# Asia Cement (China) Holdings Corporation

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 743)**

## 2010 Annual Results Announcement

**2010 ANNUAL RESULTS HIGHLIGHTS**

- Revenue increased by 36% to approximately RMB5,707.3 million for the year ended 31 December 2010 (2009: approximately RMB4,207.4 million).
- Profit attributable to owners of the Company decreased by 16% to approximately RMB510.9 million (2009: approximately RMB610.0 million).
- Basic earning per share amounted to RMB0.33 (2009: RMB0.39), representing an decrease of approximately 15%.
- The Board proposed a final dividend of RMB10 cents per share, representing a payout ratio of 30%.
- Following No. 3 new dry process rotary kiln at Sichuan Yadong Plant, No. 1 new dry process rotary kiln at Huanggang Yadong Plant, No. 4 new dry process rotary kiln at Jiangxi Yadong Plant and No. 2 new dry process rotary kiln at Wuhan Yadong Plant were inaugurated and 70% equity interest in Wuhan Xinlingyun was acquired during 2010, the Group' s annual clinker production capacity surged by 79% from that of 2009 to 14,860,000 tonnes (actual production capacity can reach 17,500,000 tonnes).

## THE FINANCIAL STATEMENTS

### Results

The board (the "Board") of directors (the "Directors") of Asia Cement (China) Holdings Corporation (the "Company"), together with its subsidiaries (collectively the "Group"), hereby announces the audited consolidated results of the Group for the year ended 31 December 2010, together with the comparative figures for 2009 as follows:

### Consolidated Statement of Comprehensive Income

| | *NOTES* | **2010** *RMB'000* | 2009 *RMB'000* |
|---|---|---|---|
| Revenue | *3* | **5,707,320** | 4,207,408 |
| Cost of sales | | **(4,505,575)** | (2,994,271) |
| Gross profit | | **1,201,745** | 1,213,137 |
| Other income | *4* | **54,329** | 101,923 |
| Other gains (losses) | *5* | **52,146** | (60,902) |
| Distribution and selling expenses | | **(269,928)** | (229,209) |
| Administrative expenses | | **(216,488)** | (184,110) |
| Share of (loss) profit of jointly controlled entities | | **(271)** | 949 |
| Share of loss of an associate | | **(247)** | – |
| Finance costs | | **(178,001)** | (145,498) |
| Profit before tax | | **643,285** | 696,290 |
| Income tax expense | *6* | **(115,555)** | (81,004) |
| Profit for the year | *7* | **527,730** | 615,286 |
| Other comprehensive loss: | | | |
| Available-for-sale financial assets | | **–** | – |
| Total comprehensive income for the year | | **527,730** | 615,286 |
| Profit and total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **510,873** | 609,966 |
| Non-controlling interests | | **16,857** | 5,320 |
| | | **527,730** | 615,286 |
| Dividend – Proposed final | *8* | **155,625** | 155,625 |
| | | ***RMB*** | *RMB* |
| Earnings per share | *9* | | |
| Basic | | **0.33** | 0.39 |
| Diluted | | **0.33** | 0.39 |

**Consolidated Statement of Financial Position**
*At 31 December 2010*

| | NOTES | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **10,021,327** | 8,844,152 |
| Quarry | | **215,511** | 140,661 |
| Prepaid lease payments | | **548,729** | 392,470 |
| Goodwill | | **138,759** | – |
| Other intangible assets | | **20,421** | – |
| Interest in an associate | | **11,753** | – |
| Interests in jointly controlled entities | | **45,755** | 46,026 |
| Deposits paid for land use rights | | **–** | 101,143 |
| Deposits paid for mining right | | **–** | 24,642 |
| Deferred tax assets | | **14,877** | 14,029 |
| Long term receivables | | **79,007** | 56,152 |
| | | **11,096,139** | 9,619,275 |
| **CURRENT ASSETS** | | | |
| Inventories | *10* | **679,669** | 483,989 |
| Long term receivables – due within one year | | **15,083** | 11,030 |
| Trade and other receivables | *11* | **1,983,489** | 1,115,751 |
| Tax recoverable | | **–** | 5,836 |
| Prepaid lease payments | | **14,491** | 9,919 |
| Amount due from a related company | | **980** | – |
| Derivative assets | | **4,181** | 130 |
| Restricted bank deposits | | **19,769** | 82,340 |
| Bank balances and cash | | **686,099** | 1,331,266 |
| | | **3,403,761** | 3,040,261 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *12* | **886,555** | 673,771 |
| Amounts to non-controlling interests | | **37,000** | – |
| Amounts due to related companies | | **5,940** | 6,111 |
| Tax payables | | **57,437** | 25,768 |
| Bank borrowings – due within one year | | **1,244,228** | 947,155 |
| Derivative liabilities | | **4,783** | – |
| | | **2,235,943** | 1,652,805 |
| **NET CURRENT ASSETS** | | **1,167,818** | 1,387,456 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **12,263,957** | 11,006,731 |

| | NOTES | 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Other payables | *12* | **15,000** | 18,000 |
| Bank borrowings – due after one year | | **4,722,710** | 3,911,519 |
| Derivative liabilities | | **13,937** | – |
| Deferred tax liabilities | | **22,521** | 10,121 |
| | | **4,774,168** | 3,939,640 |
| **NET ASSETS** | | **7,489,789** | 7,067,091 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *13* | **139,549** | 139,549 |
| Reserves | | **7,154,384** | 6,794,609 |
| Equity attributable to owners of the Company | | **7,293,933** | 6,934,158 |
| Non-controlling interests | | **195,856** | 132,933 |
| **TOTAL EQUITY** | | **7,489,789** | 7,067,091 |

