senior Notes (including related interest)	**–**	**–**	2,231,896	2,209,000
Medium-term Notes (including related interest)	**521,098**	**505,371**	–	–

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Name	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key input(s)**
	31/12/2019 RMB'000	31/12/2018 RMB'000		
Debt instruments at FVTOCI	**181,855**	N/A	Level 2	Based on the net asset values of the trust, determined with reference to the observable (quoted) prices of underlying investment portfolio and adjustments of related expenses
Bill receivables at FVTOCI	**189,676**	253,972	Level 2	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets
Financial assets at FVTPL	**90,000**	N/A	Level 2	Based on discounted cash flow that capture the present value of future expected cash flows derived from the underlying assets

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For the year ended 31 December 2019

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Senior Notes RMB'000	Short-term Notes RMB'000	Medium-term Notes RMB'000	Dividend payables RMB'000	Interest payables RMB'000 (Note)	Total RMB'000
At 1 January 2018	744,000	2,596,470	399,586	–	–	74,162	3,814,218
Financing cash flows:							
New borrowings raised	804,171	–	–	–	–	–	804,171
Repayments of borrowings	(684,600)	–	–	–	–	–	(684,600)
Repayments of short-term notes	–	–	(400,000)	–	–	–	(400,000)
Repayments of senior notes including early redemption premium	–	(562,440)	–	–	–	–	(562,440)
Interest paid	–	(179,625)	(4,654)	–	–	(72,482)	(256,761)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	(19,450)	–	(19,450)
Dividends paid	–	–	–	–	(214,362)	–	(214,362)
Non-cash financing activities:							
Interest expenses	–	183,831	5,068	–	–	44,213	231,112
Foreign exchange loss	–	140,774	–	–	–	–	140,774
Redemption premium on partial redemption of senior notes	–	8,993	–	–	–	–	8,993
Dividends declared	–	–	–	–	242,335	–	242,335
Dividends paid to a non-controlling shareholder of a subsidiary by offset receivables *(Note 49)*	–	–	–	–	(8,523)	–	(8,523)
At 31 December 2018	863,571	2,188,003	–	–	–	43,893	3,095,467
Financing cash flows:							
New borrowings raised	1,316,000	–	–	–	–	–	1,316,000
Repayments of borrowings	(863,571)	–	–	–	–	–	(863,571)
Proceeds from issuance of syndicated loan	1,062,690	–	–	–	–	–	1,062,690
Syndicated loan issue costs paid	(47,521)	–	–	–	–	–	(47,521)
Proceeds from issuance of medium-term notes	–	–	–	500,000	–	–	500,000
Medium-term notes issue cost paid	–	–	–	(2,250)	–	–	(2,250)
Repayments and redemption of senior notes including early redemption premium	–	(2,257,767)	–	–	–	–	(2,257,767)
Interest paid	–	(82,893)	–	–	–	(110,968)	(193,861)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	–	(4,853)	–	(4,853)
Dividends paid	–	–	–	–	(273,871)	–	(273,871)
Non-cash financing activities:							
Interest expenses	–	90,766	–	25,598	–	79,457	195,821
Foreign exchange (gain) loss	(15,580)	48,456	–	–	–	–	32,876
Redemption premium on partial redemption of senior notes	–	13,435	–	–	–	–	13,435
Dividends declared	–	–	–	–	278,724	–	278,724
Accrued transaction cost	–	–	–	(2,250)	–	–	(2,250)
At 31 December 2019	2,315,589	–	–	521,098	–	12,382	2,849,069

Note: Interest payables are included in trade and other payables (Note 34).

49. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, Hancheng Yaobai Yangshanzhuang Cement Co., Ltd. ("Hancheng Yaobai"), a subsidiary of the Company, entered into an arrangement with its non-controlling shareholder, pursuant to which dividend payable of RMB8,523,000 was offset by amount due from the non-controlling shareholder as set out in Note 27. Accordingly, the Group derecognised the amount due from and dividend payable to the non-controlling shareholder of RMB8,523,000 and accounted for this as a non-cash transaction.

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company		Principal activities
				2019	2018	
Directly held						
West China BVI	Ordinary	British Virgin Islands	HK$7,800	**100%**	100%	Investment holding
Faithful Alliance Limited ("Faithful Alliance") 集誠有限公司	Ordinary	Hong Kong	HK$100	**100%**	100%	Investment holding
Shaanxi Yaobai 堯柏特種水泥集團有限公司	Ordinary	Shaanxi, PRC	RMB1,890,000,000	**100%**	100%	Production and sale of cement
Lantian Yaobai 西安藍田堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement
Ankang Yaobai Cement Co., Ltd. 安康堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB345,000,000	**100%**	100%	Production and sale of cement
Hanzhong Yaobai Cement Co., Ltd. 漢中堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB135,000,000	**100%**	100%	Production and sale of cement
Hanzhong Mianxian 漢中勉縣堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB140,000,000	**100%**	100%	Production and sale of cement
Xi'an Yaobai Material Co., Ltd. 西安市堯柏物資有限公司	Ordinary	Shaanxi, PRC	RMB35,000,000	**100%**	100%	Purchase and sale of raw materials
Hanzhong Xixiang Yaobai Cement Co., Ltd. 漢中西鄉堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB105,000,000	**100%**	100%	Production and sale of cement
Longqiao Yaobai 商洛堯柏龍橋水泥有限公司	Ordinary	Shaanxi, PRC	RMB125,000,000	**100%**	100%	Production and sale of cement
Xiushan Yaobai 商洛堯柏秀山水泥有限公司	Ordinary	Shaanxi, PRC	RMB20,000,000	**100%**	100%	Production and sale of cement
Jianghua Yaobai 安康堯柏江華水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**100%**	100%	Production and sale of cement
Hancheng Yaobai 韓城堯柏陽山莊水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**80%**	80%	Production and sale of cement
Luxin 和田魯新建材有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	**100%**	100%	Production and sale of cement
Hetian Yaobai 和田堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB236,000,000	**100%**	100%	Production and sale of cement

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company		Principal activities
				2019	2018	
Shifeng 實豐水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement
Fuping 富平水泥有限公司	Ordinary	Shaanxi, PRC	RMB597,000,000	**100%**	100%	Production and sale of cement
Guizhou Linshan 貴州麟山水泥有限公司	Ordinary	Guizhou, PRC	RMB233,381,000	**100%**	100%	Production and sale of cement
Yili Yaobai Cement Co., Ltd. 伊犁堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement
Yaowangshan 銅川藥王山生態水泥有限公司	Ordinary	Shaanxi, PRC	RMB50,000,000	**100%**	100%	Production and sale of cement
Guangxin International Financial Leasing Co., Ltd. ("Guangxin International") 光信國際融資租賃有限公司	Ordinary	Shaanxi, PRC	RMB420,000,000	**100%**	100%	Finance lease business
Guangxin Yili 光信(伊犁)融資租賃有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	**100%**	100%	Finance lease business
Zhonggang Logistics 西安中港智慧物流有限公司	Ordinary	Shaanxi, PRC	RMB30,000,000	**100%**	100%	Transportation
Pucheng Yaobai 蒲城堯柏特種水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**100%**	100%	Production and sale of cement
Shaanxi Fuda Mining Engineering Co., Ltd 陝西富達礦山工程有限公司	Ordinary	Shaanxi, PRC	RMB40,000,000	**100%**	100%	Production and sale of cement
Shaanxi Fengsheng 陝西豐盛德遠實業有限公司	Ordinary	Shaanxi, PRC	RMB50,000,000	**55%**	55%	Production and sale of cement
West International Holding Limited 西部國際控股有限公司	Ordinary	Hong Kong	HK$100	**100%**	100%	Investment holding
Shaanxi Xinyida Jiancai Construction Materials Development Co., Ltd. 陝西新意達建材產業發展有限公司	Ordinary	Shaanxi, PRC	RMB81,951,600	**60%**	60%	Sale of cement and related material

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

(a) Except for West China BVI and Faithful Alliance, the above English names of the entities have not been registered with the authorities and are used throughout the consolidated financial statements for discussion only.

(b) Other than Shaanxi Yaobai and Fuping which are wholly-owned foreign enterprises held directly by Faithful Alliance and Guangxin Yili, which is sino-foreign owned by Faithful Alliance and Guangxin International, all other subsidiaries established in the PRC are domestic companies held directly/indirectly by Shaanxi Yaobai.

(c) Except for Shaanxi Yaobai which issued medium-term note during the year ended 31 December 2019, none of the other subsidiaries had issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

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

Name of subsidiary	Place of registration/ incorporation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019 RMB'000**	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Hancheng Yaobai	Shaanxi, PRC	**20%**	20%	**15,339**	16,784	**51,319**	35,753
Individually immaterial subsidiaries with non-controlling interests						**121,406**	37,937
Total						**172,725**	73,690

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

Hancheng Yaobai

	2019 RMB'000	2018 RMB'000
Current assets	**57,069**	93,794
Non-current assets	**257,240**	288,023
Current liabilities	**57,134**	202,388
Non-current liabilities	**583**	667
Equity attributable to owners of the Company	**205,273**	143,009
Non-controlling interests	**51,319**	35,753

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

50. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

Hancheng Yaobai *(Cont'd)*

	2019 RMB'000	2018 RMB'000
Revenue	**393,681**	328,211
Expenses	**316,986**	244,293
Profit for the year	**76,695**	83,918
Profit attributable to owners of the Company	**61,356**	67,134
Profit attributable to non-controlling interests	**15,339**	16,784
Dividends paid to non-controlling interests of Hancheng Yaobai	**–**	27,973
Deemed contribution from non-controlling shareholder	**227**	–
Net cash inflow from operating activities	**10,705**	64,458
Net cash outflow from investing activities	**(10,320)**	(6,412)
Net cash outflow from financing activities	**(35,390)**	(72,693)
Net cash outflow	**(35,005)**	(14,647)

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
Non-current assets		
Unlisted investments in subsidiaries	**1,700,742**	1,700,742
Amounts due from subsidiaries	**2,052,385**	3,737,200
Property, plant and equipment	**8**	9
	3,753,135	5,437,951
Current assets		
Dividend receivable from a subsidiary	**–**	17,000
Bank balances and cash	**30,075**	27,983
	30,075	44,983
Current liabilities		
Other payables	**18,015**	55,075
Senior notes *(Note 33)*	**–**	2,188,003
	18,015	2,243,078
Net current assets (liabilities)	**12,060**	(2,198,095)
Total assets less current liabilities	**3,765,195**	3,239,856
Non-current liability		
Borrowings	**1,005,353**	–
Net assets	**2,759,842**	3,239,856
Capital and reserves		
Share capital	**141,771**	141,771
Share premium and reserves	**2,618,071**	3,098,085
	2,759,842	3,239,856

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

51. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Movements in reserves

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2018	3,291,021	28,858	(3,250)	3,316,629
Loss and total comprehensive expense for the year	–	–	(15,700)	(15,700)
Recognition of equity-settled share-based payments *(Note 43)*	–	1,037	–	1,037
Dividends recognised as distribution	(214,362)	–	–	(214,362)
Shares issued for share options exercised	15,153	(4,672)	–	10,481
At 31 December 2018	**3,091,812**	**25,223**	**(18,950)**	**3,098,085**
Loss and total comprehensive expense for the year	**–**	**–**	**(206,407)**	**(206,407)**
Recognition of equity-settled share-based payments *(Note 43)*	**–**	**264**	**–**	**264**
Dividends recognised as distribution	**(273,871)**	**–**	**–**	**(273,871)**
At 31 December 2019	**2,817,941**	**25,487**	**(225,357)**	**2,618,071**

52. SUBSEQUENT EVENTS

(1) On 3 January 2020, the Company entered into a sale and purchase agreement with SCHWENK Zement International GmbH & Co. KG ("Schwenk Zement"), a company incorporated under the laws of Germany, pursuant to which the Company agreed to acquire from Schwenk Zement the issued share capital of SCHWENK Namibia (Pty) Limited ("Schwenk Namibia"), a wholly-owned subsidiary of Schewenk Zement together with the shareholder loan granted by Schwenk Zement to Schwenk Namibia for an aggregate consideration of approximately US$104,411,000 (equivalent to RMB728,392,000) (comprising of the share purchase price of approximately US$19,342,000 (equivalent to RMB134,934,000) and the loan purchase price of approximately US$85,069,000 (equivalent to RMB593,458,000)). The transaction has not yet been completed as of the date of this report.

(2) The outbreak of COVID-19 in the PRC and the subsequent quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 have had a negative impact on the operations of the Group, as most of the Group's operations are located in Shaanxi Province in the PRC. The Group had to stop its manufacturing activities since January 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic.

Even though the Group had resumed its manufacturing activities since 2 March 2020, they are still not operating at normal capacity due to work resumption restriction policy implemented by the relevant local governments.

