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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this Circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **China Tianrui Group Cement Company Limited**, you should at once hand this Circular, together with the accompanying form of proxy to the purchaser or the transferee, or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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 AND CONTINUING CONNECTED  
TRANSACTION IN RELATION TO THE 2019 DEPOSIT  
SERVICES AGREEMENT**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser  
to the Independent Board Committee and the independent Shareholders**  
*CLC International Limited*

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A letter from the Board is set out on pages 5 to 18 of this Circular. A letter from the Independent Board Committee is set out on pages 19 to 20 of this Circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the independent Shareholders is set out on pages 21 to 38 of this Circular.

A notice convening the EGM to be held at 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on 27 December 2019 at 3:30 p.m. is set out on pages EGM-1 to EGM-3 of this Circular.

A form of proxy for use in connection with the extraordinary general meeting is enclosed herewith and published on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)). Whether or not you are able to attend the meeting, please complete and return the form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not later than 48 hours before the time designated for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

5 December 2019

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## DEFINITIONS

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*In this Circular, unless the context otherwise requires, the following expressions have the following meanings:*

|                                     |   |
|-------------------------------------|---|
| “2017 Deposit Services Agreement”   | the deposit services agreement dated 6 October 2017 entered into between Tianrui Finance and Tianrui Cement   |
| “2017 Financial Services Agreement” | the financial services agreement dated 6 October 2017 entered into between Tianrui Finance and Tianrui Cement   |
| “2019 Deposit Services Agreement”   | the deposit services agreement dated 8 November 2019 entered into between Tianrui Finance and Tianrui Cement  |
| “2019 Financial Services Agreement” | the financial services agreement dated 8 November 2019 entered into between Tianrui Finance and Tianrui Cement  |
| “associates”                        | has the meaning ascribed to it under the Listing Rules  |
| “Board”                             | the board of Directors  |
| “BVI”                               | the British Virgin Islands  |
| “CBRC”                              | China Banking Regulatory Commission (中國銀行業監督管理委員會)  |
| “Cement Group”                      | Tianrui Cement and its subsidiaries   |
| “Chairman Li”                       | Li Liufa (李留法), the chairman and a Controlling Shareholder of the Company   |
| “Circular”                          | this circular dated 5 December 2019, which relates to the 2019 Deposit Services Agreement and the transactions contemplated thereunder  |
| “Company”                           | China Tianrui Group Cement Company Limited (中國天瑞集團水泥有限公司), 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  |
| “Credit Services”                   | the provision of credit services by Tianrui Finance to member(s) of the Cement Group, including but not limited to loans, bill acceptance, discounted bills, and other forms of capital financing pursuant to the terms and provisions set out in the 2019 Financial Services Agreement |

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## DEFINITIONS

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|---------------------------------|---|
| “Deposit Services”              | <i>inter alia</i> , demand deposit, saving deposit, notice deposit and agreed deposit services proposed to be provided by Tianrui Finance to member(s) of the Cement Group pursuant to the terms and provisions set out in the 2019 Deposit Services Agreement  |
| “Deposit Services Annual Caps”  | the annual caps for the maximum daily deposit amount (including the corresponding interests accrued thereon) by member(s) of the Cement Group with Tianrui Finance in relation to the Deposit Services for the three years ending 31 December 2022  |
| “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 2019 Deposit Services Agreement and the related proposed Deposit Services Annual Caps   |
| “Group”                         | the Company and its subsidiaries from time to time  |
| “Independent Board Committee”   | the independent committee of the Board, comprising all the independent non-executive Directors, namely Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Du Xiaotang, established to advise the Independent Shareholders in respect of the terms of the 2019 Deposit Services Agreement and the related proposed Deposit Services Annual Caps and the transactions contemplated thereunder |
| “Independent Financial Adviser” | CLC International Limited, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the 2019 Deposit Services Agreement and the related proposed Deposit Services Annual Caps   |
| “Independent Shareholders”      | Shareholders other than Yu Kuo 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 2019 Deposit Services Agreement and the related proposed Deposit Services Annual Caps   |
| “Independent Third Party(ies)”  | party(ies) which is/are independent of and not connected with any of our Directors, chief executives, substantial shareholders or any of our subsidiaries or any of their associates  |
| “Latest Practicable Date”       | 2 December 2019, being the latest practicable date prior to the printing of this Circular for ascertaining certain information contained herein   |

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## DEFINITIONS

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|                       |   |
|-----------------------|---|
| “Listing Rules”       | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange   |
| “Ms. Li”              | Ms. Li Fengluan, the spouse of Chairman Li and an executive Director of the Company   |
| “PBOC”                | the People’s Bank of China, the central bank of the PRC with the statutory authority to, <i>inter alia</i> , control monetary policy in the PRC   |
| “PRC”                 | the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan  |
| “RMB”                 | Renminbi, the lawful currency of the PRC  |
| “Settlement Services” | the free cash clearance and settlement services provided by Tianrui Finance to member(s) of the Cement Group pursuant to the terms and provisions set out in the 2019 Financial Services Agreement  |
| “SFO”                 | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “Share(s)”            | ordinary share(s) of HK\$0.01 each in the share capital of the Company  |
| “Shareholder(s)”      | the holder(s) of the Shares   |
| “Stock Exchange”      | The Stock Exchange of Hong Kong Limited   |
| “subsidiaries”        | has the meaning ascribed to it under the Listing Rules  |
| “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   |
| “Tianrui Finance”     | Tianrui Group Finance Company Limited (天瑞集團財務有限責任公司), a company established in the PRC with limited liability, owned as to 46.25% by Tianrui Group Company, as to 25.5% by Tianrui Cement, as to 5.25% by Tianrui Foundry and as to 23% by Tianrui Travel |
| “Tianrui Foundry”     | Tianrui Group Foundry Company Limited (天瑞集團鑄造有限公司), a company established in the PRC with limited liability and a subsidiary of Tianrui Group Company   |

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## DEFINITIONS

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|                         |   |
|-------------------------|---|
| “Tianrui Group Company” | Tianrui Group Company Limited (天瑞集團股份有限公司), a company established in the PRC with limited liability, owned as to 70% by Chairman Li and 30% by Ms. Li   |
| “Tianrui Travel”        | Tianrui Travel Group Company Limited (天瑞旅遊集團股份有限公司), formerly known as Tianrui Group Travel Development Company Limited (天瑞集團旅遊發展有限公司), a company established in the PRC with limited liability and a subsidiary of Tianrui Group Company   |
| “Yu Kuo”                | Yu Kuo Company Limited (煜闊有限公司), a company incorporated in the BVI with limited liability, which is a Controlling Shareholder of the Company holding 69.58% of the issued share capital of the Company and the issued share capital of which is indirectly owned as to 70% by Chairman Li and as to 30% by Ms. Li |
| “%”                     | per cent  |

*In case of any discrepancy between the English version and the Chinese version of this Circular, the English version shall prevail.*



**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)**

*Chairman and Non-executive Director:*  
Mr. Li Liufa

*Executive Directors:*

Ms. Li Fengluan  
Mr. Ding Jifeng  
Mr. Xu Wuxue  
Mr. Li Jiangming

*Independent Non-executive Directors:*

Mr. Kong Xiangzhong  
Mr. Wang Ping  
Mr. Du Xiaotang

*Registered Office:*

Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman  
KY1-1111  
Cayman Islands

*Headquarters and Principal Place  
of Business in the PRC:*

No. 63 Guang Cheng Road East  
Ruzhou City  
Hanan Province  
PRC

*Place of Business in Hong Kong:*

Room 2005A, 20/F., Lippo Centre Tower 2  
89 Queensway, Admiralty  
Hong Kong

5 December 2019

*To the Shareholders,*

Dear Sir or Madam,

**DISCLOSEABLE AND CONTINUING CONNECTED  
TRANSACTION IN RELATION TO THE 2019 DEPOSIT  
SERVICES AGREEMENT**

**AND**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 8 November 2019 in relation to the continuing connected transactions contemplated under the 2019 Deposit Services Agreement.

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## LETTER FROM THE BOARD

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Pursuant to the requirements under the Listing Rules, the Company will seek the Independent Shareholders' approval in relation to the 2019 Deposit Services Agreement and the Deposit Services Annual Caps at the EGM.

The purposes of this Circular are to provide you with (1) a letter from the Board containing further details of the 2019 Deposit Services Agreement and the Deposit Services Annual Caps; (2) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the 2019 Deposit Services Agreement and the Deposit Services Annual Caps; (3) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2019 Deposit Services Agreement and the Deposit Services Annual Caps; (4) notice of convening the EGM; and (5) other information as required under the Listing Rules.

### **BACKGROUND**

Reference is made to the announcement of the Company dated 6 October 2017 and the circular dated 12 December 2017 in relation to the 2017 Deposit Services Agreement and the 2017 Financial Services Agreement, pursuant to which Tianrui Finance agreed to provide the Deposit Services, Credit Services and Settlement Services to Cement Group respectively, for a term up to 31 December 2019.

Accordingly, Tianrui Finance and Tianrui Cement entered into the 2019 Deposit Services Agreement and the 2019 Financial Services Agreement for a term from 1 January 2020 up to 31 December 2022.

As disclosed in the announcement of the Company dated 8 November 2019, the 2019 Financial Services Agreement and the transaction contemplated thereunder are fully exempt connected transaction under the Listing Rules, while the 2019 Deposit Services Agreement and the transactions contemplated thereunder are subject to Independent Shareholders' approval. The purpose of this circular is to provide you with more information about the 2019 Deposit Services Agreement and the Deposit Services Annual Caps.

The terms of the 2019 Deposit Services Agreement are materially the same as the 2017 Deposit Services Agreement.

### **2019 DEPOSIT SERVICES AGREEMENT**

Major terms of the 2019 Deposit Services Agreement are as follows:

**Date:**

8 November 2019 (after trading hours)

**Parties:**

- (i) Tianrui Cement; and
- (ii) Tianrui Finance (as service provider)

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## LETTER FROM THE BOARD

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**Term:**

The period commencing from 1 January 2020 to 31 December 2022

**Major terms:**

***(i) Deposit Services***

Tianrui Finance shall provide the Cement Group with the Deposit Services subject to the terms and conditions provided in the 2019 Deposit Services Agreement. The deposits placed by the Cement Group to Tianrui Finance are repayable on demand. The interest rate offered by Tianrui Finance to the Cement Group for the Deposit Services shall be higher than (i) the relevant benchmark interest rate(s) as set by the PBOC and (ii) the interest rate(s) offered to the Cement Group by other mainstream financial institutions in the PRC for comparable deposits of similar nature and under similar terms during the same period. The interest accrued for the deposits is payable every quarter. The daily balance of the Cement Group's deposits (including any interest accrued therefrom) with Tianrui Finance for the years ending 31 December 2020, 2021 and 2022 shall not exceed RMB1,200 million, RMB1,200 million and RMB1,200 million, respectively.

However, the amount deposited by the Cement Group with Tianrui Finance shall not be more than the usage of the total amount of funds, i.e. the total outstanding loan balance provided by Tianrui Finance to the Cement Group pursuant to the 2019 Financial Services Agreement. Furthermore, in the case of any default by Tianrui Finance, the Cement Group will be able to offset the amounts owing by Tianrui Finance to the Cement Group against the amounts due from the Cement Group to Tianrui Finance. Therefore, there will not be actual loss to be incurred by Cement Group in case of default by Tianrui Finance.

***(ii) Set-off***

In the event of any default by Tianrui Finance as a result of which the Cement Group is not able to recover the amount deposited with Tianrui Finance, the Cement Group will be able to offset the amounts owing by Tianrui Finance to the Cement Group against the amounts due from the Cement Group to Tianrui Finance.

