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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)

CONTINUING CONNECTED TRANSACTIONS:

(1) 2021 CLINKER PURCHASE FRAMEWORK AGREEMENT

(2) 2021 LIMESTONE SUPPLY FRAMEWORK AGREEMENT

2021 CLINKER PURCHASE FRAMEWORK AGREEMENT

On 12 November 2021 (after trading hours), Tianrui Cement entered into the 2021 Clinker Purchase Framework Agreement with Ruiping Shilong for a term from 1 January 2022 to 31 December 2024 in relation to the purchase of clinker from Ruiping Shilong by Tianrui Cement. The 2019 Clinker Purchase Framework Agreement will expire on 31 December 2021 and accordingly the parties entered into the 2021 Clinker Purchase Framework Agreement.

2021 LIMESTONE SUPPLY FRAMEWORK AGREEMENT

On 12 November 2021 (after trading hours), Tianrui Cement entered into the 2021 Limestone Supply Framework Agreement with Ruiping Shilong for a term from 1 January 2022 to 31 December 2024 in relation to the sale of limestone from Tianrui Cement to Ruiping Shilong.

LISTING RULES IMPLICATIONS

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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules. As certain applicable percentage ratios in respect of the Clinker Annual Caps under the 2021 Clinker Purchase Framework Agreement and the Limestone Annual Caps under the 2021 Limestone Supply Framework Agreement, when aggregated, exceed 5% but less than 25%, the transactions contemplated under the 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement are 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement and the related proposed annual caps. Dongxing Securities (Hong Kong) Company Limited 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone 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 is expected to be despatched to the Shareholders on or before 15 December 2021 which is more than 15 business days after the publication of this announcement, as more time may be required to finalize the information to be contained in the circular.

BACKGROUND

Reference is made to the circular of the Company dated 31 October 2019 with respect to the 2019 Clinker Purchase Framework Agreement.

The 2019 Clinker Purchase Framework Agreement will expire on 31 December 2021, and accordingly the parties entered into the 2021 Clinker Purchase Framework Agreement. Moreover, Ruiping Shilong would like to purchase limestone from Tianrui Cement, and the parties entered into the 2021 Limestone Supply Framework Agreement.

2021 CLINKER PURCHASE FRAMEWORK AGREEMENT

Principal terms of the 2021 Clinker Purchase Framework Agreement are set out below.

Date

12 November 2021 (after trading hours)

Parties

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

Term

The 2021 Clinker Purchase Framework Agreement shall be effective from 1 January 2022 to 31 December 2024.

Principal Terms

The 2021 Clinker Purchase 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 2021 Clinker Purchase 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 2022, 2023 and 2024 shall not exceed the caps set out below:

	Proposed Annual Cap for the year ending		
	31 December 2022	31 December 2023	31 December 2024
Total purchase amount	RMB1,200,000,000	RMB1,200,000,000	RMB1,200,000,000

Note 1: the existing cap for the years ended 31 December 2019 and 2020, and the year ending 31 December 2021 under the 2019 Clinker Purchase Framework Agreement are RMB800,000,000, RMB1,000,000,000 and RMB1,000,000,000 respectively.

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 years ended 31 December 2018, 2019 and 2020, and the six months ended 30 June 2021 were approximately RMB298,003,000, RMB610,358,000, RMB810,783,000 and RMB388,698,000 respectively.
- (ii) Clinker is a semi-finished product that can be used to produce different types of cement products. As stated in the 2021 interim report of the Company, the revenue from cement sales was approximately RMB5,086.1 million in the first half of 2021, representing an increase of 7.4% as compared to RMB4,736.7 million in the same period of 2020. As disclosed in paragraph (i), the historical aggregate value for purchase of clinker from Ruiping Shilong has recorded year-on-year increase of 104.8% and 32.8% in 2019 and 2020 respectively. Accordingly, the increase of proposed Clinker Annual Caps to RMB1,200 million per year as compared with the existing annual caps of RMB1,000 million per year is in line with the aforesaid increase in cement sales during the first half of 2021 and the historical purchase of clinker from Ruiping Shilong being RMB810.8 million for the year of 2020.

GENERAL PRICING PRINCIPLES

In line with the 2019 Clinker Purchase Framework Agreement, for the clinker provided under the 2021 Clinker Purchase Framework Agreement to Tianrui Cement and/or its subsidiaries by Ruiping Shilong, Tianrui Cement shall obtain 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 shall also take 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 2021 Clinker Purchase 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 purchase terms under the 2021 Clinker Purchase 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 conduct annual review of the implementation enforcement of the continuing connected transaction.