In addition, as the operations of all of the Group's customers, suppliers and associate are located in the PRC, the outbreak of the COVID-19 is expected to have a negative impact on these entities. This may in turn negatively affect the recoverability of Group's investments in these investees, as well as financial assets and other assets due from these parties e.g. debtors, prepayments and advances to suppliers which are subject to impairment or ECL assessments as appropriate.

As the situation remains fluid as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of the COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the COVID-19 outbreak is expected to affect the consolidated results of the Group for the first half of 2020.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF WEST CHINA CEMENT LIMITED

(incorporated in Jersey with limited liability)

OPINION

We have audited the consolidated financial statements of West China Cement Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 52 to 133, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Revenue recognised from contracts with customers	
We identified revenue recognised from contracts with customers as a key audit matter because revenue is one of the key performance indicators of the Group and is significant to the consolidated financial statements and therefore there is an inherent risk of manipulation in the amount of revenue recorded. As disclosed in Note 6 to the consolidated financial statements, the Group recognised revenue from contracts with customers amounted to RMB5,911.7 million for the year ended 31 December 2018. The Group enters into contracts with customers for sales of cement products. Revenue is recognised at a point in time when control of the goods underlying the particular performance obligation is transferred to the customer. The accounting policy for revenue recognition is disclosed in Note 4 to the consolidated financial statements.	Our procedures in relation to the revenue recognised from contracts with customers included: • Understanding, evaluating and testing key controls over recognition of revenue from sales of cement products; • Performing analytical procedures to assess the reasonableness of unit sales price, gross profit margin, production volume, and utilisation rate; • Obtaining confirmations directly from major customers, on a sample basis; and • Inspecting the delivery and other sales documents, on a sample basis, evidencing that the goods were delivered and titles were passed to customers.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Mok Sau Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	6	**5,911,744**	4,760,038
Cost of sales		**(3,925,988)**	(3,574,129)
Gross profit		**1,985,756**	1,185,909
Other income	7	**343,986**	226,767
Impairment loss, net of reversal	8	**(8,387)**	(50,432)
Selling and marketing expenses		**(54,136)**	(49,401)
Administrative expenses		**(336,745)**	(266,245)
Other expenses		**–**	(9,100)
Other gains and losses, net	9	**(233,828)**	136,504
Share of profit of an associate	23	**23,683**	16,021
Interest income	10	**140,578**	33,671
Finance costs	11	**(228,796)**	(249,488)
Profit before tax	12	**1,632,111**	974,206
Income tax expense	13	**(451,648)**	(248,010)
Profit and total comprehensive income for the year		**1,180,463**	726,196
Attributable to:			
— Owners of the Company		**1,159,449**	710,843
— Non-controlling interests		**21,014**	15,353
		1,180,463	726,196
Earnings per share			
— Basic (RMB)	15	**0.213**	0.131
— Diluted (RMB)	15	**0.213**	0.131

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**7,180,198**	7,137,420
Prepaid lease payments	19	**459,275**	471,487
Mining rights	20	**326,926**	245,611
Other intangible assets	21	**199,561**	191,122
Investment in an associate	23	**80,661**	56,978
Loan receivables	24	**837,203**	406,851
Deferred tax assets	25	**39,110**	36,521
Amount due from a non-controlling shareholder of a subsidiary	27	**15,218**	23,218
Prepayments for construction in progress		**101,002**	106,796
		9,239,154	8,676,004
Current assets			
Inventories	26	**491,116**	436,160
Loan receivables	24	**855,453**	437,273
Trade and other receivables and prepayments	27	**477,284**	670,136
Bill receivables measured at fair value through other comprehensive income	28	**253,972**	–
Restricted bank deposits	29	**189,032**	77,013
Bank balances and cash	29	**886,046**	1,375,353
		3,152,903	2,995,935
Total assets		**12,392,057**	11,671,939
EQUITY			
Share capital	30	**141,771**	141,549
Share premium and reserves	31	**7,383,494**	6,437,125
Equity attributable to owners of the Company		**7,525,265**	6,578,674
Non-controlling interests		**73,690**	50,032
Total equity		**7,598,955**	6,628,706

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	32	–	160,000
Senior notes	33	–	2,596,470
Asset retirement obligation	35	45,935	23,417
Deferred tax liabilities	25	80,279	71,296
Deferred income	36	45,542	49,742
		171,756	2,900,925
Current liabilities			
Borrowings	32	863,571	584,000
Senior notes	33	2,188,003	–
Short-term notes	34	–	399,586
Trade and other payables	37	1,152,034	1,056,431
Contract liabilities	3.1	231,000	–
Income tax payable		186,738	102,291
		4,621,346	2,142,308
Total liabilities		4,793,102	5,043,233
Total equity and liabilities		12,392,057	11,671,939
Net current (liabilities) assets		(1,468,443)	853,627
Total assets less current liabilities		7,770,711	9,529,631

The consolidated financial statements on pages 52 to 133 were approved and authorised for issue by the Board of Directors on 18 March 2019 and are signed on its behalf by:

DIRECTOR	*DIRECTOR*
ZHANG JIMIN	**MA WEIPING**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Equity reserve RMB'000 (Note 31)	Share option reserve RMB'000	Statutory reserve RMB'000 (Note 31)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017	141,519	3,288,975	(305,868)	25,733	520,941	2,191,330	5,862,630	50,727	5,913,357
Profit and total comprehensive income for the year	–	–	–	–	–	710,843	710,843	15,353	726,196
Transfer to statutory reserve	–	–	–	–	60,419	(60,419)	–	–	–
Recognition of equity-settled share-based payments *(Note 40)*	–	–	–	3,726	–	–	3,726	–	3,726
Shares issued for share options exercised *(Note 40)*	30	2,046	–	(601)	–	–	1,475	–	1,475
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	(16,048)	(16,048)
At 31 December 2017	141,549	3,291,021	(305,868)	28,858	581,360	2,841,754	6,578,674	50,032	6,628,706
Adjustments *(Note 3.3)*	–	–	–	–	–	(10,098)	(10,098)	–	(10,098)
At 1 January 2018 (Restated)	**141,549**	**3,291,021**	**(305,868)**	**28,858**	**581,360**	**2,831,656**	**6,568,576**	**50,032**	**6,618,608**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**1,159,449**	**1,159,449**	**21,014**	**1,180,463**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**116,272**	**(116,272)**	**–**	**–**	**–**
Recognition of equity-settled share-based payments *(Note 40)*	**–**	**–**	**–**	**1,037**	**–**	**–**	**1,037**	**–**	**1,037**
Shares issued for share options exercised *(Note 40)*	**222**	**15,153**	**–**	**(4,672)**	**–**	**–**	**10,703**	**–**	**10,703**
Acquisition of a subsidiary *(Note 38)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,467**	**19,467**
Acquisition of non-controlling interest	**–**	**–**	**(138)**	**–**	**–**	**–**	**(138)**	**(950)**	**(1,088)**
Appropriation of maintenance and production funds *(note)*	**–**	**–**	**–**	**–**	**32,653**	**(32,653)**	**–**	**–**	**–**
Utilisation of maintenance and production funds *(note)*	**–**	**–**	**–**	**–**	**(5,326)**	**5,326**	**–**	**–**	**–**
Capital injection by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,100**	**12,100**
Wind-up of a subsidiary	**–**	**–**	**–**	**–**	**(350)**	**350**	**–**	**–**	**–**
Dividend recognised as distribution *(Note 14)*	**–**	**–**	**–**	**–**	**–**	**(214,362)**	**(214,362)**	**(27,973)**	**(242,335)**
At 31 December 2018	**141,771**	**3,306,174**	**(306,006)**	**25,223**	**724,609**	**3,633,494**	**7,525,265**	**73,690**	**7,598,955**

Note: During the year ended 31 December 2018, the Group commenced to engage in limestone mining activities. Pursuant to the relevant PRC regulations, the Group is required to provide production and maintenance funds at fixed rates based on relevant bases, such as production volume to a specific reserve account.

The production and maintenance funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of production and maintenance funds utilised would be transferred from the specific reserve account to retained earnings.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**1,632,111**	974,206
Adjustments for:			
Finance costs		**228,796**	249,488
Interest income		**(140,578)**	(33,671)
Unrealised exchange losses (gains)		**139,643**	(154,788)
Depreciation of property, plant and equipment		**764,792**	767,563
Amortisation of prepaid lease payments		**13,788**	14,628
Amortisation of mining rights		**7,312**	11,191
Amortisation of other intangible assets		**2,167**	2,099
Loss on disposal of property, plant and equipment		**6,777**	17,617
Gain on disposal of prepaid lease payment		**(189)**	–
Impairment losses, net of reversal (Note 8)		**8,387**	50,432
Share of profit of an associate		**(23,683)**	(16,021)
Loss on partial redemption of senior notes		**8,993**	–
Government grants released to profit or loss		**(10,327)**	(9,545)
Recognition of share option expenses, net		**1,037**	3,726
Operating cash flows before movements in working capital		**2,639,026**	1,876,925
(Increase) decrease in inventories		**(50,312)**	47,236
Increase in trade and other receivables, prepayments and bill receivables		**(40,448)**	(8,055)
Increase in trade and other payables, and contract liabilities		**312,210**	16,896
Cash generated from operations		**2,860,476**	1,933,002
Income tax paid		**(357,863)**	(163,056)
Net cash from operating activities		**2,502,613**	1,769,946

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	NOTE	2018 RMB'000	2017 RMB'000
INVESTING ACTIVITIES			
Interest received		**123,390**	35,590
Purchase of property, plant and equipment		**(656,943)**	(410,647)
Purchase of mining rights		**(88,627)**	–
Payment of mining rights renewal fee		**–**	(1,918)
Purchase of prepaid lease payment		**(957)**	–
Purchase of other intangible assets		**(4,399)**	(248)
Proceeds from disposal of property, plant and equipment		**8,528**	23,026
Proceeds from disposal of prepaid lease payment		**410**	–
Prepayments for construction in progress		**(92,113)**	(106,796)
Loans to third parties		**(1,393,838)**	(846,176)
Repayments received for loans to third parties		**525,661**	2,052
Net cash outflow on acquisition of subsidiaries	38	**11**	–
Payment received from non-controlling shareholder of a subsidiary		**2,950**	30,007
Government grants received for acquisition of property, plant and equipment		**6,622**	11,370
Withdrawal of restricted bank deposits		**15,204**	133,146
Placement of restricted bank deposits		**(127,223)**	(123,181)
Net cash used in investing activities		**(1,681,324)**	(1,253,775)
FINANCING ACTIVITIES			
New borrowings raised		**804,171**	1,012,400
Repayment of borrowings		**(684,600)**	(735,000)
Repayment of senior notes including early redemption premium	33	**(562,440)**	–
Proceeds from issuance of short-term notes	34	**–**	400,000
Expenses on issuance of short-term notes	34	**–**	(1,600)
Repayment of short-term notes	34	**(400,000)**	(800,000)
Dividends paid to non-controlling shareholders of a subsidiary		**(19,450)**	(16,048)
Dividends paid		**(214,362)**	–
Shares issued for share options exercised		**10,703**	1,475
Capital injection by non-controlling interests		**12,100**	–
Acquisition of non-controlling interest		**(1,088)**	–
Interest paid		**(256,761)**	(257,558)
Net cash used in financing activities		**(1,311,727)**	(396,331)
Net (decrease) increase in cash and cash equivalents		**(490,438)**	119,840
Cash and cash equivalents at 1 January		**1,375,353**	1,258,668
Effect of foreign exchange rate changes		**1,131**	(3,155)
Cash and cash equivalents at 31 December, represented by bank balances and cash		**886,046**	1,375,353

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL INFORMATION

West China Cement Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the production and sale of cement in western China, the People's Republic of China (the "PRC").

The Company was incorporated in Jersey under the Companies (Jersey) Law 1991. The address of the registered office is 47 Esplanade, St Helier, Jersey JE1 0BD and the principal place of business is No. 336 4th Shenzhou Road, Aerospace Industrial Base, Chang'an District, Xi'an, Shaanxi Province, the PRC.

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE").

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2018, the Group has net current liabilities of RMB1,468,443,000. The Group has unutilised loan facilities for working capital purposes totalling RMB469,200,000 readily available for drawdown within the next twelve months from the date of the approval of these consolidated financial statements. In addition, the Group has obtained a loan facility to issue on its demand a 3-year medium-term note of RMB1,500 million on 4 March 2019 for the purpose of, among others, supplement general working capital across the Group. Based on the Company's forecasts and projections of business performance, taking account of operating as well as capital expenditure and availability of loan facilities, the directors of the Company are of the view that the Group is able to operate within the level of its current capacity.

In view of these circumstances, the directors of the Company expect the Group will have sufficient liquidity to finance its operations for the next twelve months. Therefore, the consolidated financial statements have been prepared on a going concern basis. The going concern basis assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the normal course of business.

