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西部水泥

WEST CHINA CEMENT LIMITED

中國西部水泥有限公司

(Incorporated in Jersey with limited liability, with registered number 94796)

(Stock Code: 2233)

**SUPPLEMENTAL ANNOUNCEMENT
DISCLOSEABLE TRANSACTION
ACQUISITION OF 97.5% EQUITY INTEREST IN
KANGDING PAOMASHAN CEMENT LTD***

Reference is made to the announcement (the “**Announcement**”) of West China Cement Limited (the “**Company**”) dated 31 July 2020 in relation to (i) the acquisition of 55% of equity interest in Kangding Paomashan Cement Ltd* (康定跑馬山水泥有限責任公司) (the “**Target**”) from Shaanxi Ningxin and (ii) the acquisition of 12% and 30.5% of equity interest in the Target from Ronglian Cement and Mr. Huang Xijiu (黃四九) (“**Mr. Huang**”) (which was inadvertently disclosed as Mr. Wang Xijiu in the Announcement). Terms used herein shall have the same meanings as defined in the Announcement.

The Company wishes to provide an update on the status and supplement other relevant information of the Project and the Transaction to facilitate Shareholders’ understanding.

STATUS OF THE PROJECT

Whilst the cement plant of the Target has not commenced production as of the date of the Sale and Purchase Agreements (I) and (II), the Target engaged in the trading and on-selling of raw materials (mainly clinker) in 2019 and generated revenue of approximately RMB20.5 million for the financial year ended 31 December 2019.

As of the date of this announcement, the construction of the cement plant of the Target has completed and is ready for commercial production at its expected annual cement production capacity of 1.5 million tons. It is expected that no further significant capital investment will be required to support the Target or the Project.

Consistent with the Group's practice in assessing other investment projects in the cement industry and having taken into account, among others, (a) expected production capacity of the cement facility of the Target as evidenced in the relevant government approval, (b) average selling price of cement products in the region based on the information available to the Group, (c) the typical operation and cost structure of cement producers in the industry, the Group estimated the annual revenue of the Target will be in the range of RMB518 million to RMB541 million based on the relevant prevailing market price in July 2020.

STATUS OF THE TRANSACTION

(i) Arrangement to settle Target Liabilities and provision of interim loans

As set out in the Announcement, the Target and Target Interest (II) were subject to certain encumbrances (i.e. external debts of the Selling Parties secured by corporate guarantee provided by the Target and pledge of the Target Interest (II)), and the Target itself had certain other external liabilities (e.g. outstanding construction cost owed by the Target). Yaobai Special Cement has required, as part and parcel of the deal, that all such liabilities of both the Selling Parties and the Target (collectively the "**Target Liabilities**") be cleared prior to completion of the Transaction, so that upon completion, the 97.5% equity interest of the Target, and the Target itself, will be free from any encumbrances. See section "*(iii) Information of the encumbrances*" below for further details.

Given that the Selling Parties are under financial difficulties and are unable to settle the Target Liabilities on their own, it was agreed that out of the aggregate consideration of RMB309.4 million payable by the Group under Sale and Purchase Agreement (II), a portion will be paid by the Group, at the Group's discretion, to the relevant third parties directly (which gives rise to the "interim loans" arrangement as set out in the Announcement) or the Target for paying off the Target Liabilities, with the balance to be paid to the Selling Parties. The latter portion is regarded as the "Equity Purchase Price", which did not have a pre-determined value as at the date of Sale and Purchase Agreement (II), and shall be adjusted depending on the actual amount required to be paid by the Group to settle the Target Liabilities. The arrangement of the Group paying the amount under "interim loans" to the relevant third parties can reduce the risk of the Selling Parties misappropriating the funds intended to settle the Target Liabilities.

In other words, if the transactions contemplated under Sale and Purchase Agreement (II) are completed, the amount of Target Liabilities settled by the Group (including via the "interim loans" arrangement) will not be repayable by the relevant third parties or the Selling Parties, but the Equity Purchase Price payable to the Selling Parties shall be downward adjusted out of the aggregate consideration. On the other hand, if the transactions are not completed, the Selling Parties shall repay the "interim loans" to the Group and no Equity Purchase Price shall be payable to them.

To better protect the Group's interest, (a) for settlement of Target Liabilities, the Group has settled and will settle such liabilities only upon receipt of written evidence from the relevant third parties to substantiate the existence of such liabilities; (b) the Group has entered into loan agreements with the Selling Parties to formalize its provision of interim loans and set out its rights as creditor against the Selling Parties, such that, as disclosed in the Announcement, if the registration of transfer of equity interest in respect of Target Interest (II) cannot be completed (e.g. due to the failure to release the relevant encumbrances) by the specified timeframe, the Selling Parties shall immediately repay all loans advanced by the Group in accordance with the terms of the loan agreements; and (c) the Group has obtained an equity pledge over Mr. Huang's equity interest in Wudang Cement (see section "*(iv) — Equity pledge in Wudang Cement*" below).