## Notes to the Condensed Consolidated Financial Statements

*For the year ended 31 December 2010*

### 1. GENERAL INFORMATION

The Company is an exempted company with limited liability incorporated in the Cayman Islands on 7 April 2004 under the Companies Law (2003 Revision), Chapter 22 of the Cayman Islands. The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 20 May 2008. The immediate and ultimate holding company is Asia Cement Corporation, a company incorporated in Taiwan with its shares listed on the Taiwan Stock Exchange Corporation. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies and the principal place of business of the Company is at Portion of Unit B, 11th Floor, Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are manufacture and sale of cement, concrete and related products.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

### 2. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

In the current year, the Group has applied the following new and revised Standards and Interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretations Committee (formerly called the IFRIC) of the IASB.

| | |
|---|---|
| IFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| IFRS 3 (as revised in 2008) | Business Combinations |
| IAS 27 (as revised in 2008) | Consolidated and Separate Financial Statements |
| IAS 39 (Amendments) | Eligible Hedged Items |
| IFRSs (Amendments) | Improvements to IFRSs issued in 2009 |
| IFRSs (Amendments) | Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008 |
| IFRIC 17 | Distributions of Non-cash Assets to Owners |

Except as described below, the application of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

**IFRS 3 (as revised in 2008) Business Combinations**

IFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

IFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition. In current year, acquisition-related costs for the acquisition of Wuhan Xinlingyun Cement Co., Ltd amounted to RMB500,000 which has been recognised as an expense. As a result of the application of IFRS 3 (as revised in 2008), both profit for the year and goodwill are decreased by RMB500,000. There is no change in earnings per share. Results in future periods may be affected by a reduction in future impairment losses due to the decreased goodwill.

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRSs (Amendments) | Improvements to IFRSs issued in 2010[1] |
| IFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[3] |
| IFRS 9 | Financial Instruments[4] |
| IAS 12 (Amendments) | Deferred Tax: Recovery of Underlying Assets[5] |
| IAS 24 (as revised in 2009) | Related Party Disclosures[3] |
| IAS 32 (Amendments) | Classification of Rights Issues[6] |
| IFRIC 14 (Amendments) | Prepayments of a Minimum Funding Requirement[3] |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 January 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 February 2010.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

## 3. REVENUE

An analysis of the Group's revenue for the year is as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of cement products and related products | **5,197,161** | 3,769,998 |
| Sales of concrete | **510,159** | 437,410 |
| | **5,707,320** | 4,207,408 |

## 4. OTHER INCOME

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Government grant | **16,766** | 51,240 |
| Transportation fee income | **11,211** | 18,964 |
| Interest income on bank deposits | **9,050** | 15,923 |
| Sales of scrap materials | **10,548** | 8,029 |
| Rental income, net of outgoings | **864** | 3,470 |
| Imputed interest income on long term receivables | **1,095** | 745 |
| Others | **4,795** | 3,552 |
| | **54,329** | 101,923 |

## 5. OTHER GAINS (LOSSES)

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Exchange gain (loss), net | **64,458** | (4,765) |
| Reversal of (allowance for) doubtful debts, net | **437** | (25,122) |
| Gain on disposal of available-for-sale investments | **–** | 502 |
| Fair value adjustment on long term receivables | **–** | (3,282) |
| Change in fair value of derivative financial instruments, net *(Note)* | **(10,524)** | 130 |
| Donations | **(2,225)** | (28,365) |
| | **52,146** | (60,902) |

*Note*: Out of the aggregate notional principal amount of the outstanding non-delivery swap at 31 December 2010 of USD90,000,000, a swap contract with notional amount of USD50,000,000 was entered into to hedge against interest rate risk and foreign currency risk in relation to a bank loan.