***(iii) Undertakings by Tianrui Finance:***

Tianrui Finance undertakes to the Cement Group, among other things, that:

- (a) it shall ensure the security and independence of the Cement Group's deposits and not impose any restriction thereon. Tianrui Finance shall only deposit the Cement Group's deposit into commercial banks with licence issued by the CBRC and be responsible for any loss sustained by the Cement Group arising from the security of its system;

## LETTER FROM THE BOARD

- (b) it has the qualification and has obtained all necessary permits, approvals, licences required to carry out its obligations under the 2019 Deposit Services Agreement, and will provide the Deposit Services in accordance with “Measures for the Administration of Finance Companies of Enterprise Groups” 《企業集團財務管理辦法》;
- (c) it shall cooperate with the Cement Group in compliance with the disclosure requirements under the relevant rules and regulations regarding the connected transactions (as defined under the Listing Rules) contemplated under the 2019 Deposit Services Agreement;
- (d) it shall regularly supply annual audit report or such other financial information as requested by the Company, regularly disclose its operation and financial conditions to the Company, allow the Company’s auditors to review its accounting records for the purpose of complying with the Listing Rules and conduct regular checks on the deposits;
- (e) it shall notify the Company and take measures to prevent loss from occurring or further loss should it be in breach of relevant laws and regulations or subject to regulatory proceedings or have material adverse changes in its financial condition; and
- (f) it will strictly comply with the risk regulatory indicators promulgated by the CBRC applicable to Tianrui Finance and ensure its major regulatory indicators such as the asset-liability ratio and liquidity ratio comply with the requirements of the CBRC and other relevant laws and regulations. Tianrui Finance is subject to the on-site supervision and management by the CBRC and is required to submit monthly, quarterly, interim and annual reports to the CBRC and the Company will review such report to ensure compliance by Tianrui Finance. The relevant regulatory requirement and the respective financial ratio of Tianrui Finance are as follows:

| Financial ratio  | Requirement           | Formula   | Financial Ratio of Tianrui Finance |                     |                    |
|--|-----------------------|---|------------------------------------|---------------------|--------------------|
|  |                       |   | As at<br>31/12/2017                | As at<br>31/12/2018 | As at<br>30/6/2019 |
| Capital Adequacy Ratio*<br>(資本充足率)                     | Not less than<br>10%  | Net Capital/Total<br>Risk-Weighted<br>Assets  | 72.98%                             | 66.24%              | 51.04%             |
| Non-performing Asset<br>Ratio* (不良資產率)                 | Not more than<br>4%   | Non-performing<br>Assets/Total Assets<br>with Credit-risk   | 0 (Note 1)                         | 0 (Note 1)          | 0 (Note 1)         |
| Non-performing Loan*<br>(不良貸款率)                        | Not more than<br>5%   | Non-performing<br>Loans/Total Loans   | 0 (Note 1)                         | 0 (Note 1)          | 0 (Note 1)         |
| Asset Loss Provision<br>Adequacy Ratio*<br>(資產損失準備充足率) | Not less than<br>100% | Actual Provision for<br>Loss for Assets<br>with Credit-risk/<br>Required Provision<br>for Loss for Assets<br>with Credit-risk | 100%                               | 100%                | 100%               |

## LETTER FROM THE BOARD

| Financial ratio  | Requirement           | Formula   | Financial Ratio of Tianrui Finance |                     |                    |
|--|-----------------------|---|------------------------------------|---------------------|--------------------|
|  |                       |   | As at<br>31/12/2017                | As at<br>31/12/2018 | As at<br>30/6/2019 |
| Loan Loss Provision Adequacy Ratio*<br>(貸款損失準備充足率)       | Not less than<br>100% | Actual Provision for<br>Loan Loss/<br>Required Provision<br>for Loan Loss | 100%                               | 100%                | 100%               |
| Liquidity Ratio*<br>(流動性比例)                              | Not less than<br>25%  | Current Assets/<br>Current Liabilities                                    | 48.56%                             | 30.79%              | 39.79%             |
| Fixed Assets Ratio*<br>(自有固定資產比例)                        | Not more than<br>20%  | Total Fixed Assets/<br>Total Equity                                       | 0 (Note 2)                         | 0 (Note 2)          | 0 (Note 2)         |
| Short-term Securities<br>Investment Ratio*<br>(短期證券投資比例) | Not more than<br>40%  | Short-term Security<br>Investment/Total<br>Equity                         | 0 (Note 1)                         | 0 (Note 1)          | 0 (Note 1)         |
| Long-term Investment<br>Ratio* (長期投資比例)                  | Not more than<br>30%  | Long-term<br>investment/Total<br>Equity                                   | 0 (Note 1)                         | 0 (Note 1)          | 0 (Note 1)         |
| Inter-bank Borrowing<br>Ratio* (拆入資金比例)                  | Not more than<br>100% | Total Interbank<br>Borrowing/Total<br>Equity                              | 0 (Note 1)                         | 0 (Note 1)          | 0 (Note 1)         |
| Guarantee Ratio*<br>(擔保比例)                               | Not more than<br>100% | Guarantee Risk<br>Exposure/Total<br>Equity                                | 14.36%                             | 13.77%              | 20.81%             |

*Note 1:* Since Tianrui Finance did not have the related items, such as non-performing asset, bad loan, short-term securities investment, long-term investment and borrowing, as at the above said date, the related ratio recorded as zero.

*Note 2:* Tianrui Finance had fixed asset of approximately RMB2,129.92 and RMB7,664.37 as at 31 December 2017 and 31 December 2018 respectively. Thus fixed assets ratio closed to zero and as the result, the fixed assets ratio are recorded as zero.

### *(iv) Special Conditions*

Tianrui Finance shall notify the Cement Group in writing within two business days and take actions to remedy the following events:

- i. Tianrui Finance is unable to pay its material debts or if any of the directors or senior management is involved in criminal offences;
- ii. Any material changes in organizational structure and business operation may affect the normal operation of Tianrui Finance;
- iii. Any shareholder loans due to Tianrui Finance is overdue for more than one year;
- iv. any regulatory indicators are not in compliance with those set out in Article 34 of the Measures for the Administration of Finance Companies of Enterprise Groups issued by the CBRC (“**Article 34 of the Measures**”);

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## LETTER FROM THE BOARD

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v. Tianrui Finance is subject to major penalty imposed by the CBRC including but not limited to administrative punishment and being ordered for rectification; and

vi. Other matters which may impact the security of the Cement Group's deposit.

***(v) Non-competition Clause***

The funds deposited to Tianrui Finance by the Cement Group shall not be used to finance any other entities which are engaged in business competes with the business of Cement Group.

***(vi) Conditions Precedents***

The 2019 Deposit Services Agreement is conditional upon (i) the Independent Shareholders' approval of the 2019 Deposit Services Agreement and the arrangement of the Deposit Services at the EGM of the Company and (ii) other relevant approvals as may be required for the 2019 Deposit Services Agreement to take effect.

***(vii) Termination***

The 2019 Deposit Services Agreement shall not be terminated by any of the parties unilaterally.

In addition to the default events provided by the Contract Laws of the PRC, Tianrui Cement may terminate the 2019 Deposit Services Agreement with immediate effect if Tianrui Finance fails to fulfil its duties and complete its rectifications within the period prescribed by the CBRC, according to the Measures for the Administration of Finance Companies of Enterprise Groups 《企業集團財務公司管理辦法》 issued by the CBRC.

Upon termination of the 2019 Deposit Services Agreement, the Cement Group may withdraw all of its deposits with Tianrui Finance at any time. If there is any outstanding loan owed by the Cement Group, the Cement Group may negotiate with Tianrui Finance regarding the repayment amount and terms for the repayment of loan.

***(viii) Indemnity***

Tianrui Finance will fully indemnify any loss suffered by the Cement Group due to the default of Tianrui Finance.

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## LETTER FROM THE BOARD

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### Proposed caps

The proposed annual caps for the maximum daily deposit amount (including the corresponding interests accrued thereon) by member(s) of the Cement Group with Tianrui Finance in relation to the Deposit Services are as follows:

|   | <b>From<br/>1 January to<br/>31 December<br/>2020<br/>(RMB)</b> | <b>From<br/>1 January to<br/>31 December<br/>2021<br/>(RMB)</b> | <b>From<br/>1 January to<br/>31 December<br/>2022<br/>(RMB)</b> |
|---|---|---|---|
| Maximum daily balance<br>of the Deposit<br>Services | 1,200 million   | 1,200 million   | 1,200 million   |

The annual cap under the 2017 Deposit Services Agreement are RMB700 million, RMB1,000 million and RMB1,000 million for the years ended 31 December 2017, 2018 and 2019 respectively.

The historical highest daily balance under the 2017 Deposit Services Agreement were as follows:

|  | <b>From<br/>29 December to<br/>31 December<br/>2017<br/>(RMB)</b> | <b>From<br/>1 January to<br/>31 December<br/>2018<br/>(RMB)</b> | <b>From<br/>1 January to<br/>31 October<br/>2019<br/>(RMB)</b> |
|--|---|---|--|
| Historical highest daily<br>balance of the<br>Deposit Services | Nil <sup>(Note 1)</sup>   | 646.39 million  | 601.50 million   |

*Note 1:* The 2017 Deposit Services Agreement was approved at the extraordinary general meeting of the Company held on 29 December 2017.

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## LETTER FROM THE BOARD

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### **Basis of the Proposed Annual Caps**

The proposed annual caps for the Deposit Services were determined after taking into account of the following factors.

- (a) As disclosed in the 2019 interim report of the Company, the Group's cash and bank balance increased from RMB711.8 million as at 31 December 2018 to RMB817.1 million as at 30 June 2019, primarily due to the increase in cash inflows from operation activities during the six months ended 30 June 2019. The Directors expect the Group's performance to continue to improve which will lead to extra idle cash.
- (b) The Cement Group is not under any obligation to place deposits with the Tianrui Finance pursuant to the 2019 Deposit Services Agreement.
- (c) The Company considers that the setting of annual caps for the Deposit Services higher than the bank balance and cash of the Cement Group is to accommodate the possible drawn down of the loan facility to be provided by Tianrui Finance which could be temporarily deposited in the relevant bank accounts under the Deposit Services, and have also taken into account of the expected cashflow to be generated from the operations of the Cement Group.

### **INTERNAL CONTROL AND RISK MANAGEMENT OF THE COMPANY**

The followings will be adopted by the Company to ensure that the transactions contemplated under the 2019 Deposit Services Agreement and the 2019 Financial Services Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole and in compliance with the Listing Rules:

- (a) in respect of the Deposit Services under the 2019 Deposit Services Agreement to be utilized by the Cement Group, the Group will adopt the following internal control measures:
  - (1) in respect of the Deposit Services under the 2019 Deposit Services Agreement to be utilized by the Cement Group, the personnel in the finance department of the Group is/are responsible for the comparing of the rate(s) offered by Tianrui Finance against the deposit rate(s) announced by the PBOC, and further against the deposit rate(s) offered by at least three major commercial banks in the PRC, to confirm the rate(s) offered by Tianrui Finance are more favorable to the Cement Group. The main criterion for selecting the three major commercial banks for benchmarking purpose are (i) previous volume of transactions with the Cement Group and (ii) deposit interest rate which the banks. The main criterion for selecting financial institutions for providing deposit services are (i) the more favourable interest charges and fees that they can offer; and (ii) the previous business relationship with the institution.