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

New and Amendments to IFRSs that are mandatorily effective for the current year

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

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IAS 28	*As part of the Annual Improvements to IFRSs 2014–2016 Cycle*
Amendments to IAS 40	*Transfers of Investment Property*

In addition, the Group has early applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

3.1 IFRS 15 *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from sales of cement products which arise from contracts with customers

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 6 and 4 respectively.

Summary of effects arising from initial application of IFRS 15

The initial application of IFRS 15 did not have material impact on the Group's major revenue generating operation and retained earnings at 1 January 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Remeasurement	Carrying amounts under IFRS 15 at 1 January 2018*
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables *(note)*	1,056,431	(158,559)	–	897,872
Contract liabilities *(note)*	–	158,559	–	158,559

* The amounts in this column are before the adjustments from the application of IFRS 9.

Note: As at 1 January 2018, advances from customers of RMB158,559,000 in respect of cement sales contracts previously included in trade and other payables were reclassified to contract liabilities.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 only for each of the line item affected as IFRS 15 has no material impact on its consolidated statement of profit or loss and other comprehensive income as well as the consolidated statement of cash flows for the current years. Line items that were not affected by the changes have not been included.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

3.1 IFRS 15 *Revenue from Contracts with Customers* *(Cont'd)*

Summary of effects arising from initial application of IFRS 15 *(Cont'd)*

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amount without application of IFRS 15
	RMB'000	RMB'000	RMB'000
Trade and other payables	1,152,034	231,000	1,383,084
Contract liabilities	231,000	(231,000)	–

3.2 IFRS 9 *Financial Instruments and the related amendments*

In the current year, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of IFRS 9 are disclosed in Note 4.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

3.2 IFRS 9 *Financial Instruments and the related amendments (Cont'd)*

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Debt instruments at FVTOCI RMB'000	Amortised cost (previously classified as loans and receivables) RMB'000	Deferred tax assets RMB'000	Retained earnings RMB'000
Closing balance at 31 December 2017 — IAS 39		–	2,822,478	36,521	2,841,754
Effect arising from initial application of IFRS 9:					
Reclassification					
From loans and receivables	(a)	316,335	(316,335)	–	–
Remeasurement					
Impairment under ECL model	(b)	–	(13,042)	2,944	(10,098)
Opening balance at 1 January 2018		316,335	2,493,101	39,465	2,831,656

Notes:

(a) As part of the Group's cash flow management, the Group has the practice of endorsing some of the bill receivables to its suppliers before the bills are due for payment and derecognises the bills endorsed on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's bill receivables of RMB316,335,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to debt instruments at FVTOCI. The related fair value gains/losses were considered immaterial to the Group's financial position as at 1 January 2018 hence no further adjustment is made for the fair value gains/losses.

(b) The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables are assessed individually for debtors with significant balances and insignificant balances with specific risks. All other assets are assessed collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics as discussed in Note 44.

Loss allowances for other financial assets at amortised cost mainly comprise of restricted bank deposits, bank balances and cash, other receivables, loan receivables, interest receivables and amount due from a non-controlling shareholder of a subsidiary, are measured on 12m ECL basis, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

All of the Group's debt instruments at FVTOCI are bill receivables that are issued by financial institutions and due within 12 months. These debt instruments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

3.2 IFRS 9 *Financial Instruments and the related amendments* *(Cont'd)*

Summary of effects arising from initial application of IFRS 9 *(Cont'd)*

As at l January 2018, an additional credit loss allowance of RMB13,042,000 and the related deferred tax assets of RMB2,944,000 have been recognised against retained earnings. The additional loss allowance is charged against the respective asset.

All loss allowances for financial assets including trade receivables, loan receivables, other financial assets at amortised cost and debt instruments at FVTOCI as at 31 December 2017 reconcile to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables	Loan receivables	Other financial assets at amortised cost	Debt instruments at FVTOCI
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017	13,010	–	1,110	N/A
Amounts remeasured through opening retained earnings	4,792	8,250	–	–
At 1 January 2018	17,802	8,250	1,110	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	IFRS 15	IFRS 9	1 January 2018 (Restated)
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Loan receivables	406,851	—	(3,976)	402,875
Deferred tax assets	36,521	—	2,944	39,465
Current assets				
Trade and other receivables and prepayments	670,136	—	(321,127)	349,009
Loan receivables	437,273	—	(4,274)	432,999
Bill receivables measured at FVTOCI	—	—	316,335	316,335
Equity				
Share premium and reserves	6,437,125	—	(10,098)	6,427,027
Equity attributable to owners of the Company	6,578,674	—	(10,098)	6,568,576
Current liabilities				
Trade and other payables	1,056,431	(158,559)	—	897,872
Contract liabilities	—	158,559	—	158,559
Total equity and liabilities	11,671,939	—	(10,098)	11,661,841
Net current assets	853,627	—	(9,066)	844,561
Total assets less current liabilities	9,529,631	—	(10,098)	9,519,533

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

New and revised IFRSs and interpretations in issue but not yet effective

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

IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to IFRS 3	*Definition of a Business*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[5]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to IFRSs	*Annual Improvements to IFRSs 2015–2017 Cycle*[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

4 Effective for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

5 Effective for annual periods beginning on or after 1 January 2020

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

IFRS 16 *Leases*

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Cont'd)*

New and revised IFRSs and interpretations in issue but not yet effective *(Cont'd)*

IFRS 16 *Leases* *(Cont'd)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate. Furthermore, extensive disclosures are required by IFRS 16.

Under IAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. The Group did not lease out any of its assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not assess whether the contracts are, or contain a lease which already existed prior to the date of initial application.

The directors of the Company do not anticipate that the application of IFRS 16 will have a material impact on the Group's consolidated financial statements as other than prepaid lease payments for leasehold lands, the Group did not have other material operating lease and other arrangement contains a lease.

Amendments to IAS 1 and IAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on HKSE and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Basis of consolidation *(Cont'd)*

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Business combinations *(Cont'd)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the acquisition date less accumulated impairment losses, if any.

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Investments in associates

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Investments in associates *(Cont'd)*

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3)

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

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in Note 3) *(Cont'd)*

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Revenue Recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold in the normal course of business, net of discount and sales related tax.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Prepaid lease payments

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the Group's defined contribution retirement plans, including state-managed retirement schemes in the PRC and Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Equity-settled share-based payment transactions

The share options granted to employees are measured at the fair value of the share options at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

When share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Except for mining assets (see notes (a) and (b) below), depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Mining assets include primarily the following:

(a) Stripping costs

Stripping costs incurred during the production phase which provide improved access to ore is capitalised into property, plant and equipment as "mining assets" (before production begins) when certain criteria are met, whereas the costs of normal ongoing operational stripping activities are accounted for in accordance with IAS 2. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as mining assets of which it forms part. Capitalised stripping costs are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

(b) Asset retirement obligation

The Group recognises provision for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mining properties and mining assets under property, plant and equipment when those obligations result from the acquisition, construction, or normal operation of the assets. Initially, a provision for an asset retirement obligation is recognised as its present value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is depreciated as an expense over the economic life of the asset using the unit of production method. Following initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. The adjusted cost of the asset is depreciated prospectively over the economic life of the assets to which they relate. The unwinding of the discount is shown as a finance cost in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Mining rights

The cost of acquiring rights for the Group to extract a mine over a certain period is capitalised and subsequently stated at cost less accumulated amortisation and impairment loss. Amortisation of mining rights is calculated to write off the cost less accumulated impairment losses over the useful lives of the mines in accordance with the production plans and reserves of the mines estimated on the unit of production method.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below). Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income or interest expense is recognised on an effective interest basis.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 3) *(Cont'd)*

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments/receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss. As detailed in Note 3.2(a), the Group classifies its bill receivable as debt instruments at FVTOCI upon the application of IFRS 9.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, loan receivables, bank balances and cash, restricted bank deposits, amount due from a non-controlling shareholder of a subsidiary and bill receivables measured at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) *(Cont'd)*

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and insignificant balances with specific risks. All other assets are assessed collectively using a provision matrix with appropriate groupings.

For all other financial assets subject to impairment assessment, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) *(Cont'd)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with Note 3) *(Cont'd)*

(v) Measurement and recognition of ECL *(Cont'd)*

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, and loan receivables are each assessed as a separate group. Amount due from a non-controlling shareholder is assessed for expected credit losses on an individual basis);

- Past-due status; and

- Nature, size and industry of debtors;

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments like bill receivables that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, loan receivables and amount due from a non-controlling shareholder of a subsidiary where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, loan receivables, amount due from a non-controlling shareholder of a subsidiary, bank balances and cash, as well as restricted bank deposits) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial assets *(Cont'd)*

Impairment of loans and receivables (before application of IFRS 9 on 1 January 2018)

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the asset have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of loans and receivables is reduced by the impairment loss directly for all loans and receivables with the exception of trade and other receivables and loan receivables, where the carrying amount is reduced by the impairment through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable, other receivable or loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Financial instruments *(Cont'd)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including borrowings, trade and other payables, senior notes and short-term notes are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets

The measurement of impairment losses under IFRS 9 across financial assets measured at amortised costs and FVTOCI requires judgement, in particular, the estimation of the amount, timing of future cash flows and forward-looking information when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Cont'd)*

Impairment of financial assets *(Cont'd)*

Trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables except trade receivables with significant balances or credit impaired that are assessed individually. The provision rates are based on debtors' aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the Group's trade receivables and the ECL are disclosed in Note 27 and 44, respectively.

Loan receivables

The Group makes allowance for loan receivables based on the ECL model on an individual basis which requires considerable amount of judgement.

In assessing ECL of loan receivables, management adopts internal credit risk grading system which is built on loan borrowers' past-due status. Elements of key accounting judgements and estimates incorporated as the key variables in ECL model include assigning probability of default to individual credit risk grade, assessing if there has been a significant increase in credit risk, considering qualitative creditworthiness, collateral values and determining associations between macroeconomic scenarios and economic inputs. The assessment of the credit risk of loan receivables involves high degree of estimation and uncertainty. The provision of ECL is sensitive to changes in estimates.

The information about the Group's loan receivables and the ECL are disclosed in Note 24 and 44, respectively.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units ("CGU") to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. As at 31 December 2018, the carrying amounts of goodwill is RMB193,357,000 (2017: RMB187,150,000) as disclosed in Note 22.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. REVENUE AND SEGMENT INFORMATION

The Group is engaged in the production and sale of cement products. The Group's chief executive officer, the chief operating decision maker (the "CODM") reviews the sales volume and average selling prices of its cement products by four areas, namely central and southern Shaanxi, Xinjiang and Guizhou. 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, including the financial implications from loan receivables. Accordingly, no further segment information of operating and reportable segment has been disclosed in the consolidated financial statements.

	For the year ended 31 December 2018 RMB'000
Geographical markets	
Central Shaanxi	**2,412,713**
Southern Shaanxi	**2,501,516**
Xinjiang	**606,172**
Guizhou	**391,343**
Total	**5,911,744**

All of the Group's revenue for the years ended 31 December 2018 and 2017 are derived from the sale of cements products to customers in the western part of the PRC.

Revenue is recognised at a point in time when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. The normal credit term is 60 to 90 days upon delivery.

No single customer contributed 10% or more to the Group's revenue for both 2018 and 2017. All of the Group's non-current assets are located in the PRC.

During the year ended 31 December 2018, RMB158,559,000 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.

7. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Tax refund *(Note)*	**316,183**	212,204
Government grants, including released from deferred income	**27,803**	14,312
Others	**–**	251
	343,986	226,767

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

8. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 RMB'000	2017 RMB'000
Impairment losses (recognised)/reversed on:		
— Trade receivables — goods and services	4,159	(7,105)
— Loan receivables	(11,395)	–
— Other receivables	(1,151)	–
— Inventories	–	(25,497)
— Mining rights	–	(17,830)
	(8,387)	(50,432)

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 44.

9. OTHER GAINS AND LOSSES, NET

	2018 RMB'000	2017 RMB'000
Net foreign exchange (losses) gains *(Note (a))*	(127,550)	157,278
Loss on disposal of property, plant and equipment	(6,777)	(17,617)
Loss on partial redemption of senior notes *(Note (b))*	(8,993)	–
Donation *(Note (c))*	(87,953)	(5,589)
Others	(2,555)	2,432
	(233,828)	136,504

Notes:

(a) The amounts mainly relate to the translation of the senior notes from United States Dollar ("US$") to RMB for each of the two years ended 31 December 2018.

(b) During the year ended 31 December 2018, the Company exercised its early redemption option to early redeem and repay the outstanding senior notes of US$80 million (equivalent to RMB553 million), plus the applicable redemption premium of US$1.3 million (equivalent to RMB9.0 million).

(c) During the year ended 31 December 2018, charitable donations of RMB80,000,000 were made by the Group through Yaobai Education Assistance Foundation established in 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

10. INTEREST INCOME

Interest income represents interest received and receivable from bank deposits and loan receivables.