## 6. INCOME TAX EXPENSE

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The tax expense comprises: | | |
| Current tax: | | |
| – PRC Enterprise Income Tax ("EIT") | **114,566** | 77,868 |
| – Other jurisdictions | **–** | 5 |
| | **114,566** | 77,873 |
| Withholding tax paid | **8,137** | 4,910 |
| Overprovision in prior years | **(2,710)** | (730) |
| Deferred tax | **(4,438)** | (1,049) |
| | **115,555** | 81,004 |

The PRC EIT is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

Under the Law of People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiaries is 25% from 1 January 2008 onwards. On 26 December 2007, the State Council of the PRC issued a circular of Guofa [2007] No. 39 – Notice of the State Council Concerning Implementation of Transitional Rules for Enterprise Income Tax Incentives ("Circular 39"). The EIT Law and the Circular 39 would change the applicable tax rate for certain Group's PRC subsidiaries from the preferential rate of 15% to 20%, 22%, 24% and 25% for the years ended/ending 31 December 2009, 2010, 2011 and 2012 respectively. Further, the State Administration of Taxation and Minister of Finance jointly issued a circular of Caishui [2009] No. 21 to further clarify that, effective from 2008, preferential tax rates which are allowed to be enjoyed by qualified enterprise until its expiry shall be the transitional rates as stipulated under Circular 39.

Pursuant to article 2(1) of "The Notice of Taxation Preferential Policy in the Western Region issued by The General Office of Finance, The State Administration of Taxation, General Administration of Customs" ("Cai Shui [2001] no. 202"), "a preferential corporate tax rate of 15% is applicable to qualified domestic enterprises of national promoted industry set up in the western region and is valid from 2001 to 2010" and "The Notice of Implement of Transitional Preferential Corporate Income Tax Policy issued by State Council" ("Guo Fa [2007] no. 39"), Sichuan Yadong was granted a tax concession to pay corporate income tax at a preferential rate of 15% until 2010.

Pursuant to the relevant laws and regulations in the PRC, certain of Group's PRC subsidiaries were exempted from PRC EIT for two years starting from their first profit making year and followed by a 50% reduction on the PRC EIT for the next three years.

For the year ended 31 December 2010, the relevant tax rates for the Group's PRC subsidiaries ranged from 7.5% to 25% (2009: ranged from 7.5% to 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax and Singapore income tax has been made in the consolidated statement of comprehensive income as the Group had no assessable profit arising in these jurisdictions for both years.

## 7. PROFIT FOR THE YEAR

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging: | | |
| Depreciation and amortisation | | |
| – Property, plant and equipment | **591,799** | 453,124 |
| – Prepaid lease payments | **12,121** | 9,722 |
| – Quarry | **8,322** | 4,215 |
| – Intangible assets | **4,264** | – |
| | **616,506** | 467,061 |
| Auditor's remuneration | **6,028** | 4,834 |
| Staff costs, including directors' remuneration | | |
| Salaries and other benefits | **222,423** | 182,943 |
| Retirement benefits scheme contributions | **12,618** | 9,595 |
| Total staff costs | **235,041** | 192,538 |
| Loss on disposal of property, plant and equipment | **2,497** | 623 |
| Rental payments under operating leases | **17,445** | 13,543 |

## 8. DIVIDENDS

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Dividend recognised as distributions during the year: | | |
| 2009 Final, paid – RMB10 cents per share (2008: RMB10 cents) | **155,625** | 155,625 |

A final dividend for the year ended 31 December 2010 of RMB10 cents per share amounting to approximately RMB155,625,000 has been proposed by the Board after the end of the reporting period. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 9. EARNINGS PER SHARE

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

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share (Profit for the year attributable to owners of the Company) | **510,873** | 609,966 |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **1,556,250** | 1,556,250 |
| Effect of dilutive potential ordinary shares: | | |
| – share options | **–** | 252 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,556,250** | 1,556,502 |

The share options had no dilution effect on the earnings per share for the year ended 31 December 2010 as the average market price of the Company's share was lower than the exercise price of the options.

## 10. INVENTORIES

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Spare parts and ancillary materials | **273,293** | 251,672 |
| Raw materials | **304,568** | 173,974 |
| Work-in-progress | **49,274** | 25,986 |
| Finished goods | **52,534** | 32,357 |
| | **679,669** | 483,989 |

## 11. TRADE AND OTHER RECEIVABLES

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | **699,781** | 465,661 |
| *Less*: accumulated allowance | **(48,735)** | (49,783) |
| | **651,046** | 415,878 |
| Bill receivables | **999,734** | 409,997 |
| Other receivables | **24,763** | 19,054 |
| *Less*: accumulated allowance | **(2,332)** | (2,332) |
| | **22,431** | 16,722 |
| | **1,673,211** | 842,597 |
| Advances to suppliers | **104,728** | 123,027 |
| Deposits | **5,922** | 33,158 |
| Prepayments | **3,211** | 2,623 |
| Value-added tax receivable | **196,417** | 114,346 |
| | **1,983,489** | 1,115,751 |

The Group has a policy of allowing a credit period from 30 to 60 days for cement customers whereas longer credit term are occasionally allowed to certain selected customers with good credit histories. In addition, the Group's credit policy for concrete customers are generally after the completion of the construction by the buyers, which on average is about 180 to 365 days.

The following is an aged analysis of trade and bill receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

| | 2010 | 2009 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| 0–90 days | **1,229,161** | 534,543 |
| 91–180 days | **297,044** | 211,106 |
| 181–365 days | **101,979** | 72,509 |
| Over 365 days | **22,596** | 7,717 |
| | **1,650,780** | 825,875 |

Trade receivables at the end of reporting period mainly comprise amounts receivable from the cement and concrete business. No interest is charged on the trade receivables.

