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ບໍລິສັດ ຊີມັງລາວ ມະຫາຊົນ

LAO CEMENT PUBLIC COMPANY

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Stock contribution and Rehabilitation plan of Lao Cement Public Company (LCC)

In 2020, the LCC faced the challenges of business during the pandemic of Covid-19 and has suspended the cement factory production since April 2020. According to the minute of meeting on 15 October 2020 at Lao Securities Exchange building, with all related parties in order to find the best solutions for LCC in terms of stock contribution or rehabilitation plan for the company as well as prevent the risk from being delisted. Therefore, the stock contribution and rehabilitation plans of the LCC as detail below:

I. Company Background

1. Investment and shareholders: Lao Cement Public Company or the original name was Lao Cement Company (LCC) was registered and established in 1998 by jointly invested by China Yunna Corporation for International Techno - Economic Cooperation (CYC) and Lao State Agriculture Industry Development Enterprise Imp - Exp & General Services (DAI). The shareholder ratio of China was 60% and Lao was 40% in the initial construction of the factory. In March 2002, LCC used funds from the loan of 200 million yuan from Chinese government to finish the cement plan no.II and operated to produce the cement in March 2002. The cement production capacity is 200,000 ton/year by the first dried oven system in Lao PDR. On 1st January 2013, the company amended the agreement that the government of Lao PDR or DAI holds 51% and Chinese government holds 49%. In March 2018, LCC listed on the Lao Securities Exchange with the changing shareholders by CYC held 35.69% and DAI held 34.29%, Lao-China Securities (LCC) held 18.86%, and public held 11.16%.
2. Personnel and Organization: On 30 September 2020, LCC had 273 employees which include Chinese 6 persons and Laotian 267 persons. Currently the company remains 30 employees to operate the business and the remaining employees had stopped working or proposed to leave by waiting for the official allocation.
3. Assets and Liabilities: On 30 June 2020, the company had total assets of 11,480,000 USD, which accounted for non-current assets of 2,970,000 USD. The total liabilities of 4,530,000 USD, inventories of 3,120,000 USD, other current assets of 860,000 USD, total account receivable of 5,270,000 USD, short-term bank loan of 1,100,000 USD, trade payable is 1,480,000 USD, other trade payable of 2,690,000 USD, Equity of 6,210,000 USD.
4. Cement Production and Operations: Cement plan no. II (LCC) uses the full set of limestone that burns the coal without smoke with the spin-over technique to produce cement and clinker of 700 ton per day. The capacity to produce cement is 200,000 ton per year and the main cement product is Portland of the Kating brand of grade I by using the ASTM of the US, Lao cement standard, and China GB.

   Since the cement plan no. II established until present, there is a good

collaboration of both shareholders Lao and China, which produce quality products. The company is aware of the environment protection and social responsibilities, the cement product or Kating tong is the well-known brand in the cement market. LCC is the first company to receive the ISO 2001:2015 in the cement production industry, the cement of Kating tong used in the construction of Prime Minister Office Building, National Meeting Hall, National Stadium, Lanexang Avenue, Donchan Hotel, Hin Hurb Bridge, Dam and Mega project and others. Besides that, the company was selected to supply the cement product to the Lao-China Train project and Highway from Vientiane to Vangvieng. Prior 2019, the company maintained the profit continuously because the economy was growing and socially well known. The company has social responsibilities such as the payment of tax, donations, army relationship, school and hospital assistance, bridge re-construction and others. Many years, the company received several awards from the Lao and China government and collaboration with economic and technical support between Lao and China.

From 2002, the cement plan no. II finished construction and began to produce cement, which the company could pay back the loan to the bank on time and complete. 2002 to 2019, the company could produce and distribute cement of 4,148,200 ton and created a total revenue of 286,000,000 USD, Net profit of 15,610,000 USD and total tax payable of 22,730,000 USD.