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## LETTER FROM THE BOARD

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- (2) such information together with the daily deposit amount (with the corresponding accrued interests) will be consolidated and included in a report to be submitted to the chief financial officer of the Group for review, verification and approval.
- (3) the audit committee of the Company reviews the quarterly reports to ensure the rates and terms offered to member(s) of the Cement Group for the Deposit Services complied with the terms and conditions under the 2019 Deposit Services Agreement and the aggregate daily deposit amount (with the corresponding accrued interests) with Tianrui Finance by the Cement Group shall not exceed the relevant proposed annual caps.
- (4) financing will not be given to other entities which engaged in business competes with that of the Group.
- (5) the Company's Chief Financial Officer has been appointed as one of the directors of Tianrui Finance and is responsible for the management and day-to-day operation of Tianrui Finance. He will report any non-compliance and issues regarding to the internal control policies or financial to the Company immediately.
- (6) quarterly reports about business performance, compliance, deposits and loans, and other services, and the financial statements (including profits and loss accounts and balance sheet) of Tianrui Finance prepared by Tianrui Finance in accordance with the related rules and regulations of CBRC, will be sent to the Cement Group and the Company for review and monitoring.
- (7) to monitor and control the risk of the Deposit Services and to formulate solutions in resolving any risk which may arise in connection therewith, the Company considers the possible risks include default risk, regulation risk and corporate governance risk: (i) in accessing the default risks, the Company considers that since the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group. Therefore, in the case of any default by Tianrui Finance, the Cement Group will be able to offset the amounts owing by Tianrui Finance to the Cement Group against the amounts due from the Cement Group to Tianrui Finance; and (ii) in accessing regulation risks, the Company considers that Tianrui Finance is governed by the CBRC and is subjected to related rules and regulations and internal control measures. As mentioned in the 2019 Deposit Services Agreement, the Cement Group will review all the monitoring reports submitted to the CBRC to ensure the compliance. Tianrui Finance shall notify the Cement Group in writing within two business days once there are any non-compliance issues or penalties imposed by the CBRC and (iii) in accessing the corporate governance risk, the Company's Chief Financial Officer has been appointed as one of the directors of Tianrui Finance.

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## LETTER FROM THE BOARD

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- (8) to ensure that the amount deposited by the Cement Group with Tianrui Finance shall not be more than the usage of the total amount of funds. Firstly, certain staff in the finance department of the Cement Group is/are assigned to conduct manual checks on the loan amount before deposit is made. Furthermore, the computing software systems to record and monitor the amount deposited by the Cement Group with Tianrui Finance will notify the finance department if the amount is about to reach the loan amount. Cement Group will check to ensure that the amount due to Tianrui Finance is always higher than the amount deposited to Tianrui Finance before the Cement Group repays a loan due to Tianrui Finance.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE 2019 DEPOSIT SERVICES AGREEMENT**

The 2019 Deposit Services Agreement and the 2019 Financial Services Agreement entered into by the respective parties is in the ordinary and usual course of business of the Group. The Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) considered that:

- (1) the interest rate(s) offered to the member(s) of the Cement Group by Tianrui Finance for Deposit Services shall be higher than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Cement Group, for comparable deposits, are on equal or better terms than those available from independent third parties.
- (2) the deposit services provided by Independent Third Parties in preceding years and the services under the Deposit Services to be provided by Tianrui Finance are similar in nature. In addition, the Cement Group requires the Deposit Services for its daily operation, which are in the ordinary and usual course of business of the Group.
- (3) Tianrui Finance is a non-banking financial institution subject to the supervision of the CBRC and is authorized to provide a variety of financial services including deposit services by PRC laws and regulations. Despite it cannot accept deposits from the general public, open general bank accounts and issue electronic bank debit cards, its operation is basically the same as the other commercial banks. Although Tianrui Finance is not a bank, it is authorized by the PRC law and is capable of providing financial services.

The financial strength of Tianrui Finance can be proven in the following ways: (i) sufficient paid-in capital: the paid-in capital of Tianrui Finance is RMB1 billion; and (ii) security of funds: Tianrui Finance's operation is subject to the PRC laws and regulations and internal control measures. Tianrui Finance serves the Cement Group and Tianrui Group exclusively and therefore, faces relatively lower legal risks and default risks as compared to other commercial banks that serve a variety of different entities. Tianrui Finance, its major shareholders and clients belong to the same control that enhance the monitoring and control for the security of funds.

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## LETTER FROM THE BOARD

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- (4) administration charges and fees chargeable by Tianrui Finance is less than commercial banks.
- (5) easier settlement arrangement among group members of the Group as every group member will open an account with Tianrui Finance and real-time settlement arrangement for transactions among the group members would be provided free of charge, also netting off of payments could shorten the settlement process.
- (6) Cement Group shall be entitled to the loan to be provided by Tianrui Finance pursuant to the 2019 Financial Services Agreement.

In view of the above, the Directors (including the independent non-executive Directors after taking into account the advice of the Independent Financial Adviser) considered that the terms of the 2019 Deposit Services Agreement and the Deposit Services Annual Caps are on normal commercial terms as compared to those available from independent third parties under the prevailing local market conditions.

### INFORMATION OF THE GROUP AND TIANRUI FINANCE

The Group is principally engaged in businesses ranging from excavation of limestone, to production, sale and distribution of clinker and cement.

Tianrui Finance is a non-banking financial institution subject to the supervision of the CBRC. Its establishment was approved by the CBRC on 20 July 2015 and it is authorised to provide a variety of financial services including the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; provision of guarantees to member companies and dealing with entrusted loans among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; provision of loans and finance leasing services to member companies; provision of intra-group funds transfer and settlement services to member companies.

The scope of business of Tianrui Finance includes: the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; performing authorized insurance agency business; provision of guarantees to member companies and dealing with entrusted loans or investments among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; conducting inter-bank borrowing and lending.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, Tianrui Finance had a registered capital of RMB1 billion which was owned as to 46.25% by Tianrui Group Company, as to 25.5% by Tianrui Cement, as to 5.25% by Tianrui Foundry and as to 23% by Tianrui Travel.

Tianrui Group Company is a company established in the PRC with limited liability and held as to 70% by Chairman Li and 30% by Ms. Li, who have investment in different businesses such as foundry business, tourism, hotel business, energy and mining, 69.58% of the shareholding of the Company is indirectly owned by Tianrui Group Company. Tianrui Foundry and Tianrui Travel are subsidiaries of Tianrui Group Company.

### LISTING RULES IMPLICATIONS

Tianrui Finance is a subsidiary of Tianrui Group Company. Tianrui Group Company is the holding company of Tianrui (International) Holding Company Limited which owns the entire issued share capital of Holy Eagle Company Limited and Yu Qi Company Limited, which together owns the entire issued share capital of Yu Kuo, a Controlling Shareholder of the Company. Accordingly, Tianrui Finance is a connected person of the Company within the meaning of the Listing Rules and the transactions contemplated under the 2019 Deposit Services Agreement and the 2019 Financial Services Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the highest applicable percentage ratio in respect of the Deposit Services under the 2019 Deposit Services Agreement exceeds 5% but is less than 25% as defined by the Listing Rules, the Deposit Services constitute (i) discloseable transaction of the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) continuing connected transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will also disclose the relevant details of the 2019 Deposit Services Agreement and the 2019 Financial Services Agreement in its next published annual report and accounts in accordance with the relevant requirements as set out in Rule 14A.49 of the Listing Rules.

### BOARD'S APPROVAL

Save for Chairman Li, Ms. Li, Mr. Li Jiangming (Ms. Li's brother) and Mr. Xu Wuxue (the Company's chief financial officer and a director of Tianrui Finance), all of the Directors have confirmed that none of them has any material interest in the 2019 Deposit Services Agreement, the 2019 Financial Services Agreement and the related proposed annual caps; and therefore no Director (except Chairman Li, Ms. Li, Mr. Li Jiangming and Mr. Xu Wuxue) is required to abstain from voting at the meeting of the Board to approve the 2019 Deposit Services Agreement, the 2019 Financial Services Agreement and the related proposed annual caps.

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## LETTER FROM THE BOARD

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### EGM

The Company will convene the EGM to be held at 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong on 27 December 2019 at 3:30 p.m. for the purpose of considering, and if thought fit, approving the 2019 Deposit Services Agreement and the transactions contemplated therein (including the Deposit Service Annual Caps). Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders at the EGM will be taken by poll. No shareholder, other than Yu Kuo, has a material interest in the 2019 Deposit Services Agreement, and is required under the Listing Rules to abstain from voting on the resolutions to be proposed at the EGM to approve the 2019 Deposit Services Agreement and the Deposit Service Annual Caps. A notice of the EGM is set out on pages EGM-1 to EGM-3 of this Circular. The resolution in relation to the transactions contemplated under the 2019 Deposit Services Agreement (including the Deposit Service Annual Caps) will be put to vote by the Independent Shareholders at the EGM by way of poll.

Yu Kuo (a company indirectly held by Chairman Li and Ms. Li), which held approximately 69.58% of the total issued share capital of the Company as at the Latest Practicable Date, shall abstain from voting at EGM on the resolutions relating to the 2019 Deposit Services Agreement and the transaction contemplated thereunder.

### RECOMMENDATION

The Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) considers that the 2019 Deposit Services Agreement and the transactions contemplated therein are in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms are fair and reasonable and more favourable to the Group than those of independent third parties and in the interests of the Company and the Shareholders as a whole, and the Deposit Services Annual Caps are fair and reasonable. Accordingly, the Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) recommends the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the 2019 Deposit Services Agreement, transactions contemplated under the 2019 Deposit Services Agreement and the Deposit Services Annual Caps for the period from the 1 January 2020 to 31 December 2022.

### CLOSURE OF REGISTER OF MEMBERS

For determining the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 20 December 2019 to Friday, 27 December 2019, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the entitlement to attend and vote at the EGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 19 December 2019.

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## LETTER FROM THE BOARD

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### GENERAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and additional information set out in Appendices I and II to this Circular.

Yours faithfully,  
For and on behalf of  
**China Tianrui Group Cement Company Limited**  
**Li Liufa**  
*Chairman*

*The English translation of the terms in Chinese in this letter, where indicated with \* is included for information purpose only and should not be regarded as the official English name(s) of such Chinese terms.*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the full text of the letter from the Independent Board Committee prepared for the purpose of inclusion in this Circular:*



**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)**

*Independent Non-executive Directors:*

Mr. Kong Xiangzhong  
Mr. Wang Ping  
Mr. Du Xiaotang

5 December 2019

*To the Independent Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION IN RELATION TO THE 2019 DEPOSIT SERVICES AGREEMENT**

We refer to the Circular of the Company dated 5 December 2019 (the “**Circular**”) of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used herein.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the transactions under the 2019 Deposit Services Agreement and the Deposit Service Annual Caps relating thereto, details of which are set out in the “Letter from the Board” to the Circular, of which this letter forms a part.

We (i) have reviewed the terms of the 2019 Deposit Services Agreement which we are of view that such terms are principally in line with market practices; (ii) consider the fact that Tianrui Finance is governed by the CBRC and is subject to its satisfaction of the rules and operational requirements (which includes the compliance of the terms of the 2019 Deposit Services Agreement and the performance of the 2019 Deposit Services Agreement by

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Tianrui Finance); (iii) are in the opinion that the deposit services to be provided by Tianrui Finance are similar in nature with the deposit services provided by independent third parties in preceding years, which are for the Group's daily operation; and (iv) took into account the advice of the Independent Financial Adviser in relation thereto as set out on pages 21 to 38 of the Circular, we consider that the transactions under the 2019 Deposit Services Agreement and the proposed annual caps relating thereto are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, in the ordinary and usual course of business and in the interest of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve the transactions under the 2019 Deposit Services Agreement and the proposed annual caps relating thereto.