## 12. TRADE AND OTHER PAYABLES

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade payables | **237,292** | 144,838 |
| Bills payables | **6,256** | 22,581 |
| Accruals | **72,440** | 70,754 |
| Deposits | **86,188** | 86,896 |
| Value added tax payable | **23,592** | 7,000 |
| Construction cost payable | **254,483** | 267,217 |
| Payables to ex-shareholders of Wuhan Yaxin | **84,209** | – |
| Consideration payable for acquisition of a subsidiary | **13,417** | – |
| Other payables | **123,678** | 92,485 |
| | **901,555** | 691,771 |
| Analysed for reporting purposes as: | | |
| Non-current liabilities | **15,000** | 18,000 |
| Current liabilities | **886,555** | 673,771 |
| | **901,555** | 691,771 |

The following is an aged analysis of trade and bill payables presented based on the invoice date at the end of the reporting period:

| | **2010** | 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 90 days | **232,875** | 117,338 |
| 91 – 180 days | **2,660** | 29,246 |
| 181 – 365 days | **4,874** | 16,094 |
| Over 365 days | **3,139** | 4,741 |
| | **243,548** | 167,419 |

Trade payables principally comprise amounts outstanding for trade purchases. The average credit period for trade purchases is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

**13. SHARE CAPITAL**

| | Number of shares | Amount *HK$'000* | Shown in the financial statements as *RMB'000* |
|---|---|---|---|
| Ordinary shares of HK$0.1 each | | | |
| Authorised: | | | |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | 10,000,000,000 | 1,000,000 | |
| Issued and fully paid: | | | |
| At 1 January 2009, 31 December 2009 and 31 December 2010 | 1,556,250,000 | 155,625 | 139,549 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Since 2010, the global economy has recovered significantly. Under a favourable domestic and overseas economic environment, the PRC economy has built on and continued the rapid growth momentum in the fourth quarter of 2009. Driven by the high growth rate, the national GDP showed a more balanced growth, with domestic demand becoming the main growth driver as opposed to government policies. The PRC economy is heading for the predetermined direction of "shifting to a new driver of economic growth, and adjusting and optimising economic structure." The PRC industries have achieved remarkable development during the Eleventh Five-Year Plan period, and the production volume of major industrial commodities including cement, steel, coal, fertilizers ranked no. 1 in the world. The average annual growth rate of industrial value of the PRC was 11.04% and its added value accounted for 40.14% of GDP.

During the Eleventh Five-Year Plan period, the cement industry in the PRC, under the guidance of the relevant policies and regulations, actively explored new ways of development, persistently pursued industry upgrade and technological improvement, attained a fast growth rate, significantly improved product mix. Simultaneously, the industry saw its economies of scale increase, while achieving remarkable results in energy saving and emission reduction. Looking back in 2010, although the growth rate of national fixed assets investment had dropped, it continued to boost cement demand. Austerity measures to regulate the property sector had not caused a slowdown in the growth of property investment. With the stepping up of rural market development and construction of low rental housing and affordable housing (a total of 5.8 million units completed in 2010), cement demand for the year remained robust. Cement consumption exceeded 1.87 billion tonnes, representing a rise of 15% from 1.63 billion tonnes in 2009.

Capitalizing on its excellent corporate image of high efficiency, high quality and environmentally friendly, the Group has established a high-end brand name in the region. The Group is not only a leading and large-scale cement supplier in the central and downstream regions of the Yangtze River and the southwest region of the PRC. Its sales network spans across Jiangxi, Hubei, Sichuan, Yangzhou, Shanghai, Zhejiang, Fujian and Hunan. Following deeper market penetration, the Group's products have now gained increasing popularity, and its market share in major sales regions has increased substantially. The Group sold a total of 20,500,000 tonnes of cement and related products in 2010, an increase of 42% from 14,400,000 tonnes in 2009. The increase in sales volume was due to the newly built Sichuan Yadong No. 3 new dry process rotary kiln, Huanggang Yadong No. 1 new dry process rotary kiln, Jiangxi Yadong No. 4 new dry process rotary kiln and Hubei Yadong No. 2 new dry process rotary kiln being put into production, in addition to the formal consolidation of the acquired Wuhan Xinlingyun Cement Co., Ltd. ("Wuhan Xinlingyun") in July 2010 (renamed as Wuhan Yaxin Cement Co., Ltd. ("Wuhan Yaxin")) All the above had significantly increased the Group's production capacity.

During the first half of 2010, numerous new production capacities in the markets where the Group had presence were put into production. Competition among industry players seeking to increase market share became intensified, causing the price of cement to remain low. However, the arrival of the traditional peak season of the industry in July, together with the gradual implementation of the PRC government's measures to eliminate obsolete capacities and the implementation of power cuts to high energy consumption enterprises, including cement companies, in coastal provinces to achieve the goal of energy saving and emission reduction under the "Eleventh Five-Year Plan", had resulted in an upsurge in cement price in the central and downstream regions of the Yangtze River. Capitalising on its strategic market deployment, the Group's overall profitability in all of its markets, except for the Sichuan region, exceeded that of 2009.

