

## **Huaxin Cement Co., Ltd.**

### **Announcement on External Investment**

To the best of our knowledge, the Board of Directors of the Company and its members confirm that there is no material false or misleading statement or material omission in this announcement and shall be severally and jointly liable for the truthfulness, accuracy and completeness of its content.

#### **Highlights:**

- Target of the investment: Huaxin intends to set up a controlled subsidiary Huangshi Huaxin Green Building Materials Limited Company (the name of the subsidiary will be subject to the final approval of the authority) in Yangxin County, Hubei Province. Huaxin will invest to build Huangshi Huaxin Green Building Materials Industry Project.
- Investment amount: Huaxin will invest 1.2 billion RMB to set up Huangshi Huaxin Green Building Materials Limited Company. The total investment of Huangshi Huaxin Green Building Materials Industry Project is about 10 billion RMB.
- Special risks warning: The investment has been approved by the Twenty Fourth Meeting of the Ninth Board of Directors of the Company, yet to be approved by Shareholders' General Meeting. The result of the review is uncertain. The quarry resources for Huangshi Huaxin Green Building Materials Industry Project has risks in high price of quarry warrant, long time acquisition of new quarry warrant. Hereby investors should pay attention to the investment risks.

#### **I. Overview of the external investment**

##### **(1) Brief introduction of the external investment**

According to the Company's development strategy and after study by the Board of Directors, Huaxin decided to co-invest 2 billion RMB in Yangxin County, Hubei Province, together with Huangshi Urban Development Investment Limited Company and Yangxin County State-owned Mining Investment Limited Company to establish Huangshi Huaxin Green Building Materials Industry Co., Ltd, which will be the main investment body to invest about 10 billion RMB to build the Huangshi Huaxin Green Building Materials Industrial Park project (including 2 million tons/year active calcium and deep-processing product production lines, 100 million tons/year machine-made sand lines and 2 billion units/year wall material production line). Huaxin has signed the Cooperation Agreement with Huangshi City Development Investment Group Co., Ltd. and Yangxin County State-owned Mining Investment Co., Ltd. on December 14, 2020.

##### **(2) Approval procedures required for the investment to take effect**

The investment has been approved by the Twenty Fourth Meeting of the Ninth Board of Directors of the Company. In accordance with Article 114 in the Articles of Association of Huaxin Cement Co., Ltd, any investment amounting to 20% and above of the most recent audited net assets of the Parent Company shall be submitted to a Shareholders' General Meeting for approval after being approved by the Board of Directors. The ratio of contribution of Huaxin is about 6 billion RMB in the total investment of 10 billion RMB for the Huangshi Huaxin Green Building Materials Industry Project, which accounts for 49% of the latest audited net assets of the parent company 12.28 billion RMB, therefore, the investment requires

the approval of Shareholders' General Meeting.

(3) The investment does not constitute related party transaction, nor does it constitute major asset restructuring regulated in *Administration Measures for Major Assets Restructuring for Listed Companies*.

## II. Brief introduction of other subjects in the Cooperation Agreement

### (1) Huangshi Urban Development Investment Limited Company

It was established on 28<sup>th</sup>, November 2012. It was funded and established by the State-owned Assets Supervision and Administration Commission of the People's Government of Huangshi City. It is a wholly state-owned company with a registered capital of 1.5 billion RMB. It is located at No. 28 Cihu East Road, Huangshi City, Hubei Province. The legal representative is Mr. Pan Xianzhang. The business scope includes the operation and management of state-owned assets and state-owned equity within the scope of authorization, and is responsible for the investment in urban infrastructure construction projects designated by the municipal government. It is the only state-owned enterprise in Huangshi City that has been awarded the AA+ credit rating

Latest three years main financial indexes:

Unit: 100 million RMB

Item	2017	2018	2019
Operating revenue	41	29.5	44.6
Net profit	8.6	5.2	7.6
Total assets	632	674	868
Total liabilities	366.1	388.9	460.4
Net assets	265.9	285.1	407.6

Huangshi Urban Development Investment Limited Company does not have related party connections with Huaxin in terms of property, business, asset, liabilities and personnel.

### (2) Yangxin County State-owned Mining Investment Limited Company

Established on February 24, 2018, it's the first tier company owned by Yangxin County with registered capital 500 million RMB, 100% controlled by Yangxin County State-owned Assets Supervision and Administration. It's located in Chalou A, Lianhua Lake, Xingguo Town, Yangxin County (near Yangxin Avenue) (rent). Legal representative is Mr. Zhao Zhihong. Business scope includes survey, development of quarry resources, mining investment, financing and management.

Latest three years main financial indexes:

Unit: 10k RMB

Item	2017	2018	2019
Operating revenue	/	0	0

Net profit	/	-36.86	-108.04
Total assets	/	423.41	292.61
Total liabilities	/	260.27	237.5
Net assets	/	163.14	55.11

Yangxin County State-owned Mining Investment Limited Company does not have related party connections with Huaxin in terms of property, business, asset, liabilities and personnel.