Yours faithfully,  
**Independent Board Committee**

**Kong Xiangzhong**  
*Independent*  
*non-executive director*

**Wang Ping**  
*Independent*  
*non-executive director*

**Du Xiaotang**  
*Independent*  
*non-executive director*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of a letter of advice from CLC International Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



5 December 2019

*To the Independent Board Committee and the Independent Shareholders of  
China Tianrui Group Cement Company Limited*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION IN RELATION TO THE 2019 DEPOSIT SERVICES AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the continuing connected transaction contemplated under the 2019 Deposit Services Agreement and the Deposit Services Annual Caps for a term from 1 January 2020 to 31 December 2022, details of which are set out in the Letter from the Board (the “**Letter from the Board**”) contained in the circular of China Tianrui Group Cement Company Limited (the “**Company**”) dated 5 December 2019 issued to the Shareholders (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined.

On 5 December 2019 (after trading hours), Tianrui Cement, the Company’s indirectly wholly-owned subsidiary, and Tianrui Finance entered into the 2019 Deposit Services Agreement, pursuant to which Tianrui Finance agreed to provide Tianrui Cement and its subsidiaries (the “**Cement Group**”) with the Deposit Services, subject to the terms and conditions provided in the 2019 Deposit Services Agreement.

As stated in the Letter from the Board, Tianrui Finance is a subsidiary of Tianrui Group Company. Tianrui Group Company is the holding company of Tianrui (International) Holding Company Limited which owns the entire issued share capital of Holy Eagle Company Limited and Yu Qi Company Limited. These two companies together own the entire issued share capital of Yu Kuo Company Limited, a Controlling Shareholder. Accordingly, Tianrui Finance is a connected person of the Company within the meaning of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As the highest applicable percentage ratio as defined in the Listing Rules in respect of the Deposit Services under the 2019 Deposit Services Agreement exceeds 5% but is less than 25%, the Deposit Services constitute (i) a discloseable transaction of the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) a continuing connected transaction of the Company subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Du Xiaotang, has been established to give advice and recommendation to the Independent Shareholders in respect of the terms of the 2019 Deposit Services Agreement and the transactions contemplated thereunder, including the Deposit Services Annual Caps, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole, and to advise the Independent Shareholders on how to vote, taking into account the recommendations of the Independent Financial Adviser in connection with the 2019 Deposit Services Agreement and the Deposit Services Annual Caps.

### **OUR INDEPENDENCE**

We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Deposit Services are in the ordinary and usual course of business of the Group and whether the terms of the 2019 Deposit Services Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions under the 2019 Deposit Services Agreement are in the interests of the Company and the Shareholders as a whole and the Deposit Services Annual Caps are fair and reasonable; and (iii) how the Independent Shareholders should vote in respect of the relevant resolutions to approve the 2019 Deposit Services Agreement.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In October 2019, we acted as an independent financial adviser to the independent board committee and independent shareholders of the Company in relation to the clinker supply framework agreement as detailed in the circular of the Company dated 30 October 2019. Apart from normal professional fees payable to us in connection with such appointment as the independent financial adviser to the independent board committee and the independent shareholders, no arrangement exists whereby we will receive any fees from the Company or any of their subsidiaries or their respective substantial shareholders or associates. The advisory fee in connection with such engagement had been fully settled.

As at the Latest Practicable Date, based on the information available to us and our internal review, we do not have any relationships or interest between the Company and us or any other parties that could reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Listing Rule, and accordingly, we confirm we are

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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independent to act as the Independence Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect to the 2019 Deposit Services Agreement and the Deposit Services Annual Caps.

### **BASIS OF OUR OPINION**

In arriving at our opinions and recommendations, we have relied on the statements, information and representations contained in (i) the Circular; (ii) the annual reports of the Company for the two years ended 31 December 2018 (the “**2017 Annual Report**” and “**2018 Annual Report**”, respectively); (iii) interim reports of the Company for the six months ended 30 June 2018 and 30 June 2019 (the “**2018 Interim Report**” and “**2019 Interim Report**”, respectively); (iv) the audited annual report of Tianrui Finance for the year ended 31 December 2018; (v) the management accounts of Tianrui Finance for the six months ended 30 June 2019. We have reviewed the Administrative Measures for Enterprise Group Finance Companies (the “**Administrative Measures**”, 企業集團財務公司管理辦法) which supervises Tianrui Finance. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, Directors and the management of the Company. We have assumed that all such information, opinions, facts and representations contained or referred to in the Circular, for which the Company is fully responsible, were true and accurate in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, nor have we conducted an independent investigation into the business affairs, operations, financial position or future prospects of the Company.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our opinions and recommendations in relation to the 2019 Deposit Services Agreement and the Deposit Services Annual Caps, we have taken into account the following principal factors and reasons:

#### **1. Background information of the parties to the 2019 Deposit Services Agreement**

##### ***a. Information of the Group***

The Group is a leading clinker and cement producer in Henan and Liaoning provinces, the PRC. The principal businesses of the Group are carried by Tianrui Cement and its subsidiaries, and range from excavation of limestone to production,

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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sales and distribution of clinker and cement. The following table sets out a summary of the recent financial performance of the Group based on the 2018 Annual Report, 2018 Interim Report and 2019 Interim Report.

|                            | For the year ended<br>31 December |                | For the six months ended<br>30 June |                |
|----------------------------|-----------------------------------|----------------|-------------------------------------|----------------|
|                            | 2017                              | 2018           | 2018                                | 2019           |
|                            | <i>RMB'000</i>                    | <i>RMB'000</i> | <i>RMB'000</i>                      | <i>RMB'000</i> |
|                            | (audited)                         | (audited)      | (unaudited)                         | (unaudited)    |
| Revenue                    | 8,420,551                         | 10,060,647     | 4,306,626                           | 5,494,670      |
| Gross profit               | 2,396,894                         | 3,273,488      | 1,373,219                           | 1,833,188      |
| Profit for the year/period | 1,354,025                         | 1,742,572      | 749,313                             | 1,243,943      |
| Cash and cash equivalent   | 4,231,177                         | 4,013,271      | 4,097,682                           | 4,225,927      |

The revenue of the Group was approximately RMB10,061 million for the year ended 31 December 2018 (“**FY2018**”), representing an increase of approximately RMB1,640 million, or approximately 19.5% from approximately RMB8,421 million for the year ended 31 December 2017 (“**FY2017**”), mainly due to the increase in both the sales volume and the selling prices of products. The revenue of the Group was approximately RMB5,495 million for the six months ended 30 June 2019 (“**1H2019**”), representing an increase of approximately RMB1,188 million, or approximately 27.6%, from approximately RMB4,307 million for the six months ended 30 June 2018 (“**1H2018**”).

The gross profit of the Group was approximately RMB3,273 million for the FY2018, representing an increase of approximately RMB877 million, or approximately 36.6% from approximately RMB2,397 million for the FY2017. The gross profit was approximately RMB1,833 million in the 1H2019, representing an increase of approximately RMB460 million or approximately 33.5% from approximately RMB1,373 million in the 1H2018, mainly due to the increase in sales volume in the Northeastern region.

The profit before taxation of the Group was approximately RMB1,743 million for the FY2018, representing an increase of approximately RMB389 million, or approximately 28.7%, from approximately RMB1,354 million for the FY2017. The profit of the Group was approximately RMB1,244 million in the 1H2019, representing an increase of approximately RMB495 million or approximately 66.1% from approximately RMB749 million in the 1H2018.

The cash and cash equivalent and pledged bank balances of the Group decreased from approximately RMB4,231 million for the FY2017 to approximately RMB4,013 million for the FY2018. The cash and cash equivalent and pledged bank balances of the Group amounted to RMB4,226 million for the 1H2019.

*b. Information of Tianrui Finance*

As set out in the Letter from the Board, Tianrui Finance is a non-banking financial institution subject to the supervision of the CBRC. Its establishment was approved by the CBRC on 20 July 2015 and it is authorised to provide a variety of financial services including the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; provision of guarantees to member companies and dealing with entrusted loans among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; provision of loans and finance leasing services to member companies; provision of intra-group funds transfer and settlement services to member companies.

The scope of business of Tianrui Finance includes: the provision of financial and corporate finance advisory services, credit worthiness verification and related consultancy and agency services to member companies; provision of assistance in the payment and receipt of transaction proceeds to member companies; performing authorized insurance agency business; provision of guarantees to member companies and dealing with entrusted loans or investments among member companies; provision of draft acceptance and discounting services to member companies; provision of intra-group transfer and settlement services to member companies as well as the planning of clearing and settlement scheme; provision of deposit services to member companies; conducting inter-bank borrowing and lending.

As at the Latest Practicable Date, Tianrui Finance had a registered capital of RMB1 billion which was owned as to 46.25% by Tianrui Group Company, as to 25.5% by Tianrui Cement, as to 5.25% by Tianrui Foundry and as to 23% by Tianrui Travel.

Tianrui Group Company is a company established in the PRC with limited liability and held as to 70% by Chairman Li and 30% by Ms. Li, who have investment in different businesses such as foundry business, tourism, hotel business, energy and mining. Tianrui Group Company indirectly owns 69.58% of the shareholding of the Company. Tianrui Foundry and Tianrui Travel are subsidiaries of Tianrui Group Company.

*Regulatory environment of Tianrui Finance*

As a licensed non-bank financial institution in the PRC, Tianrui Finance is regulated and supervised by the CBRC under the Administrative Measures. According to the Administrative Measures, Tianrui Finance must comply with the following risk monitoring indicators as imposed by CBRC.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the Letter from the Board, the table below sets out the respective ratios of Tianrui Finance as of 31 December 2017, 31 December 2018 and 30 June 2019.

| Financial ratio                                      | Formula   | Requirement        | Financial ratios of Tianrui Finance |                              |                          |
|--|---|--------------------|-------------------------------------|------------------------------|--------------------------|
|  |   |                    | As of<br>31 December<br>2017        | As of<br>31 December<br>2018 | As of<br>30 June<br>2019 |
| 資本充足率<br>(Capital adequacy ratio)                    | Net Capital/Total Risk-Weighted Assets  | Not less than 10%  | 72.98%                              | 66.24%                       | 51.04%                   |
| 不良資產率<br>(Non-performing asset ratio)                | Non-performing Assets/ Total Assets with Credit-risk  | Not more than 4%   | 0 (Note 1)                          | 0 (Note 1)                   | 0 (Note 1)               |
| 不良貸款率<br>(Non-performing loan ratio)                 | Non-performing Loans/ Total Loans   | Not more than 5%   | 0 (Note 1)                          | 0 (Note 1)                   | 0 (Note 1)               |
| 資產損失準備充足率<br>(Asset loss provision adequacy ratio)   | Actual Provision for Loss for Assets with Credit-risk/Required Provision for Loss for Assets with Credit-risk | Not less than 100% | 100%                                | 100%                         | 100%                     |
| 貸款損失準備充足率<br>(Loan loss provision adequacy ratio)    | Actual Provision for Loan Loss/Required Provision for Loan Loss   | Not less than 100% | 100%                                | 100%                         | 100%                     |
| 流動性比例<br>(Liquidity ratio)                           | Current Assets/ Current Liabilities   | Not less than 25%  | 48.56%                              | 30.79%                       | 39.79%                   |
| 自有固定資產比例<br>(Fixed assets ratio)                     | Total Fixed Assets/ Total Equity  | Not more than 20%  | 0 (Note 2)                          | 0 (Note 2)                   | 0 (Note 2)               |
| 短期證券投資比例<br>(Short-term securities investment ratio) | Short-term Security Investment/Total Equity   | Not more than 40%  | 0 (Note 1)                          | 0 (Note 1)                   | 0 (Note 1)               |
| 長期投資比例<br>(Long-term investment ratio)               | Long-term investment/ Total Equity  | Not more than 30%  | 0 (Note 1)                          | 0 (Note 1)                   | 0 (Note 1)               |
| 拆入資金比例<br>(Interbank borrowing funds ratio)          | Total Interbank Borrowing/ Total Equity   | Not more than 100% | 0 (Note 1)                          | 0 (Note 1)                   | 0 (Note 1)               |
| 擔保比例<br>(Guarantee ratio)                            | Guarantee Risk Exposure/Total Equity  | Not more than 100% | 14.36%                              | 13.77%                       | 20.81%                   |

*Notes:*

1. Since Tianrui Finance did not have the related items, such as non-performing asset, bad loan, short-term securities investment, long-term investment and borrowing, as at the above said date, the related ratio is recorded as zero.