	2018 RMB'000	2017 RMB'000
Interest income from loan receivables	127,790	21,081
Interest income from bank deposits	12,788	12,590
	140,578	33,671

11. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank loans	42,213	31,146
Interest on senior notes	183,831	186,463
Interest on short-term notes	5,068	34,405
Total borrowing costs	231,112	252,014
Less: amount capitalised	4,187	3,877
	226,925	248,137
Unwinding of discount *(Note 35)*	1,871	1,351
	228,796	249,488

Borrowing costs capitalised during the year arose on the general borrowing pool, and are calculated by applying a capitalisation rate of 6.16% (2017: 6.44%) per annum to expenditure on qualifying assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

12. PROFIT BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Depreciation and amortisation:		
Depreciation of property, plant and equipment	764,792	767,563
Amortisation of prepaid lease payments	13,788	14,628
Amortisation of mining rights	7,312	11,191
Amortisation of other intangible assets	2,167	2,099
Total depreciation and amortisation	788,059	795,481
Capitalised in inventories	(734,432)	(730,627)
	53,627	64,854
Auditors' remuneration	3,039	2,865
Staff costs (including directors' emoluments):		
Wages and salaries	398,015	306,469
Recognition (reversal) of share option expenses, net	1,037	3,726
Defined contribution retirement plan expenses	38,315	29,882
Total staff costs	437,367	340,077
Capitalised in inventories	(273,775)	(214,717)
	163,592	125,360
Cost of inventories recognised as expenses	3,723,581	3,468,232

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax expenses		
Current period	**442,310**	206,382
Deferred tax (income) expense *(Note 25)*		
Current year	**6,905**	42,961
Attributable to change in tax rate	**2,433**	(1,333)
	9,338	41,628
Income tax expense	**451,648**	248,010

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.

The income tax provision of the Group in respect of operations in the PRC has been calculated at 25% on the estimated assessable profits for each of the two years ended 31 December 2018 unless the group entities entitle to other preferential tax treatment granted by the relevant PRC tax authority.

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

	2018 RMB'000	2017 RMB'000
Profit before tax	**1,632,111**	974,206
Tax at domestic income tax rate of 25% (2017: 25%)	**408,139**	243,552
Tax effects on:		
Expenses not deductible for tax purpose	**6,686**	26,712
Tax exemption for the Company's income and expense	**69,142**	(22,173)
Tax holiday and concession rates of group entities *(Note (a))*	**(87,418)**	(45,147)
Tax effect of share of profit of an associate	**(5,921)**	(4,005)
Change in tax rate for deferred tax assets recognised	**2,433**	(1,333)
Tax on interest income on intra-group loans *(Note (b))*	**6,801**	10,028
Withholding tax on undistributed profits of PRC subsidiaries *(Note (c))*	**50,000**	40,000
Tax losses not recognised as deferred tax assets	**3,046**	2,327
Utilisation of tax losses previously not recognised as deferred tax assets	**–**	(1,860)
Recognition of deferred tax assets on tax losses generated in previous years	**(1,260)**	(91)
Tax expense for the year	**451,648**	248,010

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13. INCOME TAX EXPENSE *(Cont'd)*

Notes:

(a) Hetian Yaobai Cement Co., Ltd. ("Hetian Yaobai"), the Company's subsidiary, was established in Xinjiang Uygur Autonomous Region ("Xinjiang"). Pursuant to the relevant laws and regulations of Xinjiang, Hetian Yaobai is entitled to a concession rate of 15% from 2018 for three years. The applicable tax rate for the year ended 31 December 2018 is 15% (2017: 12.5%).

Luxin Building Materials Co., Ltd. ("Luxin"), the Company's subsidiary, was established in Xinjiang. Pursuant to the relevant laws and regulations of Xinjiang, Luxin is subject to a tax concession rate of 15% for the year ended 31 December 2018.

The Company's subsidiaries, Xi'an Lantian Yaobai Cement Co., Ltd ("Lantian"), Fuping Cement Co., Ltd ("Fuping") and Shifeng Cement Co., Ltd ("Shifeng"), were established in Shaanxi. Pursuant to the approval of tax bureau received in 2017, Lantian, Fuping and Shifeng are entitled to a tax reduction pursuant to PRC enterprise income tax law from 2017. The applicable tax rate for the year ended 31 December 2018 and 2017 is 15%.

The Company's subsidiaries, Longqiao Yaobai Cement Co., Ltd. ("Longqiao Yaobai"), Pucheng Yaobai Special Cement Co., Ltd ("Pucheng Yaobai") and Xi'an Zhonggang Intelligent Logistics Co., Ltd ("Zhonggang Logistics"), were established in Shaanxi. Pursuant to the relevant laws and regulations, Longqiao Yaobai, Pucheng Yaobai and Zhonggang Logistics are subject to a tax concession rate of 15% from 2018. The applicable tax rate for the year ended 31 December 2018 is 15% (2017: 25%).

The Group's subsidiary, Guangxin (Yili) Financial Leasing Co., Ltd. ("Guangxin Yili") was established in Xinjiang. Pursuant to the relevant laws and regulations of Xinjiang, Guangxin Yili is subject to a five-year tax holiday from its first revenue-making year, that is 2018. Therefore, the applicable tax rate for the year ended 31 December 2018 is 0%.

(b) Interest income in respect of intra-group loans within the Group is subject to a tax rate of 7% (2017:10%) based on the double taxation arrangement between Hong Kong and Mainland China.

(c) 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% (2017: 10%) under the PRC Enterprise Income Tax Law.

14. DIVIDEND

	2018 **RMB'000**	2017 RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2018 Interim — RMB1.2 cents (2017: Nil) per share	**65,057**	–
2017 Final — RMB2.6 cents (2017: Nil) per share	**149,305**	–
	214,362	–

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB1.4 cents (2017: RMB2.6 cents) per ordinary share, in an aggregate amount of RMB233,711,000 (2017: RMB141,254,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

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15. 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:

	2018 RMB'000	2017 RMB'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,159,449**	710,843

Number of shares	2018 '000	2017 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**5,433,980**	5,421,931
Effect of dilutive potential ordinary shares from share options issued by the Company	**8,946**	6,641
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**5,442,926**	5,428,572

The weighted average number of ordinary shares for the purpose of basic earnings per share for the year ended 31 December 2018 has been adjusted for exercise of share options during the period.

The computation of diluted earnings per share in 2018 and 2017 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.

Notes to the Consolidated Financial Statements

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16. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

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

2018	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share options scheme accrued RMB'000	Total RMB'000
Executive directors					
Zhang Jimin	–	2,500	3	182	2,685
Ma Weiping *(Chief Executive)*	–	3,354	40	384	3,778
Non-executive directors					
Ma Zhaoyang	342	–	–	39	381
Liu Yan	342	–	–	–	342
Qin Hongji	342	–	–	–	342
Independent non-executive directors					
Lee Kong Wai Conway	342	–	–	39	381
Wong Kun Kau	342	–	–	39	381
Tam King Ching Kenny	342	–	–	39	381
	2,052	5,854	43	722	8,671

2017	Fees RMB'000	Basic salaries and allowances RMB'000	Retirement benefit scheme contributions RMB'000	Share options scheme accrued RMB'000	Total RMB'000
Executive directors					
Zhang Jimin	–	1,500	–	463	1,963
Ma Weiping *(Chief Executive)*	–	1,400	37	785	2,222
Non-executive directors					
Ma Zhaoyang	346	–	–	101	447
Liu Yan	346	–	–	–	346
Qin Hongji	346	–	–	–	346
Independent non-executive directors					
Lee Kong Wai Conway	346	–	–	117	463
Wong Kun Kau	346	–	–	117	463
Tam King Ching Kenny	346	–	–	117	463
	2,076	2,900	37	1,700	6,713

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

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

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or as compensation for loss of office (2017: Nil).

During the year, no directors of the Company waived or agreed to waive any emoluments (2017: Nil).

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17. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: two) were directors and the chief executive of the Company whose emoluments are included in the disclosures in Note 16 above. The emoluments of the remaining three (2017: three) individuals were as follows:

	2018 RMB'000	2017 RMB'000
Basic salaries and allowances	2,364	2,628
Pension costs — defined contribution plans	96	65
Share-based payment	234	619
	2,694	3,312

The above employees' emoluments were within the following bands:

	Number of employees	
	2018	2017
Nil to 1,000,000 Hong Kong Dollar ("HK$")	2	–
HK$1,000,001 to HK$1,500,000	1	2
HK$1,500,001 to HK$2,000,000	–	1

During the year, no emoluments were paid by the Group to these individuals as an inducement to join or as compensation for loss of office (2017: Nil).

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18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Electronic and other equipment	Machinery	Mining assets	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2017	4,149,311	34,863	288,357	5,859,748	929,173	96,420	11,357,872
Additions	751	43,710	8,140	10,228	538	318,241	381,608
Transfers	3,263	–	2,016	22,532	244	(28,055)	–
Disposals	(2,304)	(16,419)	(4,069)	(78,860)	(232)	–	(101,884)
At 31 December 2017	4,151,021	62,154	294,444	5,813,648	929,723	386,606	11,637,596
Additions	20,958	61,445	28,616	60,906	80,818	545,984	798,727
Acquisition of a subsidiary	7,249	6,252	452	5,984	–	4,211	24,148
Transfers	138,861	24,547	12,622	140,136	62,089	(378,255)	–
Disposals	(10,133)	(7,107)	(4,887)	(27,096)	–	–	(49,223)
At 31 December 2018	**4,307,956**	**147,291**	**331,247**	**5,993,578**	**1,072,630**	**558,546**	**12,411,248**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2017	1,019,574	18,469	218,935	2,265,785	271,091	–	3,793,854
Depreciation charge	210,110	5,703	53,510	450,697	47,543	–	767,563
Disposals	(816)	(12,002)	(3,603)	(44,588)	(232)	–	(61,241)
At 31 December 2017	1,228,868	12,170	268,842	2,671,894	318,402	–	4,500,176
Depreciation charge	192,495	14,905	56,698	450,595	50,099	–	764,792
Disposals	(2,320)	(5,590)	(4,150)	(21,858)	–	–	(33,918)
At 31 December 2018	**1,419,043**	**21,485**	**321,390**	**3,100,631**	**368,501**	**–**	**5,231,050**
CARRYING VALUES							
At 31 December 2018	**2,888,913**	**125,806**	**9,857**	**2,892,947**	**704,129**	**558,546**	**7,180,198**
At 31 December 2017	2,922,153	49,984	25,602	3,141,754	611,321	386,606	7,137,420

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18. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

Details of property, plant and equipment pledged are set out in Note 43.

The annual rates of depreciation for above items of property, plant and equipment, other than construction in progress and mining assets, are as follows:

Category of property, plant and equipment	Rate
Buildings	5%
Motor vehicles	12%
Electronic and other equipment	19%
Machinery	8%

Mining assets are depleted on a unit of production basis, using estimated reserves of mine as the depletion base.

19. PREPAID LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Current asset *(Note 27)*	13,788	14,628
Non-current asset	459,275	471,487
	473,063	486,115

The Group is in the process of applying for the title certificates for certain of its land use rights with an aggregate carrying value of RMB34,121,000 (2017: RMB35,503,000) at 31 December 2018. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these land use rights. Details of prepaid lease payments pledged are set out in Note 43.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

20. MINING RIGHTS

	RMB'000
COST	
At 1 January 2017	335,857
Addition	1,918
At 31 December 2017	337,775
Addition	88,627
At 31 December 2018	426,402
AMORTISATION AND IMPAIRMENT	
At 1 January 2017	63,143
Charge for the year	11,191
Impairment loss recognised *(Note)*	17,830
At 31 December 2017	92,164
Charge for the year	7,312
At 31 December 2018	99,476
CARRYING AMOUNT	
At 31 December 2018	326,926
At 31 December 2017	245,611

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

Note: During the year ended 31 December 2017, Ankang Yaobai Jianghua Cement Co., Ltd. ("Jianghua"), a wholly-owned subsidiary of the Company, was informed by local government that its mining permits of certain ore mines expired in 2017 would not be renewed due to the rearrangement of local development plan. Therefore, the Company recognised an impairment loss of RMB17,830,000 (Note 8) against entire carrying amounts of the said mining permits.

