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CHINA TIANRUI GROUP CEMENT COMPANY LIMITED

中國天瑞集團水泥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1252)

**DISCLOSEABLE TRANSACTION
AND
CONTINUING CONNECTED TRANSACTION:
CLINKER SUPPLY FRAMEWORK AGREEMENT**

CLINKER SUPPLY FRAMEWORK AGREEMENT

On 16 October 2019 (after trading hours), Tianrui Cement entered into the Clinker Supply Framework Agreement with Ruiping Shilong for a term from the Effective Date to 31 December 2021 in relation to the purchase of clinker from Ruiping Shilong by Tianrui Cement. While the Existing Clinker Supply Framework Agreement was entered into on 1 April 2019 and will expire on 31 December 2021, it is contemplated that the actual transaction amount may exceed the proposed annual caps under the Existing Clinker Supply Framework Agreement, and accordingly the parties entered into the Clinker Supply Framework Agreement to supersede the Existing Clinker Supply Framework Agreement.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios of the Listing Rules exceeds 5% and all of the applicable percentage ratios are less than 25%, the transaction contemplated under the Clinker Supply Framework Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Since Chairman Li and Ms. Li indirectly control more than 30% of the voting power at general meetings of Ruiping Shilong, Ruiping Shilong is an associate of Chairman Li and Ms. Li, therefore a connected person of the Company. As such, the transaction under the Clinker Supply Framework Agreement will constitute continuing connected transaction under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios in respect of the Clinker Annual Caps under the Clinker Supply Framework Agreement exceed 5% but less than 25%, the transaction contemplated under the Clinker Supply Framework Agreement is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Clinker Supply Framework Agreement and the related proposed annual caps. CLC International Limited (創僑國際有限公司) has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the same.

A circular containing, among other matters, (i) further information on the Clinker Supply Framework Agreement; (ii) a letter from the Independent Financial Adviser; (iii) a letter from the Independent Board Committee; and (iv) the notice convening the EGM and a form of proxy will be despatched to the Shareholders after the publication of this announcement on or before 6 November 2019.

BACKGROUND

Reference is made to the announcement of the Company dated 7 April 2019 with respect to the Existing Clinker Supply Framework Agreement.

While the Existing Clinker Supply Framework Agreement was entered into on 1 April 2019 and will expire on 31 December 2021, it is contemplated that the actual transaction amount may exceed the proposed annual caps under the Existing Clinker Supply Framework Agreement, and accordingly the parties entered into the Clinker Supply Framework Agreement to supersede the Existing Clinker Supply Framework Agreement. Details of the Clinker Supply Framework Agreement are set out below.

CLINKER SUPPLY FRAMEWORK AGREEMENT

Date

16 October 2019 (after trading hours)

Parties

Tianrui Cement (as purchaser) and Ruiping Shilong (as supplier)

Term

The Clinker Supply Framework Agreement shall be effective from the Effective Date to 31 December 2021.

“Effective Date” refers to a date on which the Clinker Supply Framework Agreement is approved by the Independent Shareholders of the Company.

Principal Terms

The Clinker Supply Framework Agreement sets out the general terms and conditions for the purchase of the clinker by Tianrui Cement and/or its subsidiaries from Ruiping Shilong. The prices payable by Tianrui Cement for the clinker will be agreed following arm’s length negotiations between relevant parties with reference to the prevailing market price of clinker in Pingdingshan, Henan Province, the PRC.

Implementation Agreement

Tianrui Cement and/or its subsidiaries may, from time to time and as necessary, enter into separate implementation agreement for each specific transaction contemplated under the Clinker Supply Framework Agreement. Each implementation agreement will set out specific details of the transaction, including price, quantity and other relevant details, and each implementation agreement will be based on the requirements of Tianrui Cement or its subsidiaries, with reference to market conditions at the relevant time.