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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2. Based on the information provided by the management of the Company, Tianrui Finance had fixed asset of approximately RMB7,664.37 and RMB6,640.29 as at 31 December 2018 and 30 June 2019 respectively. Thus, fixed assets ratio closed to zero and as the result, the fixed assets ratio was recorded as “zero”.

As shown in the table above, we noted that Tianrui Finance complied with the risk monitoring indicators as imposed by CBRC as at 31 December 2018 and 30 June 2019. The management of the Company advised that, up to the Latest Practicable Date, there was no record of non-compliance with the relevant laws, rules and regulations of the PRC applicable to Tianrui Finance.

*Financial performance of Tianrui Finance*

The table below sets out certain financial information of Tianrui Finance according to the audited annual report of Tianrui Finance for the year ended 31 December 2018 and the management accounts of Tianrui Finance for the six months ended 30 June 2019.

|                 | <b>For the year ended<br/>31 December</b>   |                | <b>For the<br/>six months<br/>ended<br/>30 June</b> |
|-----------------|---|----------------|---|
|                 | <b>2017</b>                                 | <b>2018</b>    | <b>2019</b>   |
|                 | <i>RMB'000</i>                              | <i>RMB'000</i> | <i>RMB'000</i>                                      |
|                 | (audited)                                   | (audited)      | (unaudited)   |
| Revenue         | 34,325                                      | 52,099         | 25,868  |
| Net Profit      | 16,173                                      | 22,052         | 16,581  |
|                 |   |                | <b>As at the<br/>six months<br/>ended</b>           |
|                 | <b>As at the year ended<br/>31 December</b> |                | <b>30 June</b>                                      |
|                 | <b>2017</b>                                 | <b>2018</b>    | <b>2019</b>   |
|                 | <i>RMB'000</i>                              | <i>RMB'000</i> | <i>RMB'000</i>                                      |
|                 | (audited)                                   | (audited)      | (unaudited)   |
| Net Asset Value | 1,029,096                                   | 1,051,148      | 1,063,910   |

According to the Administrative Measures, a finance company has to suspend part of its operation in the event it incurs a loss more than 30% of its registered capital in a year or incur a loss more than 10% of its registered capital for three consecutive years. We note that Tianrui Finance recorded a profit of approximately RMB16.2 million, RMB22.1 million and RMB16.6 million respectively for the FY2017, FY2018 and 1H2019. Furthermore, the net asset value of Tianrui Finance increased to RMB1,063.9 million as at the six months ended 30 June 2019 from RMB1,051.1 million as at the year ended 31 December 2018.

We concur with the Directors' view that the risk of placing deposits with Tianrui Finance can be effectively controlled and monitored because (i) Tianrui Finance is a non-bank financial institution subject to the regulation of CBRC. Tianrui Finance complied with the risk monitoring indicators as imposed by CBRC as at 31 December 2018 and 30 June 2019; (ii) Tianrui Finance is a profit making company which has no indication that its operation will be suspended under the CBRC regulation; (iii) the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group; and (iv) as the Company is an indirect shareholder of Tianrui Finance and a director of Tianrui Finance is recommended by the Company, it would have better access and understanding of information about the regulated operation through the general meeting of shareholders, board of directors and risk control committee of Tianrui Finance in order to promptly safeguard its own interests.

## **2. Principal terms of the 2019 Deposit Services Agreement**

The principal terms of the 2019 Deposit Services Agreement have been set out in the Letter from the Board and are summarized below.

According to the 2019 Deposit Services Agreement, Tianrui Finance shall provide the Cement Group with the Deposit Services for the period from 1 January 2020 to 31 December 2022. The deposits placed by the Cement Group to Tianrui Finance are repayable on demand. The interest rate offered by Tianrui Finance to the Cement Group for the Deposit Services shall be higher than (i) the relevant benchmark interest rate(s) as set by the PBOC; and (ii) the interest rate(s) offered to the Cement Group by other mainstream financial institutions in the PRC for comparable deposits of similar nature and under similar terms during the same period. The interest accrued for the deposits is payable every quarter.

According to the 2019 Deposit Services Agreement, the daily balance of the Cement Group's deposits (including any interest accrued therefrom) with Tianrui Finance for the years ending 31 December 2020, 2021 and 2022 shall not exceed RMB1,200 million, RMB1,200 million and RMB1,200 million, respectively. However, the amount deposited by the Cement Group with Tianrui Finance shall not be more than the usage of the total amount of funds, i.e. the total outstanding loan balance provided by Tianrui Finance to the Cement Group pursuant to the 2019 Financial Services Agreement. Furthermore, in the case of any default by Tianrui Finance as a result of which the Cement Group is not able to recover the amount deposited with Tianrui Finance, the Cement Group will be able to offset the amounts owing by Tianrui Finance to the Cement Group against the amounts due from the Cement Group to Tianrui Finance. Therefore, there will not be actual loss to be incurred by the Cement Group in case of default by Tianrui Finance. We are of the view that the above arrangement can provide protection to the Group in the event that Tianrui Finance defaults its payment under the 2019 Deposit Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Taking into account, (i) the pricing terms of the 2019 Deposit Services Agreement shall be no less favourable than those offered by independent third parties for comparable services; and (ii) the offset mechanism of loan provided by Tianrui Finance and its affiliates to the Cement Group against the deposit placed by the Cement Group with Tianrui Finance provides protection to the Cement Group under the 2019 Deposit Services Agreement, we are of the view that the terms of the 2019 Deposit Services Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

### **3. Reasons and benefits of the Deposit Services**

As stated in the Letter from the Board, the Company entered into the 2019 Deposit Services Agreement after considered that:

- (a) the interest rate(s) offered to the member(s) of the Cement Group by Tianrui Finance for the Deposit Services shall be higher than (i) the deposit rate(s) announced by the PBOC; and (ii) deposit rate(s) offered by major commercial banks in the PRC to the member(s) of the Cement Group, for comparable deposits, are on equal or better terms than those available from independent third parties.
- (b) the deposit services provided by independent third parties in preceding years and the services under the Deposit Services to be provided by Tianrui Finance are similar in nature. In addition, the Cement Group requires the Deposit Services for its daily operation, which are in the ordinary and usual course of business of the Group.
- (c) Tianrui Finance is a non-banking financial institution subject to the supervision of the CBRC and is authorized to provide a variety of financial services including deposit services under the PRC laws and regulations. Despite it cannot accept deposits from the general public, open general bank accounts and issue electronic bank debit cards, its operation is basically the same as the other commercial banks.

The financial strength of Tianrui Finance can be proven in the following ways: (i) sufficient paid-in capital: the paid-in capital of Tianrui Finance is RMB1,000 million; and (ii) security of funds: Tianrui Finance's operation is subject to the PRC laws and regulations and internal control measures. Tianrui Finance serves the Cement Group and Tianrui Group exclusively and therefore, faces relatively lower legal risks and default risks as compared to other commercial banks that serve a variety of different entities. Tianrui Finance, its major shareholders and clients belong to the same control. This enhances the monitoring and control for the security of funds.

- (d) administration charges and fees chargeable by Tianrui Finance are less than that of the commercial banks.

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- (e) settlement arrangement is easier among group members of the Group as every group member will open an account with Tianrui Finance and real-time settlement arrangement for transactions among the group members would be provided free-of-charge. Also netting off of payments could shorten the settlement process.
- (f) the Cement Group shall be entitled to the loan to be provided by Tianrui Finance pursuant to the 2019 Financial Services Agreement.

After taking into account (i) the Cement Group requires the Deposit Services under the 2019 Deposit Services Agreement for its daily operation, which are in the ordinary and usual course of business; (ii) the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group; (iii) the Deposit Services provide the flexibility, and do not impose an obligation, to the Cement Group to procure the Deposit Services from Tianrui Finance; and do not prevent the Cement Group from using services provided by independent financial institutions. The Group retains the discretion to select its financial service provider according to its business needs as well as the fees and quality of the relevant services; (iv) the Company will closely monitor the financial position of Tianrui Finance as further discussed in the paragraph headed “Background information of the parties to the 2019 Deposit Services Agreement” above; and (v) it is a term of the 2019 Deposit Services Agreement that the interest rate(s) offered to the member(s) of the Cement Group for the Deposit Services shall be higher than those offered by independent financial institutions, we are of the view that the Deposit Services are conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders as a whole.

Furthermore, we have reviewed 2019 Major Supervisory Indicators of Commercial Banking Institutions\* (商業銀行主要監管指標情況表 (2019)) published on the website of the CBRC on 10 May 2019 and understand the capital adequacy ratio, bad debt ratio and current ratio of the commercial bank in the first quarter of 2019 were approximately 14.18%, 1.8% and 56.81% respectively. As compared to the respective financial ratios of Tianrui Finance of approximately 51.04%, nil and 39.79% as at 30 June 2019, Tianrui Finance’s financial ratios show a better performance than those of commercial bank, except for the current ratio. Thus, the general risk of Tianrui Finance as a non-bank financial institution is not greater than that of the PRC commercial banks.

As shown in the paragraph headed “*Regulatory environment of Tianrui Finance*” above, Tianrui Finance complied with the risk monitoring indicators as imposed by CBRC as at 31 December 2017, 31 December 2018 and 30 June 2019.

In addition, the Independent Shareholders should also note that the cash of the Group might be concentrated in Tianrui Finance in the future, and such deposits might be subject to liquidity risk in case the Group retrieves a substantial deposit amount from Tianrui Finance. Nonetheless, taking into account, in particular (i) Tianrui Finance complied with the relevant financial ratio requirements as set out in the Administrative Measures as at 31 December 2017, 31 December 2018 and 30 June 2019 and such financial ratio regulation is designed by CBRC to enhance the risk management and the capability of risk resistance; (ii)

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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the general risk of Tianrui Finance as a non-bank financial institution is not greater than that of the PRC commercial banks; (iii) the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group, we are not aware of any major factor which would lead us to cast doubt on the ability of Tianrui Finance to fulfill its obligation on repaying deposit.

As advised by the management of the Company, in case when the members of the Cement Group request to retrieve a significant amount of deposit from Tianrui Finance which Tianrui Finance requires external fund to satisfy the deposit retrieval request, there are alternatives to obtain additional fund to fulfill its obligation, such as (i) interbank borrowing; (ii) sales of loan and credit asset; (iii) rediscounted bill from PBOC; and (iv) making loan from PBOC. In addressing the concern on Tianrui Finance's ability to repay the deposit requested by Cement Group in a timely manner, the management of the Company advised that funds through interbank borrowing to be obtained by Tianrui Finance are sufficient to cover the maximum of the Deposit Services Annual Caps. According to Measures for the Administration of Interbank Borrowing\* 〈同業拆借管理辦法〉 published by the PBOC, the maximum amount of interbank borrowing should not exceed the paid-up capital of Tianrui Finance and Tianrui Finance should record a profit in the previous two years.

We have obtained and reviewed the business license of Tianrui Finance and note the registered capital of Tianrui Finance is RMB1,000 million. Moreover, according to the website of National Interbank Funding Center, which is an entity under the PBOC, the settlement time on the interbank borrowing can be on the same day or a day after the loan is agreed. As shown in the news published in the website of National Interbank Funding Center in March 2018, Tianrui Finance is allowed to conduct borrowing/lending under the interbank borrowing market.