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21. OTHER INTANGIBLE ASSETS

	Goodwill	Customer relationships	Computer software	Total
	RMB'000	RMB'000	RMB'000	RMB'000
COST				
At 1 January 2017	187,150	20,610	1,740	209,500
Addition	–	–	248	248
At 31 December 2017	187,150	20,610	1,988	209,748
Addition	–	–	4,399	4,399
Acquisition of a subsidiary *(Note 38)*	6,207	–	–	6,207
At 31 December 2018	193,357	20,610	6,387	220,354
ACCUMULATED AMORTISATION				
At 1 January 2017	–	14,949	1,578	16,527
Charge for the year	–	2,016	83	2,099
At 31 December 2017	–	16,965	1,661	18,626
Charge for the year	–	2,015	152	2,167
At 31 December 2018	–	18,980	1,813	20,793
CARRYING AMOUNT				
At 31 December 2018	193,357	1,630	4,574	199,561
At 31 December 2017	187,150	3,645	327	191,122

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

Customer relationships *(Note)*	10 years
Computer software	5 years

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

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22. IMPAIRMENT TESTING ON GOODWILL

Goodwill is tested for impairment annually or more frequently when circumstances indicate the carrying value may be impaired. Goodwill balances at end of each reporting period were attributable specifically to the five individual CGU, respectively. The carrying amounts of goodwill are as follow:

	2018 **RMB'000**	2017 RMB'000
Cement plant — Xiushan Yaobai	**45,274**	45,274
Cement plant — Luxin	**49,133**	49,133
Cement plant — Shifeng	**55,872**	55,872
Cement plant — Fuping	**7,258**	7,258
Cement plant — Yaowangshan	**29,613**	29,613
Commercial mixed station — Shaanxi Fengsheng Deyuan Industrial Limited Company ("Shaanxi Fengsheng") *(Note 38)*	**6,207**	–
	193,357	187,150

The recoverable amounts of the above CGUs have been determined based on the value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period. The estimated growth rate for subsidiaries in different provinces ranges from 0% to 7% (2017: 0% to 8%), and discount rate of 14% (2017: 14%) were applied. This growth rate is based on the industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The cash flows beyond the five-year period are extrapolated using zero growth rates. Other key assumption for the value in use calculation is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. According to the result of the analysis, the management did not identify an impairment for the above CGUs to which the goodwill are allocated.

23. INVESTMENT IN AN ASSOCIATE

	2018 **RMB'000**	2017 RMB'000
Unlisted equity investment, at cost	**31,425**	31,425
Share of post-acquisition profits and other comprehensive income	**49,236**	25,553
	80,661	56,978

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23. INVESTMENT IN AN ASSOCIATE *(Cont'd)*

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

Name of Entity	Country of incorporation/ registration	Principal place of business	Proportion of ownership interest held by the Group		Proportion of voting right held by the Group		Principal activity
			2018	2017	**2018**	2017	
Yaobai Environmental Technology Engineering Co., Ltd. ("Yaobai Environmental")	China	Shaanxi	**20%**	20%	**20%**	20%	Treatment of dangerous and hazardous waste

Summarised financial information of the associate

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

Yaobai Environmental

	2018 RMB'000	2017 RMB'000
Current assets	**234,705**	185,616
Non-current assets	**189,960**	116,198
Current liabilities	**23,027**	18,591
Non-current liabilities	**–**	–

	2018 RMB'000	2017 RMB'000
Revenue	**162,857**	111,926
Profit and total comprehensive income for the year	**118,415**	80,107

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23. INVESTMENT IN AN ASSOCIATE *(Cont'd)*

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

	2018 RMB'000	2017 RMB'000
Net assets of Yaobai Environmental	**401,638**	283,223
Proportion of the Group's ownership interest in Yaobai Environmental	**20%**	20%
The Group's share of net assets of Yaobai Environmental	**80,328**	56,645
Others	**333**	333
Carrying amount of the Group's interest in Yaobai Environmental	**80,661**	56,978

24. LOAN RECEIVABLES

	2018 RMB'000	2017 RMB'000
Loans collateralised by property, plant and equipment *(Note (a))*	**1,146,176**	364,124
Entrusted loan *(Note (b))*	**198,000**	200,000
Loans collateralised by receivables *(Note (b))*	**348,480**	280,000
	1,692,656	844,124
Analysed as:		
Current	**855,453**	437,273
Non-current	**837,203**	406,851
	1,692,656	844,124

Notes:

(a) During the year ended 31 December 2018 and 2017, the Group 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 its certain assets to the Group and leased back those assets;

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

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

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

Despite the Arrangements involve a legal form of a lease, the Group accounted for the Arrangements as collateralised loans in accordance with the actual substance of the Arrangements. All interest rates inherent in the Arrangements are fixed at the contract dates over the contract terms.

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

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24. LOAN RECEIVABLES *(Cont'd)*

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

	2018 **RMB'000**	2017 RMB'000
Within one year	**855,453**	437,273
In more than one year but not more than two years	**300,720**	319,341
In more than two years but not more than five years	**536,483**	87,510
	1,692,656	844,124

The ranges of effective rates on the Group's loan receivables was 6.0% to 18.3% (2017: 6.0% to 18.3%) per annum.

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

Included in the carrying amount of loans receivables as at 31 December 2018 is accumulated impairment losses of RMB19,645,000 (31 December 2017: Nil). Details of impairment assessment for the year ended 31 December 2018 are set out in Note 44.

25. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets	**39,110**	36,521
Deferred tax liabilities	**(80,279)**	(71,296)
	(41,169)	(34,775)

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25. DEFERRED TAX *(Cont'd)*

The movements in deferred tax assets and liabilities during the year are as follows:

	Allowance for doubtful debts and accruals	Deferred income	Tax losses	Assets booked at fair value on acquisition	Withholding tax on undistributed profits of PRC subsidiaries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	13,479	12,672	49,984	(69,282)	–	6,853
Credited (charged) to profit or loss	11,273	529	(18,811)	4,048	(40,000)	(42,961)
Effect of change in tax rate	(630)	1,247	(1,588)	2,304	–	1,333
At 31 December 2017	24,122	14,448	29,585	(62,930)	(40,000)	(34,775)
Effect of IFRS 9 adjustment	2,944	–	–	–	–	2,944
Credited (charged) to profit or loss	7,102	(1,371)	(7,530)	4,894	(10,000)	(6,905)
Effect of change in tax rate	(956)	(1,477)	–	–	–	(2,433)
At 31 December 2018	**33,212**	**11,600**	**22,055**	**(58,036)**	**(50,000)**	**(41,169)**

At the end of the reporting period, the Group has unused tax losses of RMB115,293,000 (2017: RMB138,266,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB88,220,000 (2017: RMB118,340,000) of such losses.

No deferred tax have been recognised in respect of the tax losses of RMB27,073,000 (2017: RMB19,926,000) due to unpredictability of future profit streams. The unused tax losses not recognised will be expired in the following year ending 31 December:

	2018	2017
	RMB'000	RMB'000
2021	**5,582**	10,620
2022	**9,306**	9,306
2023	**12,185**	–
	27,073	19,926

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. The Group recognised withholding tax of RMB50,000,000 (2017: RMB40,000,000) for undistributed earnings of certain PRC subsidiaries as there is a plan of the dividends distribution out of Mainland China in the foreseeable future by these PRC subsidiaries.

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26. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials and consumables *(Note)*	**249,971**	231,588
Work in progress	**121,336**	96,697
Finished goods	**119,809**	107,875
	491,116	436,160

Note: An impairment loss of RMB25,497,000 was recognised during the year ended 31 December 2017 against obsolete spare parts after production technical upgrades. No further impairment or reversal of inventory was recognised during the year ended 31 December 2018.

27. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Trade receivables	**195,396**	160,431
Less: Allowance for credit losses	**13,643**	13,010
	181,753	147,421
Other receivables	**54,669**	30,124
Less: Allowance for credit losses	**2,261**	1,110
	52,408	29,014
Bills receivable	**–**	316,335
Interest receivable	**17,188**	–
VAT recoverable	**87,642**	69,578
VAT refund receivable	**37,558**	24,442
Amount due from a non-controlling shareholder of a subsidiary *(Note)*	**21,745**	33,218
Prepayments to suppliers	**80,420**	58,718
Prepaid lease payments *(Note 19)*	**13,788**	14,628
	492,502	693,354
Less:		
Non-current portion of amount due from a non-controlling shareholder of a subsidiary *(Note)*	**15,218**	23,218
	477,284	670,136

Details of trade receivables pledged are set out in Note 43.

Note: The amount due from a non-controlling shareholder of a subsidiary represents advances for procuring the acquisition of various mining rights by the non-controlling shareholder on behalf of the Group. Pursuant to the notice from the local government authority received in September 2017, the prospective mining rights would not be granted due to rearrangement of local mining resources. The non-controlling shareholder repaid RMB30,007,000 and RMB2,950,000 to the Company in December 2017 and 2018, respectively in accordance with a repayment schedule without interest, and RMB8,523,000 was offset by dividend payables to the non-controlling shareholder in 2018. The remaining balance of RMB21,745,000 will be repaid in 2019 and 2020 based on the repayment schedule. After due assessment prescribed by IFRS 9, the directors are of a view that ECL on the remaining balance is insignificant and hence do not provide impairment on the remaining balance.

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27. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Cont'd)*

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB181,753,000 and RMB142,629,000 respectively.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the date of delivery of goods which approximated the respective dates on which revenue was recognised.

	2018 **RMB'000**	2017 RMB'000
0 to 90 days	**106,589**	105,541
91 to 180 days	**60,197**	18,711
181 to 360 days	**2,372**	4,549
361 to 720 days	**6,702**	12,642
Over 720 days	**5,893**	5,978
	181,753	147,421

As at 31 December 2018, total bills received amounting to RMB253,972,000 (31 December 2017: RMB316,335,000) are held by the Group, of which certain bills were further endorsed by the Group. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed in Note 28. All bills received by the Group are with a maturity period of less than one year.

The Group allows a credit period of 60 to 90 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 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB112,794,000 which are past due as at the reporting date. Out of the past due balances, RMB6,895,000 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.

As at 31 December 2017, RMB70,910,000 of the trade receivables that are neither past due nor impaired have high credit ranking attributable under the credit scoring system used by the Group. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately RMB76,511,000 which are past due as at the end of the reporting period. The Group has not provided for impairment loss for these receivables because there has not been a significant change in credit quality in these receivables. The Group does not hold any collateral over these balances.

27. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Cont'd)*

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

	2017 RMB'000
0 to 90 days	34,631
91 to 180 days	18,711
181 to 360 days	4,549
361 to 720 days	12,642
Over 720 days	5,978
	76,511

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

	2017 RMB'000
At 1 January	9,887
Recognised in profit or loss	7,287
Amount recovered during the year	(182)
Amounts written off as uncollectible	(2,872)
At 31 December	14,120

As at 31 December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately RMB14,120,000 relating to customers which have financial difficulties.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 44.

28. BILL RECEIVABLES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Bill receivables of RMB253,972,000 are held under a business model of collecting cash flows and endorsing to suppliers, and are classified as debt instruments at FVTOCI.

As at 31 December 2018, bill receivables of RMB44,296,000 were endorsed to suppliers on a full recourse basis. As the Group has not transferred substantially all the risks and rewards relating to these receivables, it continues to recognise the full carrying amounts of the receivables and the corresponding trade payables.

Details of impairment assessment are set out in Note 44.

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29. BANK BALANCES AND CASH/RESTRICTED BANK DEPOSITS

	2018 RMB'000	2017 RMB'000
Restricted bank deposits		
— denominated in RMB	**189,032**	77,013
Bank balances and cash		
— denominated in RMB	**845,680**	1,368,901
— denominated in US$	**35,359**	3,021
— denominated in other currency	**5,007**	3,431
	886,046	1,375,353

Bank balances and restricted bank deposits carry interest at market rates of 0.25% to 2.75% (2017: 0.30% to 1.65%) per annum.

Restricted bank deposits represent bank deposits of RMB67,008,000, RMB12,025,000 and RMB110,000,000 (2017: RMB77,013,000, RMB Nil and RMB Nil) set aside as securities deposits for projects bidding, bills payable and loans respectively (Note 43). The Group used the trade facilities in projects bidding process which were required by contractors.

30. SHARE CAPITAL

	Number of shares '000	Share capital GBP'000	Shown in the consolidated financial statements RMB'000
Ordinary shares of 0.002 Great Britain Pound ("GBP") each			
Authorised:			
At 1 January 2017, 31 December 2017 and 2018	10,000,000	20,000	
Issued and fully paid:			
At 1 January 2017	5,420,808	10,840	141,519
Exercise of share options *(Note 40)*	1,725	3	30
At 31 December 2017	5,422,533	10,843	141,549
Exercise of share options *(Note 40)*	12,600	25	222
At 31 December 2018	5,435,133	10,868	141,771

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31. RESERVES

Equity reserve

Equity reserve comprises of:

(a) On 27 October 2006, the Company became the legal parent of West China BVI by way of a share exchange agreement. According to the share exchange agreement, the shareholders of West China BVI transferred the entire issued share capital of West China BVI to the Company. This business combination is regarded as a reverse acquisition whereby West China BVI, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities. The difference between the fair value and carrying amount of net assets of West China BVI at the acquisition date amounted to RMB341,304,000 resulting from this reverse acquisition was debited to equity reserve.