***Sichuan region***

2010 saw intensified competition in the cement market in the Sichuan region. Massive new production capacities were put into production, leading to a severe problem of oversupply. Cement price dropped significantly from February to August, which seriously affected the profit of Sichuan Yadong. However, by the fourth quarter, almost all the new production capacities in the market had been inaugurated. This together with the fine weather and the acceleration of construction works led to increase in demand for cement. The cement market had gradually recovered and cement price had rebounded to the level at the beginning of the year. However, competition remained very keen. After Sichuan Yadong No. 3 new dry process rotary kiln was put into production in March 2010, the rated clinker production capacity of Sichuan Yadong increased to 4,158,000 tonnes (actual production capacity can reach 4,950,000 tonnes), and a total of 5,400,000 tonnes of premium cement and related products were sold in the Sichuan region in 2010. In view of the fierce competition in the Sichuan region, Sichuan Yadong actively expanded and solidified market share through various ways. In addition to adopting flexible sales strategies to retain existing customers, the Group also established good strategic cooperative relationship with major batching plants in the Chengdu region. Meanwhile, in view of the large-scale post-earthquake reconstruction works in Abazhou and the large number of newly built power plants there, the Group actively developed this market and set up a business office in Wenchuan, seeking opportunities to develop the cement precast product market and pulverized limestone market, in order to broaden the Group's source of income.

### *Central and downstream regions of Yangtze River*

The Group's major markets in the central and downstream regions of the Yangtze River are Hubei Province, Jiangxi Province and the Yangtze River Delta region. There is a large number of cement enterprises in these markets, resulting in severe overcapacity and keen competition, which have in turn caused cement prices to remain low. Since July 2010, the cement market has continued to improve, benefiting from the power cuts and decrease of production in the provinces of Jiangsu, Zhejiang and Anhui. Cement price increased drastically and reached its record high. In 2010, the Group sold a total of 15,100,000 tonnes of cement and related products in this region, which was a historic high, while profits also increased significantly. After years of development and operation, the Group's products are well received by customers. The Group has been awarded contracts to supply cement for a number of key projects including Shiwu Railway Line, Wuhuang Railway, Wuxiao Railway, Wuyi Expressway, Wuhan Metro, Hangrui Expressway, Jiujiang Yangtze River Bridge, Changbei Airport, Nanchang Metro, Yongwu Expressway, Ningqi Railway and Jiangliu Expressway. The Group's market share in Wuhan, Huanggang, Jiujiang, Nanchang and the Yangtze River Delta region has been increasing. Despite accounting for a relatively low sales percentage, the Yangtze River Delta region, being an economic centre of the PRC, is a mature market with stable demand. This region's development outlook is promising. It is necessary for the Group to accelerate business planning for the Yangtze River Delta region so as to strengthen its control over this market.

## Operating Results

### *Revenue*

The Group's principal business activities are the manufacture and sale of cement, concrete and related products. The concerted efforts of the management team have continued to bear fruit as evidenced by the increase in sales of the Group. For 2010, the Group's revenue amounted to RMB5,707.3 million, representing an increase of RMB1,499.9 million or 36% over that of RMB4,207.4 million for 2009. The increase in revenue was mainly attributable to an overall increase in total production output as a result of increased market demand and the full operation of No.3 new dry process rotary kiln at Sichuan Yadong Plant, No.4 new dry process rotary kiln at Jiangxi Yadong Plant, No.1 new dry process rotary kiln at Huanggang Yadong Plant and No.2 new dry process rotary kiln at Hubei Yadong Plant which commenced operation during 2010.

| | **2010** | | 2009 | |
|---|---|---|---|---|
| **Region** | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Central Yangtze River | **3,068,363** | **54** | 1,923,192 | 46 |
| Sichuan | **1,659,913** | **29** | 1,606,844 | 38 |
| Yangtze River Delta and Others | **979,044** | **17** | 677,372 | 16 |
| Total | **5,707,320** | **100** | 4,207,408 | 100 |

In respect of revenue contribution for 2010, sales of cement products accounted for 88% (2009: 87%) and sales of concrete accounted for 9% (2009: 10%). The table below shows the sales breakdown by product during the reporting period:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Cement Products | **5,008,494** | **88** | 3,642,033 | 87 |
| Clinker | **75,182** | **1** | 63,640 | 1 |
| RMC | **510,159** | **9** | 437,410 | 10 |
| Blast-furnace slag powder | **113,485** | **2** | 64,325 | 2 |
| Total | **5,707,320** | **100** | 4,207,408 | 100 |

The table below shows the sales volume of each of the Group's products during the reporting period:

| | **2010** | 2009 |
|---|---|---|
| | ***'000 units*** | *'000 units* |
| Cement Products | **19,499** | 13,686 |
| Clinker | **367** | 375 |
| RMC | **1,780** | 1,555 |
| Blast-furnace slag powder | **633** | 376 |

*Note:* The sales volume for cement, clinker, and blast-furnace slag powder is measured in tonnes and for RMC is measured in cubic meters.