Clinker Annual Caps

It is agreed that the maximum aggregate annual amount payable by Tianrui Cement to Ruiping Shilong for purchase of clinker for each of the years ending 31 December 2019, 2020 and 2021 shall not exceed the caps set out below:

	Proposed Annual Cap for the year ending		
	31 December 2019	31 December 2020	31 December 2021
Total purchase amount	RMB800,000,000	RMB1,000,000,000	RMB1,000,000,000

Note 1: the existing cap for the years ending 31 December 2019, 2020 and 2021 under the Existing Clinker Framework Agreement are RMB500,000,000, RMB500,000,000 and RMB500,000,000.

The Clinker Annual Caps are determined by taking into account the following factors:

- (i) The historical aggregate value for purchase of clinker from Ruiping Shilong paid by Tianrui Cement and/or its subsidiaries for the year ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019 were approximately RMB163,568,000, RMB298,744,000, RMB298,003,000 and RMB441,500,000 respectively. In particular, the historical aggregate value for purchase of clinker during the eight months ended 31 August 2019 is RMB441,500,000, which is already approaching the existing annual cap of RMB500,000,000 under the Existing Clinker Supply Framework Agreement.
- (ii) Clinker is a semi-finished product that can be used to produce different types of cement products. As stated in the 2019 interim report of the Company, the revenue from cement sales was approximately RMB5,138.8 million in the first half of 2019, representing an increase of 23.0% as compared to RMB4,177.6 million in the same period of 2018. Accordingly, the increase of the proposed Clinker Annual Caps as compared with the existing annual caps is in line with the aforesaid increase in cement sales during the first half of 2019.

GENERAL PRICING PRINCIPLES

In line with the Existing Clinker Supply Framework Agreement, for the clinker provided under the Clinker Supply Framework Agreement to Tianrui Cement and/or its subsidiaries by Ruiping Shilong, Tianrui Cement has obtained at least two price quotes from the Independent Third Parties producing clinker to determine if the prices and terms offered by Ruiping Shilong are fair and reasonable and around the ranges of those quotes offered by the Independent Third Parties. Tianrui Cement has also taken into consideration some independent market data of the clinker market to ensure that the prices of clinker are at the prevailing market rate. Tianrui Cement will ensure the terms of the Clinker Supply Framework Agreement are no less favourable than those terms offered by Ruiping Shilong to the Independent Third Parties. After all the foregoing analysis, the proposed clinker prices and terms of the Clinker Supply Framework Agreement will be submitted to the management of the Group for approval.

The finance department of the Company monitors the actual transaction amounts against any excess of the approved annual caps, and the Company engages the auditors of the Company to conduct an annual review of the continuing connected transaction of the Company to assess whether such transactions have been carried out in accordance with the relevant terms of the agreement entered into by the Company. The independent non-executive Directors conducts an annual review of the implementation enforcement of the continuing connected transaction.

REASONS AND BENEFITS FOR ENTERING INTO THE CLINKER SUPPLY FRAMEWORK AGREEMENT

Clinker is a semi-finished product that can be used to produce different types of cement products with a profit margin lower than cement. Since 2009, Ruiping Shilong has been a clinker supplier to the Group. After considering the following factors: (1) the market status and trend of the Group's target market, which attributes to the Group's gradual increasing need of clinker; (2) with the benefit of being within proximity of the Group, Ruiping Shilong has been providing a stable supply of clinker with low logistics and transportation costs over the past years; (3) the Group's long-established relationship with Ruiping Shilong; and (4) the prices of clinker provided by Ruiping Shilong are more favourable to the Group than the prices quoted by Independent Third Parties, the Directors (other than the independent non-executive Directors whose views will be contained in the circular after considering the advice from the Independent Financial Adviser) are of the view that the terms of the supply of clinker under the Clinker Supply Framework Agreement, including the Clinker Annual Caps for each of the three years ending 31 December 2019, 2020 and 2021, respectively, are fair and reasonable, and that the transactions are on normal commercial terms in the ordinary and usual course of businesses of the Group and in the interests of the Company and its Shareholders as a whole.

PRINCIPAL BUSINESS OF THE GROUP AND RUIPING SHILONG

The Group is principally engaged in businesses to the production, sale and distribution of clinker and cement.