(b) On 10 January 2011, the Group signed an agreement with the non-controlling shareholder of Longqiao Yaobai Cement Co., Ltd. ("Longqiao Yaobai") to acquire the remaining 20% equity interests in Longqiao Yaobai from the non-controlling shareholder. The difference amounted to RMB8,124,000 between the consideration paid of RMB25,000,000 and the non-controlling interest decreased of RMB33,124,000 was credited directly to equity reserve.

(c) On 19 March 2012, the Group signed an agreement with the non-controlling shareholder of Jianghua to acquire the remaining 20% equity interests in Jianghua from the non-controlling shareholder. The difference amounted to RMB30,916,000 between the consideration paid of RMB50,000,000 and the non-controlling interest decreased of RMB80,916,000 was credited directly to equity reserve.

(d) On 14 November 2013, the Group signed an agreement with the non-controlling shareholder of Guizhou Linshan Cement Co., Ltd. ("Guizhou Linshan") to acquire the remaining 20% equity interests in Guizhou Linshan from the non-controlling shareholder. The difference amounted to RMB3,604,000 between the consideration paid of RMB58,680,000 and the non-controlling interest decreased of RMB55,076,000 was debited directly to equity reserve.

(e) On 9 February 2018, the Group entered an agreement with the non-controlling shareholders of Jiandaxin Engineering Inspection Company ("Jiandaxin") to acquire the remaining 55% equity interests in Jiandaxin from the non-controlling shareholders. The difference amounted to RMB138,000 between the consolidated paid of RMB1,088,000 and the non-controlling interest decreased of RMB950,000 was debited directly to equity reserve.

Statutory reserve

In accordance with relevant rules and regulations in the PRC and provision of the articles of association of the group companies established in the PRC, the group companies in the PRC are required to appropriate 10% of the profit after tax determined under the accounting principles and financial regulations applicable in the PRC to the statutory reserve until the balances reach 50% of their respective registered capital. The reserve can be used to offset losses incurred or to increase their respective paid-in capital. Except for offset of losses incurred, any other usage should not result in the reserve balance falling below 25% of registered capital.

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32. BORROWINGS

	2018 RMB'000	2017 RMB'000
Secured bank loans	863,571	744,000
Carrying amount repayable as follows:		
Within one year	863,571	584,000
More than one year but not more than two years	–	160,000
	863,571	744,000
Less: Amount due for settlement within one year and shown under current liabilities	863,571	584,000
Amounts shown under non-current liabilities	–	160,000

Bank loans:

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

	2018 RMB'000	2017 RMB'000
Fixed rate borrowings		
— expiring within one year	703,571	544,000
Variable rate borrowings		
— expiring within one year	160,000	40,000
— expiring more than one year but not more than two years	–	160,000
	863,571	744,000

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

	2018	2017
Effective interest rate per annum:		
Fixed rate borrowings	2.90% to 5.82%	4.35% to 4.87%
Variable rate borrowings	5.46%	5.46%

Details of pledge of assets for the Group's secured bank borrowings are set out in Note 43.

33. SENIOR NOTES

6.50% Senior Notes Due 2019

On 4 September 2014, the Company issued 6.5%, five-year senior notes with an aggregated principal amount of US$400,000,000 due in 2019 (the "2019 Senior Notes") at 100% of the face value. The effective interest rate is approximately 6.80% per annum after adjusted for transaction costs. The 2019 Senior Notes are listed on the HKSE and guaranteed by certain subsidiaries of the Company and secured by pledges of the shares of these subsidiaries.

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

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

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

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

On 23 November 2018 and 28 December 2018, the Company redeemed and repaid an aggregate principal amount of US$50 million and US$30 million of 2019 Senior Notes (equivalent to RMB347 million and RMB206 million respectively), plus the applicable redemption premium of US$1.3 million (equivalent to RMB9 million) and accrued and unpaid interest of US$1.2 million (equivalent to RMB8.5 million).

	2018 **RMB'000**	2017 RMB'000
Carrying amount at 1 January	**2,596,470**	2,747,221
Interest expenses	**183,831**	186,463
Interest paid/payable	**(179,625)**	(179,271)
Exchange losses (gains)	**140,774**	(157,943)
Partial redemption	**(553,447)**	–
Carrying amount at 31 December	**2,188,003**	2,596,470

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34. SHORT-TERM NOTES

On 15 March 2016, Yaobai Special Cement Group Co., Ltd. ("Shaanxi Yaobai"), a wholly-owned subsidiary of the Company, issued 5.5% per annum, unsecured one-year short-term notes with a principal amount of RMB800,000,000, under an approved short-term notes facility totalling RMB1,200,000,000 for the repayment of part of the bank loans and to supplement general working capital of the Group. This one-year short-term notes issued in 2016 was repaid in full in March 2017, plus accrued interest of RMB44,000,000.

On 3 March 2017, the balance of the one-year short-term notes facility amounting to RMB400,000,000 was issued by Shaanxi Yaobai at 100% of the face value, carrying 6.98% per annum and unsecured. The effective interest rate is approximately 7.17% per annum after adjusted for transaction costs of RMB1,600,000. This one-year short-term notes issued in 2017 was repaid in full in March 2018, plus accrued interest of RMB27,920,000.

35. ASSET RETIREMENT OBLIGATION

	2018 **RMB'000**	2017 RMB'000
At 1 January	**23,417**	22,066
Addition *(Note)*	**20,647**	–
Unwinding of discount	**1,871**	1,351
At 31 December	**45,935**	23,417

Note:

According to a regulation issued in 2009 by the Ministry of Land and Resources of the People's Republic of China, the owner of a mine should undertake the obligation of environmental restoration. A provision is recognised for the present value of costs to be incurred for the restoration of the limestone mines of the Group based on the best estimate of future expenditure by the management. These amounts will be settled when environmental restoration is undertaken, generally at the end of a mining life. However, so far the local Land and Resource Bureau has not issued specific rules for the restoration standard, and if the restoration standard is released, the estimate of restoration costs may be subject to revision in the future. The amounts provided in relation to restoration and environmental cleanup costs are reviewed at least annually based upon the facts and circumstances available at the time, and the provisions are updated accordingly. The Group does not expect any significant retirement of assets in the next twelve months.

During the year ended 31 December 2018, the Group recognised assets retirement obligation amounted to RMB20,647,000 relating to the newly acquired mining rights as disclosed in Note 20.

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36. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants relating to:		
Acquisition of property, plant and equipment *(Note (a))*	**56,256**	48,591
Construction of properties *(Note (b))*	**–**	11,370
	56,256	59,961
Less: current portion *(Note 37)*	**10,714**	10,219
	45,542	49,742

Notes:

(a) The amount represents unconditional government grants received by the Group's subsidiaries for acquisition of property, plant and equipment. The balance will be amortised based on the useful lives of respective property, plant and equipment from 5 to 12 years. RMB10,328,000 (2017: RMB9,545,000) was released to profit or loss and recorded in other income in the current reporting period.

(b) The amount represents unconditional government grants to the Group's subsidiaries for construction of properties. The balance will be amortised based on the useful life of the relevant properties.

37. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade payables	**713,154**	602,584
Bill payables	**40,000**	–
	753,154	602,584
Amount due to non-controlling shareholder of a subsidiary	**1,888**	4,932
Payables for constructions and equipment purchase	**34,926**	11,696
Advance from customers	**–**	158,559
Other tax liabilities	**90,248**	68,375
Payroll and welfare payable	**66,023**	45,736
Interest payable	**43,893**	74,162
Other payables	**151,188**	80,168
Deferred income — current portion	**10,714**	10,219
	1,152,034	1,056,431

Notes to the Consolidated Financial Statements

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37. TRADE AND OTHER PAYABLES *(Cont'd)*

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

	2018 **RMB'000**	2017 RMB'000
0 to 90 days	**579,338**	494,910
91 to 180 days	**101,986**	72,482
181 to 360 days	**16,380**	16,038
361 to 720 days	**9,698**	11,303
Over 720 days	**5,752**	7,851
	713,154	602,584

Bills payables are mainly due within six months based on the issuance date.

38. ACQUISITION OF A SUBSIDIARY

On 2 May 2018, the Group acquired a 55% controlling equity interest in Shaanxi Fengsheng by an agreed capital injection of RMB30,000,000 to Shaanxi Fengsheng.

Shaanxi Fengsheng is principally engaged in production and sales of concrete and other cement products in Shaanxi Province, China. It was acquired with the primary objective of further improving the Group's presence in the local market.

Acquisition-related costs incurred are immaterial and have been recognised as administrative expenses in the consolidated statement of profit or loss and other comprehensive income.

Assets and liabilities recognised at the date of acquisition

	Shaanxi Fengsheng RMB'000
Assets	
Trade and other receivables	9,581
Inventories	4,644
Cash and cash equivalents	30,011
Property, plant and equipment	24,148
Liabilities	
Trade and other payables	(25,124)
Net assets	43,260

The trade and other receivables acquired (which principally comprised trade receivables) with gross contractual amounts of RMB9,581,000 represents its fair value, of which in the opinion of the directors of the Company is expected to be fully recoverable within one year.

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For the year ended 31 December 2018

38. ACQUISITION OF A SUBSIDIARY *(Cont'd)*

Non-controlling interests

The non-controlling interest of 45% in Shaanxi Fengshang at the acquisition date was measured by reference to the proportionate fair value of the net assets of Shaanxi Fengshang and amounted to RMB19,467,000, respectively.

Goodwill arising on acquisition, determined on a provisional basis

	Shaanxi Fengsheng RMB'000
Consideration	30,000
Add: Non-controlling interest	19,467
Less: Recognised amount of net identifiable assets acquired	43,260
Goodwill arising on acquisition	6,207

The consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies and future market development in downstream cement industry. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Net cash inflow arising on acquisition

	Shaanxi Fengsheng RMB'000
Consideration paid in cash	(30,000)
Cash and cash equivalent balances acquired	30,011
	11

Impact of acquisition on the results of the Group

Included in the profit for the year is a profit of RMB7,828,000 attributable to Shaanxi Fengsheng. Revenue for the year includes RMB124,998,000 in respect of Shaanxi Fengsheng.

Had the acquisition been effected at the beginning of the current period, the revenue of the Group for the year ended 31 December 2018 would have been RMB5,914,641,000, and the profit for the year would have been RMB1,178,594,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is intended to be a projection of future results.

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For the year ended 31 December 2018

39. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**127,384**	201,968

40. SHARE-BASED PAYMENTS

The Company's current share option scheme was adopted pursuant to a resolution of board of directors passed on 31 March 2010 for the primary purpose of providing incentives to directors and eligible employees through the subscription of the Company's shares, and will expire 10 years after the date of grant ("Post-IPO Share Option Scheme").

The total number of shares in respect of options may be granted under the Post-IPO Share Option Scheme is not permitted to exceed 10% of the issued share capital of the Company as at 23 August 2010, which aggregated at 411,533,185 shares, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options granted must be taken up within 21 days of the date of offer, upon payment of HK$1 per grant. Options may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall not be more than 10 years from the date of grant of options. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 23 March 2011, 22 March 2013, 24 March 2014 and 13 April 2015, the Company granted a total of 18,400,000 ("First Issuance"), 34,000,000 ("Second Issuance"), 52,100,000 ("Third Issuance") and 29,100,000 options ("Forth Issuance"), respectively, to directors, senior management and staff, and the estimated fair value of the four option issuances using the Black-Scholes option pricing model was approximately HK$1.04, HK$0.58, HK$0.41 and HK$0.56 at the respective grant date.

The share options granted are exercisable within a period of 10 years after the corresponding vesting periods (4 years) succeeding the specific grant date of each individual tranche under a particular issuance, subject to the fulfilment of certain non-market performance condition, for example, the share options of a specific tranche would vest if the growth in profit after tax of the Group during the year ending on the vesting date (Year 1) equal or exceed 15% as compared to the previous financial year (Year 0). In the event when the growth is less than 15%, the share options will not be immediately forfeited and the vesting will delay until the compound growth in profit after tax of the Group in the following financial year (Year 2) equal or exceed 15% as compared to that of Year 0. Where profit after tax of the Group does not meet the growth requirements in both circumstances above, the share options of the said tranche will not vest.