Based on the sales revenue and sales volume as set out above, the average selling price of cement products was RMB257 per tonne in 2010 (2009: RMB266 per tonne).

***Cost of Sales and Gross Profit***

The Group's cost of sales primarily includes cost of raw materials, fuel expenses (consisting of coal and electricity), employee compensation and benefits, depreciation and amortization and other overhead costs. In 2010, the Group's cost of sales increased by 50% to RMB4,505.6 million from RMB2,994.3 million for 2009 due to the expansion of overall business of the Group.

The gross profit for 2010 was RMB1,201.7 million (2009: RMB1,213.1 million), representing a gross profit margin of 21% on revenue (2009: 29%). The adjustment in gross profit was mainly attributable to the following reasons: (i) the influx of cement from other regions into Sichuan Province and increase in local production capacity further pressurized the sales of manufacturers in Sichuan Province and caused the cement price to significantly drop since mid-2009; (ii) owing to climatic factors, the demand for cement decreased, especially in first half of 2010, leading to a decline in cement price in the markets where the Group had presence; (iii) the coal price remained high in 2010. However, in order to achieve the goal of energy saving and emission reduction, power cuts had been implemented since

September 2010, starting from coastal provinces. Some cement enterprises were therefore forced to suspend production. Moreover, owing to the arrival of the traditional peak season of construction works, there was a supply-and-demand imbalance, and a number of regions showed signs of supply shortage, causing sharp rise in cement price in various regions. As a result of such favourable factors, the Group's cement price rose sharply, thereby effectively offsetting the adverse effects of the first three quarters.

### *Other Income*

Other income mainly comprises government grants, transportation fee income, interest income, sales of scrap materials, and gain on disposal of property, plant and equipment. In 2010, other income amounted to RMB54.3 million, representing an decrease of RMB47.6 million or 47% over that of RMB101.9 million in 2009. The decrease in other income was mainly attributable to decrease in government grants during the year under review.

### *Other Gains/Losses*

Other gains/losses mainly comprise exchange gain/loss, donations and allowance of doubtful debts. For 2010, other gains amounted to RMB52.1 million. The other gains were mainly derived from the exchange gain of United States dollar bank borrowings and recovery of doubtful debts.

### *Distribution and Selling Expenses, Administrative Expenses and Finance Costs*

For 2010, the distribution and selling expenses amounted to RMB269.9 million, representing an increase of RMB40.7 million or 18% over that of RMB229.2 million for 2009. The increase in distribution costs was attributable to the increase in sales activities in 2010.

Administrative costs, including employee compensation and benefits, depreciation expenses and other general office expenses increased by 18%, from RMB184.1 million to RMB216.5 million. The increase was attributable to the increase in headcount of administrative staff and the expenses incurred by the Group for the purpose of expanding its operation and production capacity.

The 22% increase in finance costs was mainly due to the increase in bank borrowings for financing the Group's expansion plan.

### *Profit before Tax*

As a result of the foregoing factors, the profit before tax for 2010 decreased by RMB53.0 million, or 8%, to RMB643.3 million from RMB696.3 million for 2009.

### *Income Tax Expenses*

In 2010, income tax expenses increased by RMB34.6 million, or 43%, to RMB115.6 million from RMB81.0 million for 2009. The effective tax rate of the Group increased from 11.6% for 2009 to 18.0% for 2010, primarily attributable to the increase in profit contribution from Central Yangtze River region which has higher rate of Foreign Enterprise Income Tax ("FEIT") than that in Sichuan region.

*Non-controlling Interests*

In 2010, non-controlling interests amounted to RMB16.9 million, representing an increase of RMB11.6 million, or 219%, from RMB5.3 million for 2009 primarily due to the increase in profit contribution from Jiangxi Yadong and the acquisition of 70% equity interest in Wuhan Xinlingyun by the Group during 2010.

*Profit for the Year*

For 2010, the net profit of the Group amounted to RMB527.7 million, representing a decrease of RMB87.6 million or 14% over that of RMB615.3 million for 2009.

**Financial Resources and Liquidity**

The Group maintained a strong financial and liquidity position for year ended 31 December 2010. Total assets increased by 15% to approximately RMB14,500.0 million (31 December 2009: approximately RMB12,659.5 million) while total equity grew by 6% to approximately RMB7,489.8 million (31 December 2009: approximately RMB7,067.1 million).

*Restricted Bank Deposits, Bank Balances and Cash*

As at 31 December 2010, the Group's restricted bank deposits, bank balances and cash amounted to approximately RMB705.9 million (31 December 2009: RMB1,413.6 million) of which 88% was denominated in RMB and 12% in United States dollars, with the remainder denominated in Hong Kong dollars, Singapore dollar and Euros.

