

INTERNATIONAL CEMENT GROUP LTD.

(Incorporated in Singapore)
(Company Registration No. 201539771E)

RESPONSE TO SGX-ST QUERIES: PROPOSED ACQUISITION OF A 100% EQUITY INTEREST OF A COMPANY IN NAMIBIA

The Board of Directors of International Cement Group Ltd. (the “Company”, and together with its subsidiaries, collectively the “Group”) refers to the queries raised by Singapore Exchange Securities Trading Limited (“SGX-ST”) and would like to provide further information in relation to the proposed acquisition of a 100% equity interest of a company in Namibia, which was announced via SGXNET on 11 March 2019.

SGX Queries

- 1 In Compact Metal’s (now known as International Cement Group Ltd) (the “Company”) announcement on 11 March 2019 (“Announcement”) on the Proposed Acquisition of a 100% Equity Interest of a Company in Namibia, the Company disclosed that it will acquire the entire issued capital of the Sale Company and the acquisition of outstanding shareholders loan extended by the Vendor. The Sale Company has 69.83% equity interest in Ohorongo Cement (Pty) Limited (“Ohorongo Cement”) and 100% equity interest in Energy For Future (Pty) Limited (“EFF”). Please disclose:-
 - (i) when Ohorongo Cement commenced operations;
 - (ii) its current capacity utilization;
 - (iii) identify who owns the balance 30.17% interest in Ohorongo Cement;
 - (iv) who manages the operations of Ohorongo Cement under current ownership structure;
 - (v) whether any of the directors, substantial shareholders or key management of the Company has any interest or business relationship with the Vendor, the Sale Company group or the 30.17% shareholder.
- 2 To elaborate on the operating performance of Ohorongo Cement in the last 3 years, the revenue, PBT and operating cashflow recorded in the last 3 financial years.
- 3 A shareholder loan amounting to Euro 87.79 million was extended by the Vendor to the Sale Company. Please disclose the breakdown of the use of proceeds. To also disclose whether, how and when the Sale Company will be able to repay the shareholder loan outstanding.
- 4 To disclose if there are plans for further capex/cash/capital injection for Ohorongo Cement in the next few years. If so, please disclose details and disclose the financing arrangements for these cash requirements.
- 5 To also disclose whether the 30.17% shareholder will be required to contribute proportionately to any future capital or financing requirements of Ohorongo Cement under the joint venture agreement.

- 6 Please provide details of the Vendor and its shareholders. To disclose whether any of the shareholders, director or Key Management of the Vendor have any prior relationships, business or otherwise, with the International Cement Group Directors, substantial shareholders, key management or their respective associates.
- 7 Please disclose if the Company has any experience operating in Namibia. To disclose who has the necessary experience to run the Company after the acquisition of the Sale Shares.
- 8 The Sale Company also owns 100% of EFF. Please disclose the principal activities and operating performance of EFF.
- 9 The Company disclosed that it shall pay to the Vender US\$10.44 million being 10% of the aggregate Purchase Consideration and the Loan Purchase Price. Noting that shareholders' approval will be required, please disclose if this amount is refundable. If not, please explain why.
- 10 The Company disclosed that the Sale Purchase Price was agreed taking into consideration the unaudited net profit of the Sale Group, the unaudited net asset value and net tangible assets of the Sale Group as at 31 December 2018, the operating track record of the Sale Group and the rationale for the Proposed Acquisition. In this respect, we note that the Sale Group reported unaudited net tangible liabilities of NAD25.1 million as at 31 December 2018, reported a net loss after tax of NAD26.9 million for FY2018 and had a significant outstanding shareholder loan of Euro 87.8 million as at 31 December 2018. Please elaborate how the above factors resulted in the agreed aggregate consideration of US\$104.4 million for the Proposed Acquisition of the Sale Company which has a significant negative equity position. Please elaborate on the multiples used by the Board to calculate the final consideration of US\$104.4 million.
- 11 The Company disclosed that the Share Purchase Price of US\$19.3 million and the Loan Purchase Price of US\$85.1 million will be paid in cash. Based on the Company's FY2018 Results, the Company's cash and cash equivalent amounted to S\$13.1 million as at 31 December 2018. Please disclose how the amount of US\$104.4 million will be financed and whether this will change the risk profile of the Company. Disclose clearly the Board's views and the basis for their views.
- 12 Please also disclose the financial effect on Gearing as a result of the Proposed Acquisition. Has the Company already put in place the necessary financing for the Proposed Acquisition? Please disclose the terms of the financing.
- 13 The Company disclosed as its rationale for the acquisition of a Namibian Company the opportunity to seize growing business opportunities in Africa and generated from the Belt and Road initiative of the People's Republic of China. To elaborate on:
 - (a) The population of Namibia and the size and growth projection of the government's plans for infrastructure that could lead to the "growing business opportunities in Africa" attributed as the reason for the Proposed Acquisition;
 - (b) Whether there is proper infrastructure for the cement plants in Namibia to generate cement for belt and road projects in the People's Republic of China. To disclose specific information about the infrastructure available, the belt and road contracts and the size of these contracts referred to that could be seized by the Company, supplying cement from Namibia.