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For the year ended 31 December 2018

40. SHARE-BASED PAYMENTS *(Cont'd)*

Fair value of the share options

The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate excluding non-market performance condition. Changes in variables and assumptions may result in changes in the fair value of the options.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

The following table disclose the details of the share options held by the employees (including the directors) and movements in such holdings during the years ended 31 December 2017 and 2018:

				Number of options ('000)				
	Date of grant	Exercise period of tranches under the issuance	Exercise price	Outstanding at 1.1.2018	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2018
First Issuance	23 March 2011	23 March 2012 to 22 March 2021	HK$3.41	1,100	–	–	–	1,100
Second Issuance	22 March 2013	22 March 2014 to 21 March 2023	HK$1.25	15,175	–	3,900	–	11,275
Third Issuance	24 March 2014	24 March 2015 to 23 March 2024	HK$0.91	33,400	–	8,350	975	24,075
Forth Issuance	13 April 2015	13 April 2016 to 12 April 2025	HK$1.45	25,400	–	350	–	25,050
				75,075	–	12,600	975	61,500
Exercisable at the end of the year								55,150
Weighted average exercise price								HK$1.24

Notes to the Consolidated Financial Statements

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40. SHARE-BASED PAYMENTS *(Cont'd)*

Fair value of the share options *(Cont'd)*

	Date of grant	Exercise period of tranches under the issuance	Exercise price	Number of options ('000) Outstanding at 1.1.2017	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2017
First Issuance	23 March 2011	23 March 2012 to 22 March 2021	HK$3.41	1,100	–	–	–	1,100
Second Issuance	22 March 2013	22 March 2014 to 21 March 2023	HK$1.25	15,500	–	325	–	15,175
Third Issuance	24 March 2014	24 March 2015 to 23 March 2024	HK$0.91	34,800	–	1,400	–	33,400
Forth Issuance	13 April 2015	13 April 2016 to 12 April 2025	HK$1.45	25,400	–	–	–	25,400
				76,800	–	1,725	–	75,075
Exercisable at the end of the year								50,775
Weighted average exercise price								HK$1.20

During the year ended 31 December 2018, a share-based payment expense of RMB1,037,000 was recognised in relation to share options granted by the Company (2017: RMB3,726,000).

During the year ended 31 December 2018, 12,600,000 (2017: 1,725,000) share options were exercised at the weighted exercise price of HK$1.03 per share or approximate RMB0.85 per share (2017: HK$0.97 per share or approximately RMB0.86 per share), with the weighted average share price of HK$1.42 per share (2017: HK$1.15 per share).

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41. RETIREMENT BENEFITS PLANS

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

The employees of the Group's subsidiaries in the PRC are members of a state-managed defined contribution retirement scheme operated by the PRC government. The subsidiary is required to contribute 20% of payroll costs to the retirement scheme subject to certain cap as governed by the social fund bureau. The only obligation of the Group with respect to the retirement scheme is to make the specified contributions.

The total expense recognised in the profit or loss of RMB38,315,000 (2017: RMB29,882,000) represents contributions paid or payable under the retirement benefit scheme.

42. RELATED PARTY DISCLOSURES

The Group has paid or payable to the key management for employee services. The key management includes directors (executive and non-executive) of the Company and senior management of the Group.

Key management compensation

	2018 RMB'000	2017 RMB'000
Salaries and other short-term employee benefits	**10,812**	9,276
Post-employment benefits	**180**	212
Share-based payments	**1,024**	2,704
	12,016	12,192

43. 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 follow:

	2018 RMB'000	2017 RMB'000
Restricted bank deposit *(Note 29)*	**122,025**	–
Trade receivables	**–**	7,265
Prepaid lease payments	**123,229**	108,691
Property, plant and equipment	**1,899,516**	2,263,523
	2,144,770	2,379,479

Notes to the Consolidated Financial Statements

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44. FINANCIAL INSTRUMENTS

a. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts (borrowings, senior notes and short-term notes as detailed in Notes 32, 33 and 34, offset by cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves as detailed in Notes 30 and 31).

The directors of the Company review the capital structure on a semi-annual basis. In order to maintain or adjust the capital structure, the Group will balance its overall capital structure through adjust the payment of dividends paid to shareholders, issue new shares or issue of new debt or the redemption of existing debt.

b. Categories of financial instruments

	2018 **RMB'000**	2017 RMB'000
Financial assets		
— Loans and receivables at amortised cost (including cash and cash equivalents)	**3,040,828**	2,822,478
— Debt instrument at FVTOCI	**253,972**	–
Financial liabilities		
— Amortised cost	**4,102,646**	4,559,334

c. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivables, bill receivables measured at FVTOCI, restricted bank deposits, bank balances and cash, trade and other payables, borrowings, senior notes and short-term notes. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these risk exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rate risk. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risk.

(i) Foreign currency risk

The Group undertakes transactions, mainly the issuance of senior notes and new shares, denominated in foreign currencies other than the functional currency of RMB. Hence, exposures to exchange rate fluctuations arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Market risks *(Cont'd)*

(i) Foreign currency risk *(Cont'd)*

The Group does not use derivative financial instruments to hedge its foreign currency risk. However, the Group monitors foreign currency exposure and will consider hedging significant exposure should the need arise. The carrying amounts of Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
The US$				
— Bank balances and cash	**–**	–	**35,359**	3,021
— Senior notes (including related interest)	**2,231,896**	2,647,365	**–**	–
Other foreign currency (including HK$, GBP and Singapore Dollar)				
— Bank balances and cash	**–**	–	**5,007**	3,431

The Group is mainly exposed to the fluctuation in US$ against RMB.

The directors' assessment of the reasonably possible change in foreign exchange rate is 5% (2017: 5%) which is also the sensitivity rate used when reporting foreign currency risk internally to key management personnel. For a 5% weakening of RMB against US$, there will be a decrease in profit for the year of RMB109,831,000 (2017: RMB132,242,000) and there would be an equal but opposite impact on the profit or loss for the year for a 5% strengthen of RMB against US$.

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to loans receivables, fixed-rate borrowings, senior notes and short-term notes (as detailed in Notes 24, 32, 33 and 34).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (as detailed in Note 32). The Group's variable-rate borrowings are mainly affected by the interest rates quoted by People's Bank of China.

The Group does not have formal policies on managing interest rate risk. However, the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to cash flow interest rate risk has been determined based on the exposure for variable-rate bank borrowings at the end of each reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rate had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would be decreased/increased by approximately RMB600,000 (2017: RMB750,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment

The Group's credit risk is primarily attributable to its trade and other receivables, loan receivables, amount due from a non-controlling shareholder, bills receivable at FVTOCI, bank balances and cash, and restricted bank deposits. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position.

Trade receivables arising from contracts with customers

In order to minimise the credit risk, the management of the Group has formulated a defined trade credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Normally, the Group does not obtain collateral from customers. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances individually for significant balances and insignificant balances with specific risks, and based on provision matrix for the remaining trade receivables as stated below.

The Group has no significant concentration of credit risk on trade receivables, with exposure spread over a large number of cement sales customers and independent third parties.

The Group measures expected credit loss allowance for most of its trade receivables using a provision matrix by debtors' aging because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL. Debtors with significant outstanding balances and debtors that are credit impaired with gross carrying amounts of RMB61,960,000 and RMB26,277,000 respectively as at 31 December 2018 were assessed individually.

Gross carrying amount

	Average loss rate	Trade receivables RMB'000
Current (not past due)	0.3%	39,434
1 to 90 days past due	0.8%	60,675
91 to 360 days past due	2.2%	7,050
		107,159

44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Trade receivables arising from contracts with customers *(Cont'd)*

The estimated loss rates are estimated based on historically observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort, such as economic data and forecasts published by governmental bodies and industrial information published by relevant institutions. At every reporting date, the historically observed default rates are reassessed and changes in the forward-looking information are considered.

During the year ended 31 December 2018, the Group provided RMB4,570,000 impairment allowance for trade receivables, based on the provision matrix.

Loan receivables

Credit risk of loan receivables is monitored by the dedicated credit risk department of the Group responsible for the review and managing of credit risk for all corporate loan borrowers. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process aims to allow the Group to define the terms of the loans as well as assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Group monitors credit risk of loan receivables regularly by reviewing changes in creditworthiness of the loan borrowers, past collection history, subsequent settlement of each loan borrowers, and also relevant collaterals and guarantees as well as forward-looking information, in order to mitigate the risk of significant exposure from bad debts.

Credit risk is often greater when the loan borrowers are concentrated in one single industry or geographical location or have comparable economic characteristics. The loan borrowers of the Group are located in different provinces of Mainland China and are from different industries. As the loan borrowers of the Group are widely dispersed and are engaged in different industries, there is no significant credit risk concentration within the Group's loan receivables.

In assessing the impairment of loan receivables under ECL model upon application of IFRS 9 (2017: incurred loss model), the Group adopts internal credit risk grading system for these loan receivables which comprise the following categories:

Internal credit rating	Description	Loan receivables
Low risk	Debtor has a low risk of default and does not have any past-due amounts	12-month ECL
Watch list	Debtor repays after due dates but usually settle within 30 days	12-month ECL
Doubtful	Debtor is more than 30 days past due on its contractual payments	Lifetime ECL – not credit-impaired
Loss	Debtor is more than 90 days past due on its contractual payments	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

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44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Loan receivables *(Cont'd)*

The Group considers a loan receivable defaulted and therefore on Stage 3 (credit impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As part of a qualitative creditworthiness assessment of whether a loan borrower is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the loan borrower as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Debt instruments at FVTOCI

The Group's debt instruments at FVTOCI only comprise bills receivable that are issued by financial institutions with high credit ratings and therefore are considered to be low credit risk financial assets. During the year ended 31 December 2018, the directors of the Company consider that expected credit losses on debt instruments at FVTOCI was insignificant.

Bank balances and cash, and restricted bank deposits

The credit risks on bank balances and cash, and restricted bank deposits are limited because the counterparties are banks/financial institutions with high credit ratings assigned by international credit-rating agencies.

Other receivables and amount due from a non-controlling shareholder

The credit risks on other receivables and amount due from a non-controlling shareholder are limited because the counterparties are with high creditworthiness and good past collection history.

The tables detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	Note	**External credit rating**	**Internal credit rating**	**12-month or lifetime ECL**	**Gross carrying amount** RMB'000	RMB'000
Financial assets at amortised cost						
Loans receivables	24	N/A	Low risk	12- month ECL	1,712,301	1,712,301
Trade receivables	27	N/A	(Note 1)	Lifetime ECL (provision matrix)	107,159	
				Lifetime ECL (significant balances, individually assessed)	61,960	
				Lifetime ECL (credit-impaired, individually assessed)	26,277	195,396
Other receivables	27	N/A	(Note 2)	12-month ECL	54,669	54,669
Amount due from a non-controlling shareholder	27	N/A	(Note 2)	12-month ECL	21,745	21,745
Bank balances and cash	29	AA+	N/A	12-month ECL	886,046	886,046
Restricted bank deposits	29	AA	N/A	12-month ECL	189,032	189,032

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44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

Notes:

1. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

2. For items other than trade receivables, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/ No fixed repayment terms	Total
	RMB'000	RMB'000	RMB'000
Loan receivables	–	1,712,301	1,712,301
Other receivables	–	54,669	54,669
Amount due from a non-controlling shareholder	–	21,745	21,745

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

	Lifetime ECL (not credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	RMB'000	RMB'000
As at 31 December 2017 under IAS 39	–	13,010	13,010
Adjustment upon application of IFRS 9	4,792	–	4,792
Changes due to financial instruments recognised as at 1 January:			
— Transfer to credit-impaired	(4,106)	4,106	–
— Impairment losses recognised	–	3,001	3,001
— Impairment losses reversed	(823)	(7,906)	(8,729)
— Write-offs	–	–	–
New financial assets originated or purchased	1,569	–	1,569
As at 31 December 2018	1,432	12,211	13,643

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Credit risk and impairment assessment *(Cont'd)*

The following tables show reconciliation of loss allowances that has been recognised for loan receivables.

	12 m ECL	Total
	RMB'000	RMB'000
As at 31 December 2017 under IAS 39	–	–
Adjustment upon application of IFRS 9	8,250	8,250
Changes due to financial instruments recognised as at 1 January:		
— Impairment losses recognised	5	5
— Impairment losses reversed	(3,778)	(3,778)
New financial assets originated or purchased	15,168	15,168
As at 31 December 2018	19,645	19,645

Changes in the loss allowance for loan receivables are mainly due to:

	31 December 2018		
		Increase/(decrease) in lifetime ECL	
	Increase/ (decrease) in 12 m ECL RMB'000	Not credit-impaired RMB'000	Credit-impaired RMB'000
Advance of new loan receivables	15,168	–	–

The changes in the loss allowance for other receivables of RMB1,151,000 are mainly due to the advance of new other receivables.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirement. The Group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities, by continuing monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

44. FINANCIAL INSTRUMENTS *(Cont'd)*

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

Liquidity risk *(Cont'd)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. To the extent that interest payments are floating rate the undiscounted amount is derived from interest rate at the end of the reporting period.