*Capital Expenditure*

Capital expenditure for the year ended 31 December 2010 amounted to approximately RMB2,061.8 million and capital commitments as at 31 December 2010 amounted to approximately RMB90.6 million. Both the capital expenditure and capital commitments were mainly related to the purchase of plant and equipment for the new production lines. The Group anticipates funding those commitments from future operating revenue, bank borrowings and other sources of finance when appropriate.

***Borrowings***

The Group's bank borrowings as at 31 December 2009 and 2010 are summarized below:

| | **As at 31 December** | | | |
|---|---|---|---|---|
| | **2010** | | 2009 | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Short-term borrowing | **1,244,228** | **21** | 947,155 | 19 |
| Long-term borrowing | **4,722,710** | **79** | 3,911,519 | 81 |
| Currency denomination | | | | |
| — Renminbi | **2,926,245** | **49** | 3,801,645 | 78 |
| — US dollars | **3,003,593** | **50** | 1,018,640 | 21 |
| — Hong Kong dollars | **37,100** | **1** | 38,389 | 1 |
| Bank borrowings | | | | |
| — secured | **–** | **–** | — | — |
| — unsecured | **5,966,938** | **100** | 4,858,674 | 100 |
| Interest rate structure | | | | |
| — fixed rate | **112,000** | **2** | 463,220 | 10 |
| — variable-rate borrowings | **5,854,938** | **98** | 4,395,454 | 90 |
| Interest rate | | | | |
| — fixed-rate borrowings | | **4.37–6.62%** | | 1.70–5.31% |
| — variable-rate borrowings | | **90% to 100% of the Benchmark Borrowing Rate of the PRC or LIBOR plus margin of 0.5%–1%** | | 90% to 100% of the Benchmark Borrowing Rate of the PRC or LIBOR plus margin of 0.5%–1% |

As at 31 December 2010, the Group had unutilized credit facilities in the amount of RMB6,083.5 million.

As at 31 December 2010, the Group's gearing ratio was approximately 48% (31 December 2009: 44%). The calculation of the gearing ratio was based on total liabilities and total assets as at 31 December 2010 and 2009 respectively.

***Pledge of Assets***

The Group did not have any pledge or charge on assets as of 31 December 2010 other than pledged bank deposits of approximately RMB19.8 million.

***Contingent Liabilities***

As of the date of this announcement and as at 31 December 2010, the Board is not aware of any material contingent liabilities.

### *Human Resources*

As at 31 December 2010, the Group had 3,987 employees. The Group participates in retirement insurance, medicare, unemployment insurance and housing funds according to the applicable laws and regulations of the PRC for its employees in the PRC and makes contributions to the Mandatory Provident Fund Scheme of Hong Kong for its employees in Hong Kong. The Group remunerates its employees in accordance with their work performance and experience. The remuneration packages are subject to review on a regular basis.

In addition, the Group also adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, where eligible directors and employees are entitled to various share options to subscribe for the ordinary shares in the Company in accordance with their past and potential contribution to the growth of the Group. As at 31 December 2009, about 11,578,000 share options were granted under the Pre-IPO Share Option Scheme and no share options have been exercised yet. Also, as at 31 December 2010, no share options have been granted or agreed to be granted pursuant to the Share Option Scheme.

### *Material Acquisition and Disposal of Subsidiaries and Affiliated Companies*

On 23 June 2010, the Company announced that the Hubei Yadong Cement Co., Ltd, being a non wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with two individual sellers and Wuhan Xinlingyun for acquiring 70% of the equity interest in Wuhan Xinlingyun at the total consideration of RMB236.60 million, with appropriate adjustments as required. The consideration shall be satisfied by the Company according to the mechanism described in the announcement of the Company dated 23 June 2010. On 24 February 2011, the final total consideration of approximately RMB250 million was agreed. For details, please refer to the announcement of the Company dated 14 March 2011.

Save for the aforesaid, the Group had no other significant investment, material acquisitions or disposals during 2010.

### *Foreign Exchange Risk Management*

The Group's sales and purchases during the reporting period were mostly denominated in Renminbi. However, some of the Group's bank borrowings were denominated in foreign currencies.

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of the RMB against foreign currencies may have an impact on the operating results of the Group.

The Group currently does not maintain a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise. At 31 December 2010, the Group had several outstanding cross currency interest rate swap contracts of USD90,000,000 to hedge the Group's foreign currency exposure on certain US dollar denominated bank borrowings.

**Business Prospects**

The new entry threshold requirements for the cement industry will be implemented in 2011. The State will push ahead with the policy on stringent control of new production capacities and elimination of obsolete production capacities. Along with the rapid slowdown in the growth of investment in the industry, the growth rate of production capacities will slow down significantly. In terms of demand, a number of new key construction projects will commence in the first year of the "Twelfth Five-Year Plan." The construction season will reach its peak with the building of low rental housing and affordable housing (10,000,000 units are to be constructed in 2011). This together with the acceleration of urbanization progress and intensified rural market development will considerably lift the demand for cement products. It is expected that the national cement demand will increase by 8.5% to 160 million tonnes in 2011, and the gap between new supply and demand will narrow significantly when compared with that of 2009. Furthermore, the central government has stated that the macroeconomic policy in 2011 will continue to focus on the implementation of positive fiscal policies. All these provide a relatively favourable environment for the development of the cement industry as a whole.