### **III. Brief introduction of the investment target**

On December 14, 2020, Huaxin, Huangshi Urban Development Investment Limited Company and Yangxin County State-owned Mining Investment Limited Company have signed the Cooperation Agreement: Huaxin contributes 1.2 billion RMB, Huangshi Urban Development Investment Limited Company contributes and Yangxin County State-owned Mining Investment Limited Company contribute 400 million RMB respectively to set up Huangshi Huaxin Green Building Materials Limited Company, which will be the investment subject to invest about 10 billion RMB to build Huangshi Huaxin Green Building Materials Industry Project. The Park includes 2 million tons/year active calcium and deep-processing product production lines, 100 million tons/year machine-made sand lines and 2 billion units/year wall material production line). 100 million tons/year machine made sand lines has been officially approved by the Ministry of Industry and Information Technology of the People's Republic of China and the Hubei Provincial Department of Economy and Information Technology, and has been listed as a provincial key project in Hubei Province in 2020. The project is constructed in two phases. The first phase will start in January 2021 and put into operation in December, and the second phase of the project will start in January 2022.

### **IV. Main contents of the external investment contract**

In order to leverage their respective advantages, based on the principle of equality and mutual benefit, after friendly consultations, all parties agreed to jointly fund to set up Huangshi Huaxin Green Building Materials Industry Limited Company to invest in the construction of the Huangshi Huaxin Green Building Materials Industrial Park project. The main contents of the Cooperation Agreement include:

1. The name of the joint venture company: Huangshi Huaxin Green Building Materials Industry Limited Company (the name approved by the company registration authority shall prevail).
2. Address of the joint venture company: Fuchi Town, Yangxin County, Hubei Province.
3. The business scope of the joint venture company: limestone mining, processing and sales; construction aggregate and wall material production and sales; building material sales; port construction; port loading and unloading services; warehousing services; asset leasing; labor contracting (finally approved by the company registration authority business scope shall prevail).
4. The joint venture company is a limited liability company with an operating period of 30 years.
5. The registered capital of the joint venture company is 2 billion RMB. The parties to the agreement subscribe to the registered capital and the subscribe ratio are as follows:

Contributor	Contribution (10k RMB)	Contributed ratio (%)	1 <sup>st</sup> phase contribution (10k RMB)	2 <sup>nd</sup> phase contribution (10k RMB)
Huaxin Cement Co., Ltd	120,000	60	60,000	60,000
Huangshi Urban Development Investment Limited Company	40,000	20	20,000	20,000
Yangxin County State-owned Mining Investment Limited Company	40,000	20	20,000	20,000
Total	200,000	100	100,000	100,000

Notes: The first phase of capital contribution shall be fully paid in currency within 15 working days from the date of establishment of the joint venture; the second phase of capital contribution shall be fully paid in currency within 7 working days from the date of the announcement of the mining rights transfer listing.

6. All parties agree that the joint venture company shall be managed and operated by Huaxin Cement Co., Ltd. The candidates for the chairman, general manager and chief financial officer of the joint venture company are recommended by Huaxin Cement Co., Ltd.

7. Liability for breach of contract: If the contributor fails to perform the capital contribution obligations in a timely manner in accordance with this agreement, the joint venture company shall make a written call. If the contributor fails to make any capital contribution within 15 working days from the date of receipt of the written reminder, the joint venture company shall remind the contributor who did not make timely capital contributions to perform the obligation of capital contribution. If 15 working days have been reached from the date of the second written reminder issued by the joint venture company, and the defaulting contributor still has not paid the capital, its equity shall be diluted according to the amount of unpaid capital.

## **V. The impact of the external investment on Huaxin Cement Co., Ltd**

The Huangshi Huaxin Green Building Materials Industrial Park project is expected to have a total investment of about 10 billion RMB, of which the project construction cost is about 4.35 billion RMB, and the cost of mining rights, mine construction costs, plant purchase fees, demolition compensation fees, and mining rights withdrawal compensation are about 5.65 billion RMB (For this part of investment, especially the cost of mining rights is highly uncertain.)

Presuming the discount rate is 8.8%, under the “prudent” situation, the 20-year financial net present value of the project is estimated to be 6.71 billion RMB, and the investment payback period (including the construction period) is 7 years.

Huangshi Huaxin Green Building Materials Industrial Park project is an opportunity project for the central government to support Hubei's economic recovery after the

epidemic, and has high social, ecological and economic benefits. This investment project conforms to the national industrial policy plan, conforms to the company's industrial development direction and development strategy, and is conducive to enhancing the company's industry status and competitiveness.

#### **VI. Risks analysis of the external investment**

The investment has been approved by the Twenty Fourth Meeting of the Ninth Board of Directors of the Company, yet to be approved by Shareholders' General Meeting. The result of the review is uncertain.

The quarry resources for Huangshi Huaxin Green Building Materials Industry Project has risks in high price of quarry warrant, long time acquisition of new quarry warrant.

Hereby investors should pay attention to the investment risks.

It is herewith announced.

Huaxin Cement Co., Ltd.  
Board of Directors  
December 16, 2020