Tianrui Finance will daily monitor the total available funds that can be borrowed by Tianrui Finance in interbank borrowing (i.e. the capital of Tianrui Finance minus the loan from interbank borrowing) (the “**Total Available Fund**”) against the total amount deposited by the Cement Group with Tianrui Finance to ensure Total Available Fund shall exceed the total amount of such deposits. Accordingly, when the Total Available Fund reaches the level of total amount deposited by the Cement Group with Tianrui Finance, Tianrui Finance shall (i) not accept any additional deposit made by the Cement Group; and (ii) cease to enter into any new borrowing in the interbank borrowing market, until certain borrowings from the interbank borrowing market are repaid.

Based on aforesaid research, after considering (i) there are other means for Tianrui Finance to fulfill its obligation upon receiving deposit retrieval request; (ii) the maximum amount of interbank borrowing can be up to but not exceeding the paid-up capital of Tianrui Finance, which is RMB1,000 million; (iii) the transactions settlement time on the interbank borrowing can be on the same day or day after the loan is agreed; and (iv) Tianrui Finance will daily monitor the level of the total amount deposited by the Cement Group with Tianrui Finance against the Total Available Fund to ensure Tianrui Finance is capable

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to fulfill its obligation on Cement Group's deposit retrieval request, we have no reason to doubt the availability of alternative channels for Tianrui Finance to meet the Cement Group's deposit retrieval request in a timely manner.

The Independent Shareholders should note that the capability of Tianrui Finance to meet the Cement Group's deposit retrieval request in a timely manner might rely solely on the interbank borrowing, and the risk to fulfill its obligation in a timely manner is subject to the financial status of Tianrui Finance, the environment and regulation in the interbank borrowing market and the capability of Tianrui Finance to reach the loan with the members of the interbank borrowing market.

#### 4. The Deposit Services Annual Caps

The Deposit Services Annual Caps for the maximum daily deposit amount (including the corresponding interests accrued thereon) by member(s) of the Cement Group with Tianrui Finance in relation to the Deposit Services are as follows:

|  | <b>From<br/>1 January to<br/>31 December<br/>2020<br/>(RMB)<br/>million</b> | <b>From<br/>1 January to<br/>31 December<br/>2021<br/>(RMB)<br/>million</b> | <b>From<br/>1 January to<br/>31 December<br/>2022<br/>(RMB)<br/>million</b> |
|--|---|---|---|
| Maximum daily balance of<br>the Deposit Services | 1,200   | 1,200   | 1,200   |

The annual caps under the 2017 Deposit Services Agreement are as follows:

|  | <b>From<br/>29 December to<br/>31 December<br/>2017<br/>(RMB)<br/>million</b> | <b>From<br/>1 January to<br/>31 December<br/>2018<br/>(RMB)<br/>million</b> | <b>From<br/>1 January to<br/>31 December<br/>2019<br/>(RMB)<br/>million</b> |
|--|---|---|---|
| Maximum daily balance of<br>the Deposit Services | 700   | 1,000   | 1,000   |

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The historical highest daily balances under the 2017 Deposit Services Agreement are as follows:

|   | <b>From<br/>29 December to<br/>31 December<br/>2017<br/>(RMB)<br/>million</b> | <b>From<br/>1 January to<br/>31 December<br/>2018<br/>(RMB)<br/>million</b> | <b>From<br/>1 January to<br/>31 October<br/>2019<br/>(RMB)<br/>million</b> |
|---|---|---|--|
| Historical highest daily balance<br>of the Deposit Services | Nil<br>(Note)   | 646.39  | 601.5  |

*Note:* The 2017 Deposit Services Agreement was approved at the extraordinary general meeting of the Company held on 29 December 2017.

As stated in the Letter from the Board, the Group's cash and bank balance increased from RMB711.8 million as at 31 December 2018 to RMB817.1 million as at 30 June 2019. The increase was primarily due to the increase in cash inflows from operation activities during the six months ended 30 June 2019. The Directors expect the Group's performance to continue to improve which will lead to extra idle cash. Also, the Cement Group is not under any obligation to place deposits with Tianrui Finance pursuant to the 2019 Deposit Service Agreement.

The management of the Company advised that the setting of Deposit Services Annual Caps for the Deposit Services higher than the bank balance and cash on hand of the Cement Group is to accommodate the possible drawn down of the loan facility to be provided by Tianrui Finance which could be temporarily deposited in the relevant bank accounts under the Deposit Services, and has also taken into account of the expected cashflow to be generated from the operations of the Cement Group.

As advised by the management of the Company, upon the approval of the 2019 Deposit Services Agreement and the Deposit Services Annual Caps, Tianrui Finance will provide the information of the relevant commercial bank account (the "**Tianrui Finance Account**") to the Cement Group for making deposit. The Cement Group will make deposit directly to the Tianrui Finance Account after having notified Tianrui Finance on the relevant deposit. The management of the Company advised that the Company will make current deposit and time deposit according to the funding need of the Group at the time of making deposit. For retrieving the current deposit, the Cement Group will verbally notify Tianrui Finance a day before the application of retrieving deposit for the amount of RMB10 million or above. For retrieving the time deposit, the Cement Group will also verbally notify Tianrui Finance in advance before the application of retrieving deposit if the Cement Group wants to withdraw before the due date of the time deposit. The above arrangements are similar to operation flows of the Cement Group with the commercial banks in the PRC. In this regard, we have (i) obtained confirmation from the representative of the Company and understood that the application process of retrieving deposit of the Company with the commercial banks in the PRC; and (ii) reviewed the documents of the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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member company application of retrieving deposit from Tianrui Finance and understood that the application process of retrieving deposit of the member company with Tianrui Finance.

As advised by the management of the Company, certain treasury management procedures of Tianrui Finance will ensure that Tianrui Finance has sufficient funds to satisfy the deposit retrieval requests by the Cement Group in timely manner. After receiving the deposit retrieval request a day before application for the retrieval amount of over RMB10 million, the settlement department of Tianrui Finance will check and reserve the sufficient amount of funds through the software system for the member of Cement Group to retrieve on the next day. When Tianrui Finance does not have sufficient funds for the member of Cement Group to retrieve on the next day, the treasury section of the finance department of Tianrui Finance will calculate the shortfall of the requested deposit amount and seek for the approval from general manager or chief financial officer of Tianrui Finance to proceed interbank borrowing in regard to the shortfall. The treasury section of the finance department, which is responsible for interbank borrowing will seek for quotation and lender through the interbank borrowing market and prepare the borrowing plan (including borrowing amount, duration, interest rate and the counter party, etc.). Such borrowing shall be approved by the deputy general manager of Tianrui Finance for execution. For the interbank borrowing amount of over RMB10 million, it shall be approved by the general manager and chairman of Tianrui Finance for execution.

Given (i) the Deposit Services provide the option, not an obligation, for the Cement Group to deposit its cash with Tianrui Finance; (ii) the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group; and (iii) Tianrui Finance has the same operation flow and the same time required in making deposit/retrieving deposit as commercial banks as mentioned above and thus there will not have material influence on the Cement Group in daily operation due to the use of the Deposit Services from Tianrui Finance instead of commercial banks, we consider that the Deposit Services Annual Caps are based on reasonable estimation and after due and careful consideration and are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### **5. Internal Control and Risk Management**

As stated in the Letter from the Board, the Group will adopt the following internal control procedures to ensure each of the transactions contemplated in the 2019 Deposit Services Agreement are on normal commercial terms and in the interest of the Company and the Shareholders as a whole, the detail of which are set out in paragraph headed “Internal Control and Risk Management of the Company” in the Letter from the Board.

- (a) In respect of the Deposit Services under the 2019 Deposit Services Agreement to be utilized by the Cement Group, the personnel in the finance department of the Group is/are responsible for the comparing of the rate(s) offered by Tianrui Finance against the deposit rate(s) announced by the PBOC, and further against the deposit rate(s) offered by at least three major commercial banks in the PRC, to confirm the rate(s) offered by Tianrui Finance are more favourable to the Cement

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Group. The main criterion for selecting the three major commercial banks for benchmarking purpose are (i) previous volume of transactions with the Cement Group and (ii) deposit interest rate of the banks. The main criterion for selecting financial institutions for providing deposit services are (i) the more favourable interest charges and fees that they can offer; and (ii) the previous business relationship with the institution. Such information together with the daily deposit amount (with the corresponding accrued interests) will be consolidated and included in a report to be submitted to the chief financial officer of the Group for review, verification and approval.

- (b) The Audit Committee of the Company reviews the quarterly reports to ensure the rates and terms offered to member(s) of the Cement Group for the Deposit Services complied with the terms and conditions under the 2019 Deposit Services Agreement and the aggregate daily deposit amount (with the corresponding accrued interests) with Tianrui Finance by the Cement Group shall not exceed the relevant Deposit Services Annual Caps.
- (c) Financing will not be given to other entities which engaged in business competes with that of the Group.
- (d) The Company's chief financial officer has been appointed as one of the directors of Tianrui Finance and is responsible for the management and day-to-day operation of Tianrui Finance. He will report any non-compliance and issues regarding to the internal control policies or financial to the Company immediately.
- (e) Quarterly reports about business performance, compliance, deposits and loans, and other services, and the financial statements (including profits and loss accounts and balance sheet) of Tianrui Finance prepared by Tianrui Finance in accordance with the related rules and regulations of CBRC, will be sent to the Cement Group and the Company for review and monitoring.
- (f) To monitor and control the risk of the Deposit Services and to formulate solutions in resolving any risk which may arise in connection therewith, the Company considers the possible risks include default risk, regulation risk and corporate governance risk: (i) in accessing the default risks, the Company considers that since the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group. Therefore, in the case of any default by Tianrui Finance, the Cement Group will be able to offset the amounts owing by Tianrui Finance to the Cement Group against the amounts due from the Cement Group to Tianrui Finance; and (ii) in accessing regulation risks, the Company considers that Tianrui Finance is governed by the CBRC and is subjected to related rules and regulations and internal control measures. As mentioned in the 2019 Deposit Services Agreement, the Cement Group will review all the monitoring reports submitted to the CBRC to ensure compliance. Tianrui Finance shall notify the Cement Group in writing within two business days

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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once there are any non-compliance issues or penalties imposed by the CBRC and (iii) in accessing the corporate governance risk, the Company's chief financial officer has been appointed as one of the directors of Tianrui Finance.

- (g) To ensure that the amount deposited by the Cement Group with Tianrui Finance shall not be more than the usage of the total amount of funds. Firstly, certain staff in the finance department of the Cement Group is/are assigned to conduct manual checks on the loan amount before deposit is made. Furthermore, the computing software systems to record and monitor the amount deposited by the Cement Group with Tianrui Finance will notify the finance department if the amount is about to reach the loan amount. The Cement Group will check to ensure that the amount due to Tianrui Finance is always higher than the amount deposited to Tianrui Finance before the Cement Group repays a loan due to Tianrui Finance.