- 14 In paragraph 4.1 of the Announcement under Financial Effects on NTA, the Company reported an increase of NTA from S\$197.1 million before the Acquisition to S\$339.1 million after the Acquisition. Please explain how NTA is expected to increase by S\$142 million when the Company will be acquiring the Sale Company which has negative tangible liabilities of NAD25.1 million.
- 15 It is noted in paragraph 5 of the Announcement that the Sale Group reported an unaudited net loss after tax in FY2018 of NAD26.9 million. For FY2017, please disclose whether the auditors had any emphasis of opinion, qualification of the accounts or disclaimed opinion on any of the Sale Company, EFF or Ohorongo Cement respectively. If so, please disclose details of the audit opinions.

Company's response

- 1(i) Ohorongo Cement commenced operations in 2011.
- 1(ii) Its capacity utilisation in FY2018 was 60%.
- 1(iii) The remaining 30.17% equity interests in Ohorongo Cement are held by Industrial Development Corporation of South Africa (14.27%), Development Bank of Namibia Ltd (11.73%) and Development Bank of Southern Africa Ltd (4.17%).
- 1(iv) The operations of Ohorongo Cement are managed by a local management team which is appointed by the Board of Directors of Ohorongo Cement.
- 1(v) The directors, substantial shareholders or key management of the Company do not have any interest or business relationship with the Vendor, the Sale Company group or the 30.17% shareholder.
- 2 Operating performance of Ohorongo Cement for the past 3 years was as follows:

<i>In NAD'mil</i>	FY2016	FY2017	FY2018
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Revenue	1,279	1,163	872
Profit before tax	386	331	182
Operating cashflows	556	359	203

- 3 The shareholder loan in the Sale Company's books was injected into Ohorongo Cement as equity which was used to fund the construction of the cement plant. The Sale Company will use further dividends declared by Ohorongo Cement to repay the outstanding shareholder loan and expected repayment period is 5 years.
- 4 There are currently no plans for any significant capex/cash/capital injection for Ohorongo Cement in the next few years.
- 5 The remaining 30.17% shareholders will be required to contribute proportionately to any future capital or financing requirements of Ohorongo Cement under the shareholders' agreement.

- 6 The Vendor is wholly owned by SCHWENK Zement KG which is incorporated in Germany and an established producer of construction materials, including cement. None of the shareholders, director or key management of the Vendor has any prior relationships, business or otherwise, with International Cement Group's directors, substantial shareholders, key management or their respective associates.
- 7 The Company does not have any experience operating in Namibia. However, as mentioned in our response to Query 1(iv) above, Ohorongo Cement has its local management team which is able to independently run the day-to-day operations of the cement plant. In addition, two of the Group's directors and key management have the relevant experience in operating cement plants. The Group's Deputy Chief Executive Officer, Mr Cao Jianshun, will be overseeing the operations of this cement plant upon completion of the Proposed Acquisition. Mr Cao has more than 20 years of experience in the cement industry, including the construction and operating of cement plants.
- 8 EFF is principally engaged in the business of sourcing of alternative energy sources and any related business thereto.