II. The challenges and Issues

In 2019, the price of cement productions were lower than production costs that leads to the deficit of the company accounted for 16,572,100 Yuan or equivalent to 2,530,000 USD. In 2020, the Covid-19 pandemic and difficulties of business operations, the company decided to suspend the cement production since April 2020 based on main causes below:

1. Owing to the fact that Covid-19 pandemic, the government issued the order no. 06/PMO, date: 29 March 2020 to enhance the preventive measures against the Covid-19 from 1st April 2020 to present. The company has stopped the cement productions due to the impact on Covid-19 that many projects in Lao PDR decreased dramatically. From April to July 2020, the Covid-19 affected the quantity of cement distribution by reducing 60,000 ton, the revenue from cement distribution around 3,220,000 USD, which represented accumulated loss in 6 months of 2020.
2. The oversupply of cement products in the industry meant that every cement factory reduced the price for the competition, which caused the price of cement continuously decline. There were several cement businesses faced deficit and the cement demand depended on the buyers. The customers postponed the cement settlement which led to the account receivable not on time and made the company continuously loss in the productions.
3. The capacity of cement production of 200,000 ton per year and the cement plan was already 20 years old that uses obsolete technique and old machineries, less cement production with high costs, high number of employees and compensations, maintenance costs increased every year that made the high production costs and faced the difficulties of business operations.

III. Current Potential Resources

Despite the company facing difficulties, some potential resources can be explored and expanded for the future of the company.

1. Existing shareholders agreed to transfer their shares: The major shareholder of the company is CYC, DAI, and LCS. CYC and LCS had mutual agreement to transfer their shares, but DAI remains their portion of shareholders. If the company could attract the investors to be a shareholder of the company and collaborate with existing major shareholders in order to develop the strategies of the company in the long-term.
2. LCC is a listed company on the LSX that could potentially increase the effectiveness and issue the shares through the stock market; the raising fund in several times shall support the development and extend business in Lao PDR.
3. The resources exploration: The company has mined limestone around 40 million ton in Vang Vieng and created the production line of gravel that provides the supply of limestone to the Lao-China Train project and related projects. Furthermore, there is another mine with an area of 20 km^2 in Vientiane province, but it could not project the quantity of law materials yet. At the present, the company finished the drilling tasks in the initial stage and continues to propose the government and related parties to evaluate and review the Cumulative volume report. Vientiane province lacks the limestone that a major cement factory and coal washing plant requires. It requires a huge amount of limestone that can be explored. The high heat coal shall sell to the cement plant and low heat coal can sell to the coal washing plant. This will be beneficial for the company in the future in terms of the variety of business by introducing this resources exploration.
4. Brand image: The Kating Tong brand of the company is a famous brand in the cement market and almost used in the Chinese projects, mega construction projects, and Laotian people. Nevertheless, the price of Kating Tong is still high in the cement market of Lao PDR, the next owner of the company can use this potential brand and continue to produce cement to extend and develop other industries.
5. Potential Geography: The Cement Plant no. II is located in 13 avenue and near the tourist areas of Vang Vieng, which is well known in the world. The wide area of the factory with the 58,052 hectares, beautiful views, big trees area, cool shade, lake, river, and mountain background. This made the factory has the most atmosphere. When the Lao-China train project finishes in 2021, the area of Vang Vieng shall be centralised of the train line and tollway that can facilitate the tourism and transportation in Lao PDR. The potential location of the cement plant no. II shall be a special place for developing tourism and culture in the near future.

IV. Stock contribution and Rehabilitation plan

The management of the company had talked with BODs' members and each major shareholders to make stock contribution and rehabilitation plan as follow:

1. Short-term: The account receivable settlement and trade pay payable, relocation of employees, reduce the expend of the company.

1) After the suspended of factory, the main task of the company is to collect the account receivable on time that could use those fund for the employees compensation, settle the loan to the bank, resolve the other debts and maintain 30 employees in order to operate the business and avoid the reproach from relocation of the employees or debt issues.
2) The company continues to make concession agreements with the government to explore the coal resources and improve limestone processing.
3) The company maintains the listing status on the LSX, holds the BODs' meeting, Shareholders' meeting and Disclosure on a timely basis.
4) The company searches other investors, studying the new information of investors with the report and negotiation to each shareholder and related parties of government.