We are advised by the management of the Company that:

- (a) the head of finance department of the Group has confirmed that:
  - (1) he is aware of the finance responsibility of interest rate comparison and generating related report on each of the deposit transaction;
  - (2) he is aware of the finance department's responsibility to monitor the level of the Cement Group's loan received from Tianrui Finance and the level of Cement Group's deposit placed to Tianrui Finance;
- (b) the Company's chief financial officer has confirmed that:
  - (1) he is responsible for reviewing and approving a monthly report with aforesaid Tianrui Finance's deposit rate comparison;
  - (2) he is aware of his responsibility of reviewing and monitoring reports submitted to the CBRC;
  - (3) he is aware of his responsibility for the management and day-to-day operation of Tianrui Finance and reporting any related non-compliance to the Group and also ensuring the financing from Tianrui Finance shall not be given to other entities which engaged in business competes with that of the Group;
- (c) the chairman of the Audit Committee has confirmed that:
  - (1) he is aware of his responsibility of reviewing and monitoring the quarterly report related to business performance, compliance, deposits and loans, and other services, and the financial statements of Tianrui Finance; and
  - (2) he is aware of his responsibility of ensuring the rates and terms offered to member(s) of the Cement Group for the Deposit Services complied with the terms and conditions under the 2019 Deposit Services Agreement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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For our due diligence purpose and to review the internal control procedures in relation to price setting and monitoring of annual caps, we have obtained and reviewed three samples of monthly reports prepared by the personnel in the finance department and approved by the chief financial officer of the Company for the period from March 2019 to October 2019. These monthly reports reflected the comparison of deposit rates offered by Tianrui Finance against those offered by three major commercial banks in the PRC. Also, we have obtained and reviewed three samples of daily summaries prepared by the personnel in the finance department and approved by the chief financial officer of the Company for the period from March 2019 to May 2019. These daily summaries reflected that the amount due to Tianrui Finance and the amount deposited to Tianrui Finance. Based on our review, we note that the Company has put in place internal control measures to ensure that the transactions are conducted fairly and reasonably.

Furthermore, we have reviewed the 2017 Annual Report and the 2018 Annual Report and note that the independent non-executive directors had reviewed and confirmed that the continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group, and either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; or (ii) not in the normal and ordinary course of business of the Group, but on commercial terms more favourable to the Group; and (iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Shareholders as a whole. Moreover, the auditor had issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed in the 2017 Annual Report and the 2018 Annual Report by the Group in accordance with Rule 14A.56 of the Listing Rules. The management of the Company advised that the Company will continue to comply with the relevant Listing Rules requirements on an ongoing basis.

Given that (i) there are sufficient internal control procedures for the Group to ensure that the deposit interest rates to be offered by Tianrui Finance to the Cement Group will be higher than the interest rates of the PBOC's benchmark interest rate, and the interest rate offered by major commercial banks in the PRC for similar deposits of similar terms; (ii) there are sufficient internal control procedures for the Group to ensure the amount deposited by the Cement Group in Tianrui Finance shall not be more than the total loan outstanding balance provided by Tianrui Finance to the Cement Group; (iii) there are sufficient internal control procedures for the Group to ensure that Tianrui Finance has a healthy operation and financial status, which reduce the possibility of default; and (iv) the relevant persons of the Company understand their responsibilities to implement the internal control procedures. We are of the view that there are sufficient internal control procedures in place to ensure transactions contemplated under the 2019 Deposit Services Agreement will be conducted on normal commercial terms and fair and reasonable and in the interests of the Company and its Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### RECOMMENDATION

Having taken into account the factors and reasons above, we consider that the transactions contemplated under the 2019 Deposit Services Agreement and the Deposit Services Annual Caps are (i) conducted in the ordinary and usual course of business of the Company; (ii) on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favour of the ordinary resolution in this regard.

Yours faithfully,  
For and on behalf of  
**CLC International Limited**  
**Wayne Su**  
*Managing Director*

*Mr. Wayne Su is a licensed person registered with the Securities and Futures Commission and as a responsible officer of CLC International Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and have over 10 years of experience in corporate finance industry.*

*The English translation of the China name(s) in this letter, where indicated with \* is included for information purpose only and should not be regarded as the official English name(s) of such Chinese names.*

## 1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial statements of the Company for the years ended 31 December 2016, 2017 and 2018 and the unaudited consolidated financial statements of the Company for the six months ended 30 June 2019 together with the relevant notes to the financial statements of the Company can be found on the annual report of the Company for the year ended 31 December 2016, 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019. Please see below the hyperlinks to the said annual and interim reports:

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn201904261290.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0426/ltn201804262793.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0427/ltn20170427515.pdf>

<https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0923/ltn20190923223.pdf>

## 2. STATEMENT OF INDEBTEDNESS

As at the close of business of 31 October 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Circular, the Group has outstanding borrowings and indebtedness of approximately RMB10,595,293,658 comprising bank loans of RMB8,462,424,623 (bank loans include secured bank loans of approximately RMB4,314,455,035, which are secured by assets of the Group and shares of the Group's subsidiary; and unsecured bank loans of approximately RMB4,147,969,588, of which guaranteed bank borrowings are of approximately RMB3,287,969,588, unguaranteed bank loans are approximately RMB860,000,000).

The issued and outstanding short-term and medium-term bills which will mature within one year are of approximately RMB105,676,000, obligations under financial guarantee contract which will mature within one year are of approximately RMB15,535,677 and long-term corporate bonds which will mature after one year are of approximately RMB2,027,193,035. The total borrowing and bonds which will mature after one year are approximately RMB6,039,661,035.

The maximum daily balance for the guaranteed amount provided by the Group to Tianrui Group and its subsidiaries was RMB3,000 million for the year ended 31 December 2019. As at 31 October 2019, bank borrowings of approximately RMB1,576 million are secured by the guarantee provided by the Group to Tianrui Group.

Other than as disclosed above, and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Group, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, bank loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, mortgage, charges, guarantees or other contingent liabilities as at the close of business on 31 October 2019.

## 1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in the compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

## 2. DISCLOSURE OF INTERESTS

### Directors' and Senior Management' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at Latest Practicable Date, the interests and short positions of our Directors and chief executives in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules, were as follows:

| Name of Director      | Capacity/<br>Nature of interests                                 | Total number<br>of shares    | Approximate<br>percentage of<br>shareholding<br>(%) |
|-----------------------|--|------------------------------|---|
| Mr. Li <sup>(1)</sup> | Interest of corporation controlled by the director/Long position | 2,044,484,822 <sup>(2)</sup> | 69.58   |
| Ms. Li <sup>(1)</sup> | Interest of corporation controlled by the director/Long position | 2,044,484,822 <sup>(2)</sup> | 69.58   |

*Notes:*

- (1) Yu Kuo is 51.25% owned by Holy Eagle Company Limited (“**Holy Eagle**”) and 48.75% owned by Yu Qi Company Limited (“**Yu Qi**”) by equity interests. Each of Holy Eagle and Yu Qi are wholly owned by Tianrui (International) Holding Company Limited (“**Tianrui International**”), which is wholly owned by Tianrui Group Company. Tianrui Group Company is 70% owned by Chairman Li and 30% owned by Ms. Li. Chairman Li and Ms. Li are deemed to be interested in the shares held by Yu Kuo.
- (2) As at the Latest Practicable Date, Yu Kuo pledged its 899,247,000 Shares (approximately 30.60% of the issued share capital of the Company) held in the Company to financial institutions in order to secure loans.

Save as disclosed above, as at Latest Practicable Date, none of the Directors or chief executives of the Company has or is deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each of them has taken or deemed to have taken under the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein or which will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at Latest Practicable Date, to the best knowledge of the Directors and the senior management of the Company, the followings are the persons, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

| <b>Name</b>           | <b>Capacity/<br/>Nature of Interests</b>  | <b>Total number<br/>of Shares</b> | <b>Approximate<br/>percentage of<br/>shareholding<br/>(%)</b> |
|-----------------------|---|-----------------------------------|---|
| Yu Kuo                | Beneficial owner/Long position <sup>(1)</sup>   | 2,044,484,822 <sup>(2)</sup>      | 69.58   |
| Tianrui Group         | Interest of corporation controlled by the substantial shareholder/ Long position <sup>(1)</sup> | 2,044,484,822 <sup>(2)</sup>      | 69.58   |
| Tianrui International | Interest of corporation controlled by the substantial shareholder/ Long position <sup>(1)</sup> | 2,044,484,822 <sup>(2)</sup>      | 69.58   |
| Holy Eagle            | Interest of corporation controlled by the substantial shareholder/ Long position <sup>(1)</sup> | 2,044,484,822 <sup>(2)</sup>      | 69.58   |
| Yu Qi                 | Interest of corporation controlled by the substantial shareholder/ Long position <sup>(1)</sup> | 2,044,484,822 <sup>(2)</sup>      | 69.58   |

| Name  | Capacity/<br>Nature of Interests  | Total number<br>of Shares    | Approximate<br>percentage of<br>shareholding<br>(%) |
|---|---|------------------------------|---|
| Chairman Li   | Interest of corporation controlled by the substantial shareholder/ Long position <sup>(1)</sup> | 2,044,484,822 <sup>(2)</sup> | 69.58   |
| Ms. Li  | Interest of corporation controlled by the substantial shareholder/ Long position <sup>(1)</sup> | 2,044,484,822 <sup>(2)</sup> | 69.58   |
| The Export-Import Bank of China   | Party with security interest over the shares/Long position                                      | 315,000,000                  | 10.72   |
| Buttonwood Investment Holding Company Ltd   | Interest of controlled corporation/Long position  | 315,000,000                  | 10.72   |
| PA Investment Funds SPC — PA Greater China Industrial Opportunities Fund Segregated Portfolio | Beneficial owner/Long position  | 237,600,000                  | 8.09  |
| China Huarong Asset Management Co., Ltd.  | Interest of controlled corporation/Long position  | 420,747,000                  | 14.32   |
| China Huarong International Holdings Limited  | Interest of controlled corporation/Long position  | 300,000,000                  | 10.21   |
| Right Select International Limited  | Interest of controlled corporation/Long position  | 300,000,000                  | 10.21   |

| Name  | Capacity/<br>Nature of Interests                                 | Total number<br>of Shares | Approximate<br>percentage of<br>shareholding<br>(%) |
|---|--|---------------------------|---|
| Best Ego Limited  | Party with security interest<br>over the shares/Long<br>position | 300,000,000               | 10.21   |
| Haitong<br>International<br>Investment<br>Solutions Limited | Party with security interest<br>over the shares/Long<br>position | 167,000,000               | 5.68  |
| Haitong<br>International<br>Holdings Limited                | Interest of controlled<br>corporation/Long position              | 167,000,000               | 5.68  |
| Haitong<br>International<br>Securities Group<br>Limited     | Interest of controlled<br>corporation/Long position              | 167,000,000               | 5.68  |
| Haitong Securities<br>Co., Limited                          | Interest of controlled<br>corporation/Long position              | 167,000,000               | 5.68  |
| Henan Jiuding<br>Financial Leasing<br>Co., Ltd              | Party with security interest<br>over the shares/Long<br>position | 200,000,000               | 6.81  |

*Notes:*

- (1) Yu Kuo is 51.25% and 48.75% owned by Holy Eagle and Yu Qi respectively by equity interests. Holy Eagle is wholly owned by Tianrui International, whereas Tianrui International is wholly owned by Tianrui Group. Tianrui Group is 70% and 30% owned by Chairman Li and Ms. Li respectively. Chairman Li, Ms. Li, Tianrui Group, Tianrui International, Holy Eagle and Yu Qi are respectively deemed to be interested in the shares held by Yu Kuo.
- (2) As at the Latest Practicable Date, Yu Kuo pledged its 899,247,000 Shares (approximately 30.60% of the issued share capital of the Company) held in the Company to financial institutions in order to secure loans for its own.

Saved as disclosed above, as at Latest Practicable Date, no other person has any interest or short position which shall be recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

### 3. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates that has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, save and except for the following:

#### (1) Ruiping Shilong

Pingdingshan Ruiping Shilong Cement Company Limited (平頂山瑞平石龍水泥有限公司) (“**Ruiping Shilong**”) is a limited liability company incorporated in the PRC, of which 40% is owned by Tianrui Cement (the Company’s wholly-owned subsidiary) and 60% is owned by Ruiping Power. Ruiping Power is held by Tianrui Foundry (indirectly and jointly wholly-owned by Chairman Li and Ms. Li) as to 40% and by an Independent Third Party as to 60%. Ruiping Shilong is engaged in manufacturing and selling clinker in certain areas of Henan province, so its business competes with the Company’s clinker operation in those areas.