Ruiping Shilong is mainly engaged in production, sale and distribution of clinker.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios of the Listing Rules exceeds 5% and all of the applicable percentage ratios are less than 25%, the transaction contemplated under the Clinker Supply Framework Agreement constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Since Chairman Li and Ms. Li indirectly control more than 30% of the voting power at general meetings of Ruiping Shilong, Ruiping Shilong is an associate of Chairman Li and Ms. Li, therefore a connected person of the Company. As such, the transaction under the Clinker Supply Framework Agreement will constitute continuing connected transaction under Chapter 14A of the Listing Rules. As certain of the applicable percentage ratios in respect of the Clinker Annual Caps under the Clinker Supply Framework Agreement exceed 5% but less than 25%, the transaction contemplated under the Clinker Supply Framework Agreement is subject to reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

GENERAL

As Chairman Li and Ms. Li indirectly control more than 30% of the voting power at general meetings of Ruiping Shilong, Chairman Li and Ms. Li (Chairman Li's spouse), and Mr. Li Jiangming (who is a younger brother of Ms. Li) had abstained from voting on the relevant board resolution approving the Clinker Supply Framework Agreement. Save as mentioned above, none of the Directors has any material interest in the transaction thereunder and therefore no other Director has abstained from voting on such board resolution. Yu Kuo Company Limited (a company indirectly held by Chairman Li and Ms. Li) shall abstain from voting at EGM on the resolutions relating to the Clinker Supply Framework Agreement and the transaction contemplated thereunder.

The EGM will be held for the Independent Shareholders to consider and approve the Clinker Supply Framework Agreement.

An Independent Board Committee comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Clinker Supply Framework Agreement and the related proposed annual caps. CLC International Limited (創僑國際有限公司) has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders of the same.

A circular containing, among other matters, (i) further information on the Clinker Supply Framework Agreement; (ii) a letter from the Independent Financial Adviser; (iii) a letter from the Independent Board Committee; and (iv) the notice convening the EGM and a form of proxy will be despatched to the Shareholders after the publication of this announcement on or before 6 November 2019.

DEFINITIONS

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Chairman Li”	Li Liufa (李留法), the founder, chairman, non-executive Director and a controlling shareholder of the Company
“Clinker Annual Caps”	the respective annual caps for each of the three years ending 31 December 2019, 2020 and 2021 under the Clinker Supply Framework Agreement
“Clinker Supply Framework Agreement”	the agreement dated 16 October 2019 entered into between Ruiping Shilong and Tianrui Cement in relation to the purchase of clinker

“Company”	China Tianrui Group Cement Company Limited, a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for, among other matters, approving the Clinker Supply Framework Agreement and the related proposed annual caps
“Existing Clinker Supply Agreement”	the clinker supply agreement dated 1 April 2019 entered into between Tianrui Cement and Ruiping Shilong
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all independent non-executive Directors, established to advise the Independent Shareholders in respect of the terms of the Clinker Supply Framework Agreement and the related proposed annual caps and the transaction contemplated thereunder.
“Independent Financial Adviser”	CLC International Limited (創僑國際有限公司), the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Clinker Supply Framework Agreement and the related proposed annual caps
“Independent Shareholder(s)”	Shareholders other than Yu Kuo Company Limited and those who are required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM to approve the Clinker Supply Framework Agreement and the related proposed annual caps

“Independent Third Party(ies)”	individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ms. Li”	Li Fengluan, the spouse of Chairman Li and an executive Director of the Company
“PRC”	the People’s Republic of China and for the purpose of this announcement, does not include Hong Kong, Macao Special Administrative Region and Taiwan
“Ruiping Shilong”	Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司), a company incorporated in the PRC with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianrui Cement”	Tianrui Cement Group Company Limited (天瑞水泥集團有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company

By order of the Board
China Tianrui Group Cement Company Limited
Li Liufa
Chairman

Ruzhou City, Henan Province, PRC, 16 October 2019

As at the date of this announcement, the Board consists of Chairman and non-executive Director, Mr. Li Liufa; executive Directors, Ms. Li Fengluan, Mr. Ding Jifeng, Mr. Xu Wuxue and Mr. Li Jiangming; and independent non-executive Directors, Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Du Xiaotang.