Operating performance of EFF for the past 3 years was as follows:

<i>In NAD'mil</i>	FY2016	FY2017	FY2018
	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Revenue	19	34	37
Profit/(loss) before tax	300*	4	(4)
Operating cashflows	(16)	7	4

** Includes one-off waiver of related party's loan.*

- 9 In the event that the conditions precedent in the sale and purchase agreement are not met by 31 July 2019, 10% of the aggregate purchase price will be paid to the Vendor. This amount is not refundable, except in circumstances where the necessary approvals have not been obtained due to matters not within the Company's control and influence (as announced on 11 March 2019), as it represents compensation to the Vendor in the event that the proposed acquisition does not go through as there will be financial and reputational losses incurred by the Vendor.
- 10 As announced on 11 March 2019, the unaudited net tangible liabilities value of the Sale Company as at 31 December 2018 was NAD 25.1 million. The unaudited net tangible assets value of the Sale Group as at 31 December 2018 was NAD 942.1 million. The unaudited net loss after tax for the Sale Group of NAD 26.9 million for FY2018 was due to unrealised foreign exchange losses amounting to NAD 144.3 million arising from the shareholders' loan denominated in EURO. Disregarding this unrealised foreign exchange loss, the unaudited net profit after tax for the Sale Group for FY2018 amounted to NAD 117.4 million.

The Board believes that a price-to-earnings multiple ranging from 5 to 10 times based on the average past 3 years' profits of the Sale Group is appropriate and within the industry average. In addition, the plant is already commercially operational which will obviate the need for the Group to undertake project risks during the construction period.

- 11 The total purchase consideration of US\$104.4 million will be substantially financed by external borrowings which will increase the Group's gearing ratio. The Board believes that an estimated gearing ratio of 0.45 upon completion of the Proposed Acquisition (refer to response to Query 12 below) is within the lower range of the industry average and the Group's risk tolerance level. The Board believes that the Sale Group will generate profits and stable returns for shareholders in the long run.
- 12 As mentioned above, the total purchase consideration of US\$104.4 million will be substantially financed by external borrowings. The Company is currently in negotiations with various financial institutions on the key terms of financing and will make the necessary announcements upon finalisation of key terms.

Assuming that the Proposed Acquisition was completed as at 31 December 2018, the financial effect of the Proposed Acquisition on gearing of the Group is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Gearing ratio as at 31 December 2018	0.01	0.45

- 13(a) Namibia's population is estimated at 2.6 million. China has been Africa's largest trading partner for a decade with trade volumes exceeding US\$200 billion in 2018. The Namibian Government continuously invests in the upkeep of Namibia's road network and invested heavily in improving the various transport corridors such as the TranZambezi, TransKunene and TransKalahari highways. Namibia has also invested in the expansion and deepening of Namibia port capabilities and capacity to ensure efficient intermodal transport within the region. Other major infrastructure projects that Namibia is undertaking is the construction of dual carriageways in the capital and various regions to improve traffic mobility and the movement of goods. These projects will bring demand for cement in the country.
- 13(b) China and Namibia signed a memorandum of understanding in Beijing in September 2018 which marked Namibia's inclusion in the Belt and Road initiative of the People's Republic of China. The signing signifies China recognising Namibia as a bilateral partner in a comprehensive strategic and cooperative partnership ahead of the Forum on China-Africa Cooperation ("FOCAC"). At FOCAC, China and Namibia signed bilateral cooperation documents to promote the cooperation in construction of road and rail infrastructure and capacity building.

China Harbour Engineering Company is building a container terminal and an oil storage facility at the Port of Walvis Bay in Namibia, which is expected to be completed in the middle of this year, with the ambition to become an international logistics hub in the Southern African Region and to consolidate its status as a marine gateway of the Southern African Development Community Region. The port project will see throughput capacity of the port's container terminals more than double to 750,000 twenty-foot equivalent units per year. The Group believes that with the brand name that Ohorongo Cement has established in Namibia over the past 8 years, they are able to seize contracts in Namibia and its neighbouring countries for future developments.

- 14 The unaudited net assets value of the Sale Group as at 31 December 2018 was NAD 942.1 million (approximately S\$88.6 million). The Company believes that the fair value of assets and liabilities which will be acquired in this Proposed Acquisition will approximate the total Purchase Consideration of S\$142.0 million as there will intangible assets such as trademarks, customer relationships, mining rights and goodwill identified as part of this Proposed Acquisition. The Group will perform a purchase price allocation exercise upon completion of this Proposed Acquisition in accordance with the requirements of FRS 103 *Business Combinations*.
- 15 The auditors issued an unqualified opinion on the financial statements of the Sale Company, EFF and Ohorongo Cement for the year ended 31 December 2017.

On behalf of the Board

Ma Zhaoyang
Chairman and Executive Director

20 March 2019