(ii) Value of Target Liabilities and Equity Purchase Price

Based on the Company's initial estimate as of the date of Sale and Purchase Agreement (II), the value of Target Liabilities was in the range of approximately RMB220 million to RMB250 million (meaning that the Equity Purchase Price would have been in the range of approximately RMB59.4 million to RMB89.4 million). If the actual amount of the Target Liabilities to be paid by the Group for settlement exceeds this range but is below the total consideration, the Equity Purchase Price will be downward adjusted accordingly, and the total consideration payable by the Group will not change. As of the date of this announcement, the final value of Target Liabilities is still subject to further verification and confirmation by the Group and therefore, the Equity Purchase Price has not been finalized.

At the time of Sale and Purchase Agreement (II), the Company expected that in the unlikely event that the Target Liabilities exceed the total consideration, the Company may elect to proceed with completion and at the same time, enforce the equity pledge in Wudang Cement (see section "*(iv) — Equity pledge in Wudang Cement*" below) to cover the additional cost. As of the date of this announcement, no separate agreement has been entered into between the parties but it is expected that a further agreement will be entered into to confirm the settlement method should the above scenario arise.

(iii) Information of the encumbrances

Based on the latest due diligence findings and information available to the Group, the major encumbrances on Target Interest (II) and security provided by the Target are as follows:

A. Court orders in freezing Target Interest (II) and pledge of Target Interest (II)

- The major creditors having a claim over the Selling Parties concerned are Creditor A (an individual) with an outstanding debt or obligation of approximately RMB30 million; Creditor B (an individual) and Creditor C (an individual) with an outstanding debt or obligation of approximately RMB35.2 million. As the claim over the Selling Parties was not settled, Creditor B and Creditor C applied for a court order to freeze the Target Interest (II) in April 2020. Similarly, Creditor A applied for a court order to freeze the same in July 2020.

- Only Mr. Huang’s equity interest in the Target (30.5%) was pledged and this was unrelated to the debt or obligation mentioned above. The pledgee is Creditor D (a PRC company) which is controlled by a friend of Mr. Huang. According to Mr. Huang, the equity pledge was not created to secure any substantive debt or obligation but was intended to “protect” his equity interest in the Target as other creditor(s) will have a lower priority to recover in the event that his personal asset is subject to bankruptcy proceeding.

B. Guarantee/asset security provided by Target to secure external loan of the Selling Parties

- There is no asset of the Target which has been pledged or otherwise provided as a security to secure any external loan of the Selling Parties.
- The Target has provided corporate guarantees for an outstanding debt or obligation of the Selling Party in favour of Creditor E (a PRC company) which has a claim of approximately RMB33.1 million and to an individual, Creditor F, who has a claim of approximately RMB37.3 million, respectively.

As of the date of this announcement, the relevant obligations underlying the above-mentioned encumbrances and corporate guarantees have been recognized and settled as part of the Target Liabilities and such encumbrances and corporate guarantees have been cleared and/or released as contemplated under the Sale and Purchase Agreement (II). Each of the above-mentioned individual and entity (and its ultimate beneficial owner) is an Independent Third Party to the Group to the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries.

(iv) Equity pledge in Wudang Cement

In respect of the equity pledge in Wudang Cement provided by Mr. Huang in favour of the Group to secure the performance of obligations under Sale and Purchase Agreement (II), the Group has completed all necessary registration procedures to ensure the equity pledge is enforceable if Mr. Huang defaults in his relevant obligation. The equity pledge shall be released upon the completion of Sale and Purchase Agreement (II) and the consent by the Group.

Based on the information available to the Company, Wudang Cement currently operates a cement plant with an annual production capacity of 1,200,000 tons which is consistent with its historical annual sales volume of approximately 600,000 tons. Further, assuming Wudang Cement’s costs structure and profitability is similar to a cement plant owned by the Group located nearby Wudang Cement, the Company roughly estimated that Wudang Cement can achieve an annual net profit of approximately RMB40 million. On this basis, the Company considers the equity interest of Wudang Cement has commercial value and equity pledge over the same has incentivized Mr. Huang to perform his obligations and can also serve as an additional security to the Group.

(v) Completion of Transaction

As of the date of this announcement, other than the updates provided in sections (i) to (iv) above, the completion of transactions contemplated under Sale and Purchase Agreements (I) and (II) are still subject to, among others, completion of due diligence work to the satisfaction of Yaobai Special Cement and registration of the equity transfer in the Target with the relevant PRC regulatory authority, which are expected to be completed by the end of 2020.