	Weighted average interest rate %	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2018						
Trade and other payables	–	1,007,179	–	–	1,007,179	1,007,179
Borrowings						
— variable rates	5.46	161,077	–	–	161,077	160,000
— fixed rates	4.64	724,256	–	–	724,256	703,571
Senior notes (including related interest)	6.50	2,917,555	–	–	2,917,555	2,231,896
		4,810,067	–	–	4,810,067	4,102,646

	Weighted average interest rate %	Less than 1 year RMB'000	1–2 years RMB'000	2–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2017						
Trade and other payables	–	745,116	–	–	745,116	745,116
Borrowings						
— variable rates	5.46	41,353	169,817	–	211,170	200,000
— fixed rates	4.50	559,342	–	–	559,342	544,000
Senior notes (including related interest)	6.50	169,889	2,944,689	–	3,114,578	2,647,365
Short-term notes (including related interest)	6.98	427,920	–	–	427,920	422,853
		1,943,620	3,114,506	–	5,058,126	4,559,334

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

44. FINANCIAL INSTRUMENTS *(Cont'd)*

d. Fair values of financial instruments

The fair values of financial assets and financial liabilities of the Group are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Except for bill receivables classified as debt instruments at FVTOCI, the Group does not hold any other financial instruments measured at fair value.

Bill receivables are measured at fair value at the end of each reporting period. However, the directors of the Company are of the view that the fair value of bill receivables is close to its carrying amounts given all bill receivables will mature within one year.

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

	2018		2017	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Senior Notes (including related interest)	**2,231,896**	**2,209,000**	2,647,365	2,686,000
Short-term Notes (including related interest)	**–**	**–**	422,853	422,013

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Senior Notes RMB'000	Short-term Notes RMB'000	Dividend payables RMB'000	Interest payables RMB'000 (Note)	Total RMB'000
At 1 January 2018	744,000	2,596,470	399,586	–	74,162	3,814,218
Financing cash flows:						
New borrowings raised	804,171	–	–	–	–	804,171
Repayment of borrowings	(684,600)	–	–	–	–	(684,600)
Repayment of short-term notes	–	–	(400,000)	–	–	(400,000)
Repayment of senior notes	–	(553,447)	–	–	–	(553,447)
Redemption costs of senior notes	–	–	–	–	(8,993)	(8,993)
Interest paid	–	–	–	–	(256,761)	(256,761)
Dividends paid to non-controlling shareholders of a subsidiary	–	–	–	(19,450)	–	(19,450)
Dividend paid	–	–	–	(214,362)	–	(214,362)
Non-cash financing activities:						
Interest expenses	–	4,206	414	–	226,492	231,112
Foreign exchange loss	–	140,774	–	–	–	140,774
Loss on redemption of senior notes	–		–	–	8,993	8,993
Dividend declared	–	–	–	242,335	–	242,335
Dividends paid to a non-controlling shareholder of a subsidiary by offset receivables (Note 46)	–	–	–	(8,523)	–	(8,523)
At 31 December 2018	863,571	2,188,003	–	–	43,893	3,095,467

Note: Interest payables are included in trade and other payables (Note 37).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES *(Cont'd)*

	Borrowings RMB'000	Senior Notes RMB'000	Short-term Notes RMB'000	Interest payables RMB'000 (Note)	Total RMB'000
At 1 January 2017	466,600	2,747,221	799,214	88,870	4,101,905
Financing cash flows:					
New borrowings raised	1,012,400	–	–	–	1,012,400
Repayment of borrowings	(735,000)	–	–	–	(735,000)
Proceeds from issuance of short-term notes	–	–	400,000	–	400,000
Expenses on issuance of short-term notes	–	–	(1,600)	–	(1,600)
Repayment of short-term notes	–	–	(800,000)	–	(800,000)
Interest paid	–	–	–	(257,558)	(257,558)
Non-cash financing activities:					
Interest expenses	–	7,192	1,972	242,850	252,014
Foreign exchange gains	–	(157,943)	–	–	(157,943)
At 31 December 2017	744,000	2,596,470	399,586	74,162	3,814,218

Note: Interest payables are included in trade and other payables (Note 37).

46. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, Hancheng Yaobai Yangshanzhuang Cement Co., Ltd. ("Hancheng Yaobai"), a subsidiary of the Company, entered into an arrangement with its non-controlling shareholder, pursuant to which dividend payable of RMB8,523,000 was offset by amount due from the non-controlling shareholder as set out in Note 27. Accordingly, the Group derecognised the amount due from and dividend payable to the non-controlling shareholder of RMB8,523,000 and accounted for this as a non-cash transaction.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company		Principal activities
				2018	2017	
Directly held						
West China Cement Co., Ltd.	Ordinary	British Virgin Islands	HK$7,800	100%	100%	Investment holding
Faithful Alliance Limited 集誠有限公司	Ordinary	Hong Kong	HK$100	100%	100%	Investment holding
Shaanxi Yaobai 堯柏特種水泥集團有限公司	Ordinary	Shaanxi, PRC	RMB1,890,000,000	100%	100%	Production and sale of cement
Lantian 西安藍田堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	100%	100%	Production and sale of cement
Ankang Yaobai Cement Co., Ltd. 安康堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB345,000,000	100%	100%	Production and sale of cement
Hanzhong Yaobai Cement Co., Ltd. 漢中堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB135,000,000	100%	100%	Production and sale of cement
Hanzhong Mianxian Yaobai Cement Co. Ltd. 漢中勉縣堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB140,000,000	100%	100%	Production and sale of cement
Xi'an Yaobai Material Co., Ltd. 西安市堯柏物資有限公司	Ordinary	Shaanxi, PRC	RMB35,000,000	100%	100%	Purchase and sale of raw material
Hanzhong Xixiang Yaobai Cement Co., Ltd. 漢中西鄉堯柏水泥有限公司	Ordinary	Shaanxi, PRC	RMB105,000,000	100%	100%	Production and sale of cement
Longqiao Yaobai 商洛堯柏龍橋水泥有限公司	Ordinary	Shaanxi, PRC	RMB125,000,000	100%	100%	Production and sale of cement
Xiushan Yaobai 商洛堯柏秀山水泥有限公司	Ordinary	Shaanxi, PRC	RMB20,000,000	100%	100%	Production and sale of cement
Jianghua 安康堯柏江華水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	100%	100%	Production and sale of cement
Hancheng Yaobai 韓城堯柏陽山莊水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	80%	80%	Production and sale of cement
Luxin 和田魯新建材有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	100%	100%	Production and sale of cement
Hetian Yaobai 和田堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB236,000,000	100%	100%	Production and sale of cement
Shifeng 實豐水泥有限公司	Ordinary	Shaanxi, PRC	RMB100,000,000	100%	100%	Production and sale of cement

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

Name of subsidiary	Class of share held	Place of registration/ incorporation and operation	Paid up issued/ registered ordinary share capital	Proportion of ownership interest/ voting power held by the Company		Principal activities
				2018	2017	
Fuping 富平水泥有限公司	Ordinary	Shaanxi, PRC	RMB597,000,000	**100%**	100%	Production and sale of cement
Guizhou Linshan 貴州麟山水泥有限公司	Ordinary	Guizhou, PRC	RMB233,381,000	**100%**	100%	Production and sale of cement
Yili Yaobai Cement Co., Ltd. 伊犁堯柏水泥有限公司	Ordinary	Xinjiang, PRC	RMB100,000,000	**100%**	100%	Production and sale of cement
Yaowangshan 銅川藥王山生態水泥有限公司	Ordinary	Shaanxi, PRC	RMB50,000,000	**100%**	100%	Production and sale of cement
Guangxin International Financial Leasing Co. Ltd. 光信國際融資租賃有限公司	Ordinary	Shaanxi, PRC	RMB420,000,000	**100%**	100%	Finance lease business
Guangxin Yili 光信（伊犁）融資租賃有限公司	Ordinary	Xinjiang, PRC	RMB200,000,000	**100%**	100%	Finance lease business
Zhonggang Logistics 西安中港智慧物流有限公司	Ordinary	Shaanxi, PRC	RMB30,000,000	**100%**	100%	Transportation
Pucheng Yaobai 蒲城堯柏特種水泥有限公司	Ordinary	Shaanxi, PRC	RMB150,000,000	**100%**	–	Production and sale of cement
Shaanxi Fuda Mining Engineering Co., Ltd 陝西富達礦山工程有限公司	Ordinary	Shaanxi, PRC	RMB40,000,000	**100%**	–	Production and sale of cement
Shaanxi Fengsheng 陝西豐盛德遠實業有限公司	Ordinary	Shaanxi, PRC	RMB50,000,000	**55%**	–	Production and sale of cement

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

(a) Except for West China Cement Co., Ltd. and Faithful Alliance Limited, the above English names of the entities have not been registered with the authorities and are used throughout the consolidated financial statements for discussion only.

(b) Other than Shaanxi Yaobai and Fuping which are wholly-owned foreign enterprises held directly by Faithful Alliance Limited and Guangxin Yili, which is sino-foreign owned by Faithful Alliance Limited and Guangxin International Financial Leasing Co. Ltd, all other subsidiaries established in the PRC are domestic companies held directly/indirectly by Shaanxi Yaobai.

(c) None of the other subsidiaries had issued any debt securities at the end of the year.

Notes to the Consolidated Financial Statements

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47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

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

Name of subsidiary	Place of registration/ incorporation and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018 RMB'000**	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Hancheng Yaobai 韓城堯柏陽山莊水泥有限公司	Shaanxi, PRC	**20%**	20%	**16,784**	14,461	**35,753**	46,942
Individually immaterial subsidiaries with non-controlling interests						**37,937**	3,090
Total						**73,690**	50,032

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

Hancheng Yaobai

	2018 RMB'000	2017 RMB'000
Current assets	**93,794**	133,310
Non-current assets	**288,023**	314,471
Current liabilities	**202,388**	212,323
Non-current liabilities	**667**	750
Equity attributable to owners of the Company	**143,009**	187,766
Non-controlling interests	**35,753**	46,942

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

47. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Cont'd)*

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

Hancheng Yaobai *(Cont'd)*

	2018 RMB'000	2017 RMB'000
Revenue	**328,211**	318,808
Expenses	**244,293**	246,240
Profit for the year	**83,918**	72,568
Profit attributable to owners of the Company	**67,134**	58,054
Profit attributable to non-controlling interests	**16,784**	14,514
Profit for the year	**83,918**	72,568
Dividends paid to non-controlling interests of Hancheng Yaobai	**27,973**	13,650
Net cash inflow from operating activities	**64,458**	71,180
Net cash outflow from investing activities	**(6,412)**	(3,034)
Net cash outflow from financing activities	**(72,693)**	(13,650)
Net cash (outflow) inflow	**(14,647)**	54,496

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For the year ended 31 December 2018

48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
ASSETS		
Non-current assets		
Unlisted investments in subsidiaries	1,700,742	1,700,742
Amounts due from subsidiaries	3,737,200	4,392,879
Property, plant and equipment	9	13
	5,437,951	6,093,634
Current assets		
Dividend receivable from a subsidiary	17,000	17,000
Cash and cash equivalents	27,983	5,389
	44,983	22,389
Total assets	5,482,934	6,116,023
EQUITY		
Share capital	141,771	141,549
Share premium and reserves	3,098,085	3,316,629
Total equity	3,239,856	3,458,178
LIABILITIES		
Non-current liability		
Senior notes *(Note 33)*	2,188,003	2,596,470
	2,188,003	2,596,470
Current liability		
Other payables	55,075	61,375
	55,075	61,375
Total liabilities	2,243,078	2,657,845
Total equity and liabilities	5,482,934	6,116,023
Net current liabilities	(10,092)	(38,986)
Total assets less current liabilities	5,427,859	6,054,648

Notes to the Consolidated Financial Statements

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48. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Cont'd)*

Movements in reserves

	Share premium RMB'000	Share option reserve RMB'000	Retained earnings (accumulated losses) RMB'000	Total RMB'000
At 1 January 2017	3,288,975	25,733	(91,942)	3,222,766
Profit and total comprehensive income for the year	–	–	88,692	88,692
Recognition of equity-settled share-based payment *(Note 40)*	–	3,726	–	3,726
Shares issued for share options exercised	2,046	(601)	–	1,445
At 31 December 2017	**3,291,021**	**28,858**	**(3,250)**	**3,316,629**
Profit and total comprehensive income for the year	**–**	**–**	**(15,700)**	**(15,700)**
Recognition of equity-settled share-based payment *(Note 40)*	**–**	**1,037**	**–**	**1,037**
Dividend recognised as distribution	**–**	**–**	**(214,362)**	**(214,362)**
Shares issued for share options exercised	**15,153**	**(4,672)**	**–**	**10,481**
At 31 December 2018	**3,306,174**	**25,223**	**(233,312)**	**3,098,085**

At 31 December 2018, the aggregate amount of reserves available for distribution to equity holders of the Company under the Company's Articles of Association and Companies (Jersey) Law 1991, as amended, was RMB3,072,862,000 (2017: RMB3,287,771,000).

PRINCIPAL AND REGISTERED OFFICES OF THE COMPANY

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