REASONS AND BENEFITS FOR ENTERING INTO THE 2021 CLINKER PURCHASE 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, the Board is optimistic that investments in fixed assets, infrastructure and real estate development, greater support from the government is expected to maintain a steady growth, which backs the demand of cement in the future; (2) as stated in the 2021 interim report of the Company for the six months ended 30 June 2021, the Group recorded a revenue of approximately RMB5,732.8 million, representing an increase of approximately RMB479.1 million or 9.1% compared to the same period in 2020. The profit attributable to owners of the Company amounted to approximately RMB751.6 million, representing an increase of approximately RMB32.6 million or 4.5% from approximately RMB719 million in the first six months of 2020. In particular, the revenue from cement sales was approximately RMB5,086.1 million in the first half of 2021, representing an increase of 7.4% as compared to RMB4,736.7 million in the same period of 2020. The Directors are optimistic of the growth in cement sales which will lead to a greater demand for clinker as one of the raw materials to produce cement products; (3) with the benefit of being within proximity of the Group's cement production base in Henan Province, PRC, Ruiping Shilong has been providing a stable supply of clinker with low logistics and transportation costs over the past years; (4) the Group's long-established relationship with Ruiping Shilong; and (5) the Group will obtain price quotes from Independent Third Parties producing clinker to determine if the prices and terms offered by Ruiping Shilong are fair and reasonable, 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 2021 Clinker Purchase Framework Agreement, including the Clinker Annual Caps for each of the three years ending 31 December 2022, 2023 and 2024, 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.

2021 LIMESTONE SUPPLY FRAMEWORK AGREEMENT

Principal terms of the 2021 Limestone Supply Framework Agreement are set out below:

Date

12 November 2021 (after trading hours)

Parties

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

Term

The 2021 Limestone Supply Framework Agreement shall be effective from 1 January 2022 to 31 December 2024.

Principal Terms

The 2021 Limestone Supply Framework Agreement sets out the general terms and conditions for the purchase of the limestone by Ruiping Shilong from Tianrui Cement and/or its subsidiaries. The prices payable by Ruiping Shilong for the limestone will be agreed following arm's length negotiations between relevant parties with reference to the prevailing market price of limestone 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 2021 Limestone Supply Framework Agreement. Each implementation agreement will set out specific details of the transaction, including price, quantity and other relevant details, with reference to market conditions at the relevant time and as agreed between Ruiping Shilong and the Group.

Limestone Annual Caps

It is agreed that the maximum aggregate annual amount payable by Ruiping Shilong to Tianrui Cement for purchase of limestone for the years ending 31 December 2022, 2023 and 2024 will not exceed the caps set out below:

	Proposed Annual Caps for the year ending		
	31 December 2022	31 December 2023	31 December 2024
Total sales amount	<u>RMB300,000,000</u>	<u>RMB300,000,000</u>	<u>RMB300,000,000</u>

The Limestone Annual Caps are determined by taking into account of the Group's limestone production capacity and Ruiping Shilong's increased demand for limestone as set out in the section headed "Reasons and Benefits for entering into the 2021 Limestone Supply Framework Agreement" below.

GENERAL PRICING PRINCIPLES

The Group has relevant internal control policies and procedures including (1) the Company has incorporated in its mandatory guideline such that its subsidiaries or branches shall closely monitor the updated market price of limestone in order to attain a reasonable sale price and hence the sale price to Ruiping Shilong will be compared with the market price, such monitoring measures include obtaining offer price quotes from at least two independent purchasers by proactively approaching the potential limestone purchaser in market to probe their recent transacted prices in the market or willing unit

offer price for limestone no less frequently than on monthly basis to ascertain the market price for management's review; and (2) the Group will compare the sale price to Ruiping Shilong with the sale price stated on the limestone sales invoice for all the sales within the immediately preceding 60 days, to other limestone customers of the Group and the market price obtained from (1) above, thus the Group can ensure that the sale price to Ruiping Shilong will not be more favourable than the sale price to other limestone customers of the Group for similar transactions. Based on the procedure set out above, the Directors consider that the procedures are sufficient to ensure that the transactions will be conducted on normal commercial terms and not prejudicial to the interests of the Company. After all the foregoing analysis, the proposed limestone prices and sales terms under the 2021 Limestone 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 transactions 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 conduct annual review of the implementation enforcement of the continuing connected transactions.

REASONS AND BENEFITS FOR ENTERING INTO THE 2021 LIMESTONE SUPPLY FRAMEWORK AGREEMENT

Limestone is one of the raw materials required for clinker production, and that Ruiping Shilong has been purchasing limestone from various suppliers for its clinker production on a non-exclusive basis. Ruiping Shilong has recently expanded its clinker production and hence has the increased need for limestone. In light of Ruiping Shilong's anticipated increased demand for limestone, its location being within proximity of the Group's limestone production facilities and the anticipated volume of limestone available for sale, Tianrui Cement entered into the 2021 Limestone Supply Framework Agreement with Ruiping Shilong. Historically, the Group has utilized majority of its self-produced limestone for its own use and sold limestone to third party when and if sale of the same is economically beneficial, such as when certain limestone produced is not particularly suitable (in terms of quality) for self use of the Group's clinker production line within proximity. As such, the Directors believe that Ruiping Shilong can broaden the Group's sales channel. The Group commenced sale of limestone in 2010 and the sales revenue is approximately RMB147.3 million, RMB251.2 million, RMB788.4 million and RMB454.7 million in 2018, 2019 and 2020 and the six months ended 30 June 2021 respectively.