The Group will continue to proceed with the production capacity and market expansion plan. At present, the construction of Jiangxi Yadong No. 5 and No. 6 new dry process rotary kilns has been speeded up, and it is expected that by 2014 the annual production capacity of clinker will reach 20,000,000 tonnes and actual annual production volume will reach 23,850,000 tonnes. The annual production volume of cement and slag will reach 28,900,000 tonnes and 1,200,000 tonnes respectively, which add up to a total annual production volume of 30,100,000 tonnes. Capitalising on capacity expansion, the Group will adjust its operational strategies that will be in line with government's policies as well as to the advantage of the Company, in an attempt to raise its overall operating results, to continue to adopt the policy of high quality, high level of environmental protection, high efficiency and low cost, to strengthen sales network, to enhance competitive advantages and to further consolidate its leading position in the market.

In addition to controlling new production capacities, eliminating obsolete capacities and saving energy and reducing emission, optimizing the industry structure, enhancing the industry concentration level, accelerating the pace of strategic restructuring and promoting industry consolidation will be on the agenda for the future development of the cement industry. According to industry information, under the Twelfth Five-Year Plan, the goals set for the cement industry include the aggregate production volume of the top 10 cement enterprises to account for more than 35% of the total production volume of the entire industry, and the concentration level of clinker production capacities to reach over 50%. Against the backdrop of stringent control of newly built production lines, mergers and acquisitions and restructurings are the only ways for an enterprise to enter into the industry and become a major player. As an excellent representative of an "energy-saving and environmentally friendly" market player in the cement industry, the Group must pursue continuous development. Therefore, the Group's major development strategies in the future lie in actively seeking suitable targets for mergers and acquisitions and identifying strategic cooperative partners through various channels. Under the well-thought-out and meticulous plans of the management team, the Group expects to make a breakthrough in mergers, acquisitions and restructurings, as well as strategic cooperation with other industry players in 2011. The Group will intensify market penetration while broadening its sales coverage. Looking ahead, the Group is undoubtedly entering into a new promising development stage.

## OTHER INFORMATION

### Dividend

In acknowledging continuous support from the Group's shareholders, the Board recommends the payment of a final dividend of RMB10 cents per ordinary share in respect of the year ended 31 December 2010, subject to approval by shareholders at the forthcoming annual general meeting of the Company. The dividend will be payable on 9 June 2011 to shareholders whose names appear on the Register of Member of the Company on 30 May 2011.

### Closure of Register of Members

The register of members of the Company will be closed from Monday, 23 May 2011 to Monday, 30 May 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 20 May 2011.

### Corporate Governance

During the year ended 31 December 2010, the Company has compiled with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

### Audit Committee

The Company established the Audit Committee on 27 April 2008 with written terms of reference in compliance with the Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include the review of financial reporting processes and internal control system of the Group. Currently, the Audit committee comprises Mr. Tsim, Tak-lung Dominic (Chairman), Mr. Hsu, Shu-tong and Dr. Wong Ying-ho Kennedy, all of whom are non-executive directors and the majority of whom are independent non-executive Directors.

The audit committee has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2010, together with the management.

### Model Code of Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its own code of conduct for dealings in securities of the Company by the Directors (the "Code"). The Company, having made specific enquiry of all Directors, confirms that its Directors had compiled with the required standard set out in the Code throughout the year ended 31 December 2010.

**Purchase, Sale or Redemption of Listed Securities**

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed the Company's listed securities.

**Publication of Annual Results Announcement and Annual Report**

This annual results announcement is published on the websites of the Stock Exchange of Hong Kong Limited ("Stock Exchange") (www.hkexnews.com.hk) and the Company (www.achc.com.cn). The annual report 2010 of the Company will be dispatched to shareholders and published on the aforesaid websites in due course.

**Appreciation**

The Board would like to express its sincere gratitude to the management of the Group and all the staff for their hard work and dedication, as well as its shareholders, business partners, bankers and auditors for their support to the Group throughout the period.

By order of the Board
**Asia Cement (China) Holdings Corporation**
**Mr. Hsu, Shu-tong**
*Chairman*

Hong Kong, 18 March 2011

*As at the date of this announcement, the executive Directors are Mr. CHANG Tsai-hsiung, Madam CHIANG SHAO Ruey-huey, Mr. CHANG Chen-kuen, Mr. LIN Seng-chang and Dr. WU Chung-lih, the non-executive Director and Chairman is Mr. HSU Shu-tong, the independent non-executive Directors are Mr. LIU Zhen-tao, Mr. LEI Qian-zhi, Mr. TSIM Tak-lung Dominic and Dr. WONG Ying-ho Kennedy.*