2. Middle and Long term: The Company shall find appropriate investors or strategic partners to inject the capital or other solutions for rehabilitations or cement production and business operations.

1) Currently, there is a party to negotiate for buying the shares from CYC, LCS, and LCC. The purpose of buying those shares is to be back-door listing of the proposed party that had a plan to develop the tourism and culture in Vangvieng. The signing agreement shall be done soon to have the due-diligence. The both parties shall have discussion and agree to transfer the shares or not based on the due-diligence report. Finally the company shall propose the government for approval the stock contribution *for the new shareholders and implement the new business plan as follow:*

November 2020, the company shall finish the stock-buying intention, due-diligence, BODs' meeting for consideration and approval of the rehabilitation and stock distribution plan.

December 2020, The proposed company will have discussion on buying shares with each shareholders for considerations, if shareholders agreed to continue the process of buying shares based on the due-diligence; the existing shareholders make a report to each line-supervisions based upon the regulations and hold the shareholder's meeting for considerations and approval. Moreover, LCC shall join the negotiation process of buying stock in order to make an official letter for changing the cement industry to other business for approval of the Ministry of Planning and Investment.

January to February 2020, the proposed company agreed or disagreed on the stock distribution agreement based on the orders of the government and each shareholder. If all parties agreed on the stock distribution agreement shall make the detail plan for implementation.

2) Plan B: The Company shall find the new investors (strategic partner) and continue cement productions, stock distribution for increasing capital. If the cement market has progression, the company shall have quick rehabilitations.

Math to April 2021, the company shall enter into the process of stock transfer, each shareholder and LCC with a new strategic partner shall conduct the detail of stock transfer and begin new business plan implementation.

March 2021, if the stock transfer could not be done, the company shall find another way such as providing lease or take over from the proposed party to continue the cement factory. The ratio of shareholders shall be the same, but encourage other parties to make a lease or improvement of the cement plant in an appropriate way and provide working capital to rehabilitee of the cement productions and business. Working tasks: March to April 2021, the company shall talk with a new strategic partner to research on the lease or takeover of cement plant in detail, hold BODs' meeting and shareholders' meeting for consideration and approval. Once the lease or take-over agreement has been completed, the rehabilitation shall be implemented.

Those above plans are the stock transfer for capital distribution of proposed company or strategic partner for lease and take-over of cement plant in order to rehabilitee the LCC with major shareholders. Indeed, the implementation of rehabilitation plan of the business shall be enacted according to the government and related pirates with mutual benefits.

V. Proposal to government

1) If the company could attract investors to inject the capital, regarding the future demand of the company to change the main industry to other sector, Company would like to propose sincerely the support and approval from the government. Moreover, the company shall remain the brand name to continue extending the potential brand in the market.
2) The company would like to sincerely extend the concession agreement with the government. In the process of a stock distribution or rehabilitation plan that would like to change main business to another business or continue cement production with demand of huge investments with cement plant improvement, short investment could not occur. Thus, the company would like to propose to the government to postpone the current period of concession agreement, LCC shall talk with new investors or strategic partners regarding the terms of mentioned agreement.
3) The company would like to sincerely propose to remain the right for resource exploration of limestone and coal.
4) Tax policies: Over the past 20 years, the LCC contributed the tax payable to the government with a huge amount based on the Tax regulations. Currently, the company faces difficulties and in the process of stock distributions or rehabilitation. Thus, LCC would like to propose the government or related parties for considering the policies of tax exemption such as VAT, Income tax, and Income Corporate tax.
5) Account receivable: LCC would like to propose the government to have solutions for the delay of Account receivable by requesting related parties of the government to follow clients of LCC to pay the debt for the company quickly. This would help the company to deal with the issue of suspended factory and reduce the expenditure for achieving development.

Thus, the company would like to make this report to have the appropriate consideration.

Sincerely yours,

Director Lao Cement Public Company



ZHANG LI

Remark :

- The LCC Business Rehabilitation Plan Approved by Extraordinary General Shareholders' Meeting (EGM) of 2020.

-Investors who are interested in could study the details on discussion and comments of such plan in the Minutes of EGM 2020 as lately disclosed.