Whilst the terms of Sale and Purchase Agreements (I) and (II) are not inter-conditional to each other, the Group intends to obtain majority control of the Target and arrange completion of both agreements at the same time. Accordingly, if for any reason, only the transactions contemplated under the Sale and Purchase Agreement (I) can be completed, given that the Group will still be able to acquire 55% of equity interest which will enable the Company to consolidate the results of the Target into that of the Group, the Group may consider to proceed to complete Sale and Purchase Agreement (I), and the consideration under Sale and Purchase Agreement (II) shall not be payable by the Company. However, if for any reasons, only Sale and Purchase Agreement (II) can be completed, the Company will not arrange completion of Sale and Purchase Agreement (II) only.

Apart from Shaanxi Ningxin and the Selling Parties, the remaining shareholder of the Target is Mr. Li Wenxiang (李文祥), who is a businessman and has investment in different businesses, including cement industry in the PRC. It is expected that Mr. Li will continue to be a minority shareholder of the Target upon completion of the Transaction. As of the date of this announcement and immediately before completion of the Transaction, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Mr. Li is an Independent Third Party.

BASIS OF CONSIDERATION

The total consideration for the Transaction is RMB729.4 million which implies a 100% value of the Target at RMB748.1 million and a premium of about 32% over the Target's audited total asset value of RMB566 million as of 31 December 2019. The valuation of the Target by the Company was based on a totality of factors and the Company has not attempted to quantitatively assign a value to any particular factor. Whilst the Company noted that the audited net asset value of the Target as of 31 December 2019 was negative and the Target has not yet commenced commercial production as at the date of the Sale and Purchase Agreements (I) and (II), the Company also considered (a) the audited total asset value of the Target as of 31 December 2019, (b) the amount of the Target Liabilities based on its preliminary assessment, (c) the expected production capacity of the cement plant of the Target, (d) the difficulty in obtaining new government approval for new cement plant in the Ganzi Prefecture under the relevant PRC government policies (which is known to other industry players, including Shaanxi Ningxin and the Selling Parties), (e) the prime location of the cement plant of the Target and strategic value that the Target will bring to the Group (as disclosed in the Announcement and the section "*Prospect of the Target*" below).

Furthermore, based on information available to the Company, for a cement plant with a production capacity and operating cost structure similar or comparable to that of the Target (which the Company considers to be fairly standard among large-scale cement producers in the PRC), the total consideration payable by the Group under the Transaction would translate into a considerably lower cost of production than (a) the estimated replacement cost and (b) estimated/theoretical cost of construction of a new cement plant in Ganzi Prefecture based on similar conditions.

After a holistic assessment of all relevant factors, the Group considered that the consideration of the Transaction, which was arrived at after arms' length negotiations between the parties, is fair and reasonable.

PROSPECT OF THE TARGET

As disclosed in the Announcement, the Transaction will allow the Group to expand its market in the northwest of Ganzi Prefecture as a new strategic location which will be supported by the growing market demand for cement products due to the expansion of transportation network or other development needs in the region and at the same time, diversify the Group's geographic investment risks.

As of the date of this announcement, the Group has also taken various measures to enhance its understanding of the Target and the relevant market in Ganzi Prefecture. For example, the Group has conducted initial market study, including reviewing of relevant development plans and policy paper published by the central and local governments as to the plan to enhance infrastructure network in the region; discussing with existing suppliers and customers of the Group to obtain first-hand market information and understand if cooperation with such suppliers and customers can be extended to the new target region. The Group has also checked the existing government approval in the region and understand that the Target is the only new cement producer which has been granted the relevant approval/permits.

Based on the above, the Group understood that there are only two cement plants in Ganzi Prefecture that are in production, namely Sichuan Luding Shansheng Cement Co., Ltd.* (“**Luding Shansheng Cement**”) (四川瀘定山盛水泥有限公司) and the Target, with a total annual cement capacity of 2.2 million tons. To the Group's information, the production line of Luding Shansheng Cement was established in 2006, with a designed annual cement production capacity of approximately 700,000 tons. The Target has an annual cement production capacity of 1.5 million tons and is expected to be able to make full use of its advantageous geographical location in the northwest of Ganzi Prefecture and its more advanced equipment, and expand in the three directions of northwest and south to fill the gap in the market demand.

Furthermore, the Company understands it would be difficult to obtain new permit for construction of new cement plants in Ganzi Prefecture and the Group expects there will unlikely be new direct competitors with the Target in the relevant market under the current PRC government policies.

As the transactions contemplated under Sale and Purchase Agreements (I) and (II) may or may not be completed, Shareholders and investors are reminded to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 25 September 2020

As at the date of this announcement, the executive Directors are Mr. Zhang Jimin and Dr. Ma Weiping, the non-executive Directors are Mr. Ma Zhaoyang, Ms. Liu Yan and Mr. Fan Changhong and the independent non-executive Directors are Mr. Lee Kong Wai, Conway, Mr. Zhu Dong and Mr. Tam King Ching, Kenny.

** for identification purpose only*