As at the Latest Practicable Date, the Directors held the view that the Group is financially and operationally independent from Ruiping Shilong. The Controlling Shareholders currently have no intention to inject their indirect interest in Ruiping Shilong into the Group.

#### (2) Shanshui Cement

As of the Latest Practicable Date, Tianrui (International) Holding Company Limited, a wholly-owned subsidiary of Tianrui Group Company which is owned as to 70% by Chairman Li, has acquired a total of 951,462,000 shares of China Shanshui Cement Group Limited (691.HK) (“**Shanshui Cement**”, a company which is listed on the Main Board of the Stock Exchange) representing approximately 21.85% issued share capital of Shanshui Cement. Shanshui Cement is engaged in production of clinker and cement in China.

As at the Latest Practicable Date, the Directors held the view that the Group is financially and operationally independent from Shanshui Cement. The Company has an option to acquire the shares in Shanshui Cement pursuant to a non-competition deed, but has decided not to exercise the said option at this stage after considering, among others, the recent financial performance of Shanshui Cement.

#### 4. MATERIAL CHANGE

As at the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

#### 5. FINANCIAL AND TRADING PROSPECTS

In the first half of 2019, the Group recorded a revenue of RMB5,494.7 million, an increase of RMB1,188.1 million or 27.6% compared to the same period in 2018. The profit attributable to owners of the Company amounted to RMB887.0 million, representing an increase of RMB336.2 million or 61.0% from approximately RMB550.8 million in the first six months of 2018. The Board remains cautiously optimistic of the full-year financial performance in 2019.

As one of the twelve nationally recognized major cement companies in China and one of the five cement companies designated by the Ministry of Industry and Information Technology, the Group is encouraged to undertake the integration of the cement market in the Central China region and to promote the integration of the cement industry. The government provides support to designated companies such as tax incentives and special projects or financing approvals. The Group will make full use of its policies and its own advantages, strengthen internal management, enhance refined management while optimizing production processes, increasing production utilization, and promoting regional market integration and synergy in order to seize new profit growth points, maintain and enhance the advantages of cost and scale to consolidate the leading market position in Henan and Liaoning.

The Group will further expand the scope of the unified purchase of materials, strengthen fine management, and improve the production efficiency, so that the Group can further reduce the unit production costs and then maintain our leading positions in other markets. The Group believes that maintaining and increasing the cost advantages will be beneficial for the Group. In order to expand its market coverage, we will also put forward the strategic acquisition at the appropriate time.

#### 6. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance was pending or threatened against any member of the Group.

#### 7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contracts or appointment letter with the Company or any other member of the Group save for those expiring or determinable by the relevant employer within one year without payment of compensation, other than statutory compensation.

## 8. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors of the Company had any interest in any assets which have been since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group, save for (i) the clinker supply agreement entered into between Pingdingshan Ruiping Shilong and Tianrui Cement dated 1 April 2019 (the “**Existing Clinker Supply Agreement**”) and the clinker supply agreement entered into between Ruiping Shilong and Tianrui Cement dated 16 October 2019 (the “**New Clinker Supply Agreement**”), details of which have been disclosed in the announcement of the Company dated 7 April 2019 and the Circular of the Company dated 31 October 2019 respectively; (ii) the 2017 Deposit Services Agreement and the Financial Services Agreement, details of which have been disclosed in the announcement of the Company dated 6 October 2017 and the circular of the Company dated 12 December 2017; (iii) the framework agreement (the “**2017 Framework Agreement**”) entered into between Tianrui Group Company, Tianrui Cement and the Company dated 11 May 2017 and the counter guarantee agreement (the “**2017 Counter Guarantee Agreement**”) entered into between the Company and Chairman Li dated 11 May 2017, details of which have been disclosed in the announcement of the Company dated 11 May 2017; (iv) the framework agreement (the “**2019 Framework Agreement**”) entered into between Tianrui Group Company, Tianrui Cement and the Company dated 8 November 2019 and the counter guarantee agreement (the “**2019 Counter Guarantee Agreement**”) entered into between the Company and Chairman Li dated 8 November 2019, details of which have been disclosed in the announcement of the Company dated 8 November 2019; and (v) the 2019 Deposit Services Agreement and the 2019 Financial Services Agreement, the salient details of which are set out in this circular and the announcement of the Company dated 8 November 2019.

## 9. QUALIFICATION AND CONSENT OF EXPERT

The following is the qualification of the expert who has given its advice for inclusion in this Circular:

| Name                      | Qualification   |
|---------------------------|---|
| CLC International Limited | Independent financial adviser and a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulatory activities under the SFO |

As at the Latest Practicable Date, CLC International Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and reference to its name and opinion in the form and context in which it appears.

As at the Latest Practicable Date, CLC International Limited did not have any shareholding in the Company or any other member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any other member of the Group.

#### 10. EXPERT'S INTERESTS IN ASSETS

As at the Latest Practicable Date, the expert referred to in the paragraph named "Qualification and Consent of Expert" above does not have any interest in any assets which have been since 31 December 2018 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

#### 11. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the members of the Group within two years preceding the Latest Practicable Date and are or may be material:

- (a) 2019 Deposit Services Agreement;
- (b) 2019 Financial Services Agreement;
- (c) the Existing Clinker Supply Agreement, the details of which is set out in the announcement of the Company dated 7 April 2019;
- (d) the capital injection agreement dated 29 December 2018 entered into between CCB Financial Asset Investment Co., Ltd (建信金融資產投資有限公司) ("CCB"), Tianrui Cement and Tianrui Group Zhengzhou Cement Company Limited (天瑞集團鄭州水泥有限公司) (the "**First Target Company**"), details of which is set out in the announcements of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (e) the capital injection agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and Dalian Tianrui Cement Company Limited (大連天瑞水泥有限公司) (the "**Second Target Company**"), details of which is set out in the announcements of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (f) the capital injection agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and Tianrui Group Guangshan Cement Company Limited (天瑞集團光山水泥有限公司) (the "**Third Target Company**"), details of which is set out in the announcements of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (g) the capital injection agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and Weihui Shi Tianrui Cement Company Limited (衛輝市天瑞水泥有限公司) (the "**Fourth Target Company**"), details of which is set out in the announcements of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;

- (h) the capital injection agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and Tianrui Group Ruzhou Cement Company Limited (天瑞集團汝州水泥有限公司) (the “**Fifth Target Company**”), details of which is set out in the announcements of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (i) the share repurchase agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and the First Target Company, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (j) the share repurchase agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and the Second Target Company, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (k) the share repurchase agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and the Third Target Company, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (l) the share repurchase agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and the Fourth Target Company, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (m) the share repurchase agreement dated 29 December 2018 entered into between CCB, Tianrui Cement and the Fifth Target Company, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (n) the amendment agreement dated 31 May 2019 entered into between CCB, Tianrui Cement and the Fourth Target Company, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (o) the cancellation agreement dated 10 September 2019 entered into between CCB and Tianrui Cement, details of which is set out in the announcement of the Company dated 29 December 2018, 12 June 2019 and 10 September 2019;
- (p) the New Clinker Supply Agreement, the details of which is set out in the circular of the Company dated 31 October 2019; and
- (q) the 2019 Framework Agreement and the 2019 Counter Guarantee Agreement, the details of which are set out in the announcement of the Company dated 8 November 2019.

## 12. MISCELLANEOUS

- (a) The joint company secretaries of the Company are Mr. Li Jiangming and Ms. Ng Ching Mei.
- (b) The registered office of the Company is situated at Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111, Cayman Islands. The headquarters and principal place of business of the Company is at No. 63 Guangcheng Road East, Ruzhou City, Henan Province, PRC.
- (c) The place of business in Hong Kong of the Company registered under Part 16 of the Companies Ordinance (Cap 622) is at Room 2005A, 20/F., Lippo Centre Tower 2, 89 Queensway, Admiralty, Hong Kong.
- (d) The English text of this Circular shall prevail over the Chinese text in case of any inconsistency.

## 13. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company, Room 2005A, 20/F, Tower 2, Lippo Centre, 89 Queensway, Admiralty, Hong Kong during normal business hours from 9:30 am to 6:30 pm on any business day for a period of 10 business days from the date of this Circular:

- (a) the articles of association of the Company;
- (b) the annual reports of the Company for the three years ended 31 December 2016, 2017 and 2018 and the interim report of the Company for the six months ended 30 June 2019;
- (c) the material contracts referred to in the paragraph above headed “**Material Contracts**” in this Appendix;
- (d) the letter from Board, the text of which is set out in this circular;
- (e) the letter from the Independent Board Committee, the text of which is set out in this circular;
- (f) the letter from CLC International Limited, the text of which is set out in this circular, and
- (g) the consent letter of CLC International Limited as referred to in the section headed “**Qualifications and Consent of Expert**” in this Appendix II.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting (the “**EGM**”) of China Tianrui Group Cement Company Limited (the “**Company**”) will be held at 3:30 p.m. on 27 December 2019 at 14/F, Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution:

### **ORDINARY RESOLUTION**

**“THAT**

- (i) the deposit services agreement (“**2019 Deposit Services Agreement**”) dated 8 November 2019 entered into between Tianrui Cement Group Company Limited (天瑞水泥集團有限公司) (“**Tianrui Cement**”) and Tianrui Group Finance Company Limited (天瑞集團財務有限責任公司) (“**Tianrui Finance**”) (copy of which have been produced to the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) in relation to the provision of a range of deposit services by Tianrui Finance to Tianrui Cement and its subsidiaries (collectively, the “**Cement Group**”), including but not limited to the provision of the deposit services as stipulated thereunder, be and is hereby approved, confirmed and ratified;
- (ii) the proposed maximum daily outstanding balance of deposits placed by the Cement Group with Tianrui Finance (including any interest accrued therefrom) in the amount not exceeding RMB1,200 million, RMB1,200 million and RMB1,200 million for the years ending 31 December 2020, 2021 and 2022 be and is hereby approved;
- (iii) any one of the directors of the Company (each a “**Director**”) be and is hereby authorised to take all steps, for and on behalf of the Company, which are in his opinion necessary or expedient to implement and/or give effect to the terms of the 2019 Deposit Services Agreement; and

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (iv) the Directors be and are hereby authorised to sign, execute, perfect and deliver all such documents, and do all such actions which are in their opinion necessary, appropriate, desirable or expedient for the implementation and completion of The 2019 Deposit Services Agreement and the related proposed annual caps and the transactions contemplated thereunder or incidental to the 2019 Deposit Services Agreement and the related proposed annual caps and all other matters incidental thereto or in connection therewith and to agree to the variation and waiver of any of the matters relating thereto that are, in the opinion of the Directors, appropriate, desirable or expedient in the context of the guarantee and are in the best interests of the Company.”

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

Ruzhou City, Henan Province, PRC, 5 December 2019

**Notes:**

- (a) For determining the Shareholders who are entitled to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 20 December 2019 to Friday, 27 December 2019 (both dates inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the entitlement to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Thursday, 19 December 2019.
- (b) Any shareholder of the Company entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his or her behalf. A proxy need not be a shareholder of the Company. To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited with the Company’s share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the EGM or any adjourned meeting.
- (c) In the case of joint holders of any share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such shares as if he were solely entitled thereto. However, if more than one of such joint holders is present at the EGM, in person or by proxy, the vote of the joint holder whose name stands first in the register of members and who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s).

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (d) Completion and delivery of the form of proxy will not preclude a shareholder from attending and voting at the EGM if you so wish. In such event, the instrument appointing a proxy shall be deemed to be revoked.

As at the date of this notice, 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

*Independent non-executive Directors*

Mr. Kong Xiangzhong, Mr. Wang Ping and Mr. Du Xiaotang