As disclosed in the circular dated 25 April 2014, Ruiping Shilong and the Group entered into the 2014 Limestone Supply Framework Agreement for the Group's sale of limestone to Ruiping Shilong for the year of 2014, 2015 and 2016. The sales amount of the Group's sale of limestone to Ruiping Shilong is RMB16,082,000 in 2014, RMB8,857,000 in 2015. It is understood that Ruiping Shilong purchased limestone from other suppliers since

2016 and hence ceased to purchase limestone from the Group since 2016. However, in light of Ruiping Shilong's anticipated increase in demand for limestone starting from 2022, Ruiping Shilong has decided to resume purchase from the Group after considering factors such as the Group's ability to supply substantive quantity of limestone.

In considering the following factors that (1) the proposed annual cap of RMB300 million is well within the Group's limestone sales amount of RMB788.4 million in 2020; (2) Ruiping Shilong is one of those customers that has the need for limestone within Pingdingshan area and its estimated annual purchase demand for each of the year 2022, 2023 and 2024 respectively; and (3) the Limestone Annual Caps will allow buffer for the Group to sell limestone to Ruiping Shilong while the 2021 Limestone Supply Framework Agreement does not oblige the Group to make any sale of limestone should the Group find a better customer who is willing to purchase its limestone on better terms or the Group would wish to utilize the limestone for self-use purpose, 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 transactions under the 2021 Limestone Supply Framework Agreement within the Limestone Annual Caps for each of the three years ending 31 December 2022, 2023 and 2024 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.

INFORMATION OF THE GROUP AND RUIPING SHILONG

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

Ruiping Shilong is mainly engaged in production, sale and distribution of clinker. Ruiping Shilong is held as to 40% by Tianrui Cement (a wholly-owned subsidiary of the Company) and as to 60% by Ruiping Power. Ruiping Power is indirectly owned as to 40% by Chairman Li and Ms. Li.

IMPLICATIONS UNDER 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement will constitute continuing connected transaction under Chapter 14A of the Listing Rules. As certain applicable percentage ratios in respect of the Clinker Annual Caps under the 2021 Clinker Purchase Framework Agreement and the Limestone Annual Caps under the 2021 Limestone Supply Framework Agreement, when aggregated, exceed 5% but less than 25%, the transactions contemplated under the 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement are 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement. Save as mentioned above, none of the Directors has any material interest in the transactions 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement and the transactions contemplated thereunder.

The EGM will be held for the Independent Shareholders to consider and approve the 2021 Clinker Purchase Framework Agreement and the 2021 Limestone 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement and the related proposed annual caps. Dongxing Securities (Hong Kong) Company Limited 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone 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 is expected to be despatched to the Shareholders on or before 15 December 2021 which is more than 15 business days after the publication of this announcement, as more time may be required to finalize the information to be contained in the circular.

DEFINITIONS

“2014 Limestone Supply Framework Agreement”	the Limestone Supply Agreement as disclosed in the circular dated 25 April 2014
“2019 Clinker Purchase Framework Agreement”	the clinker framework agreement dated 16 October 2019 entered into between Ruiping Shilong (as supplier) and Tianrui Cement (as purchaser)

“2021 Clinker Purchase Framework Agreement”	the clinker framework agreement dated 12 November 2021 entered into between Ruiping Shilong (as supplier) and Tianrui Cement (as purchaser)
“2021 Limestone Supply Framework Agreement”	the limestone supply agreement dated 12 November 2021 entered into between Ruiping Shilong (as purchaser) and Tianrui Cement (as supplier)
“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 2022, 2023 and 2024 under the 2021 Clinker Purchase Framework Agreement
“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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement and the related proposed annual caps
“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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone Supply Framework Agreement and the related proposed annual caps and the transaction contemplated thereunder.
“Independent Financial Adviser”	Dongxing Securities (Hong Kong) Company Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the 2021 Clinker Purchase Framework Agreement and the 2021 Limestone 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 2021 Clinker Purchase Framework Agreement and the 2021 Limestone 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
“Limestone Annual Caps”	the respective annual caps for each of the three years ending 31 December 2022, 2023 and 2024 under the 2021 Limestone Supply Framework Agreement
“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, Macau Special Administrative Region and Taiwan
“Ruiping Power”	Pingdingshan Ruiping Power Company Limited (平頂山瑞平煤電有限公司), a company incorporated in the PRC with limited liability

“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, 12 November 2021

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.