
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **China Shanshui Cement Group Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**CHINA SHANSHUI CEMENT GROUP LIMITED****中國山水水泥集團有限公司***(Incorporated in the Cayman Islands with limited liability)***(Stock Code: 691)****CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE
MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND
ENGINEERING AND TECHNICAL SERVICES FRAMEWORK AGREEMENT****RE-ELECTION OF RETIRING DIRECTOR****NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



A letter from the Board is set out on pages 1 to 22 of this circular.

A letter from the Independent Board Committee is set out on pages 23 to 24 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 25 to 56 of this circular.

A notice convening the EGM to be held at Meeting Room, 3/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC on Friday, 14 January 2022 at 4:30 p.m. is set out on pages 64 to 67 of this circular.

Whether or not you are able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (i.e. not later than 4:30 p.m. on Wednesday, 12 January 2022) or any adjourned meeting thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or at any adjournment (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

References to time and dates in this circular are to Hong Kong time and dates.

30 December 2021

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“13 December Announcement”	the announcement of the Company dated 13 December 2021
“15 December Announcement”	the announcement of the Company dated 15 December 2021
“4 November Announcement”	the announcement of the Company dated 4 November 2021
“Articles of Association”	the amended and restated articles of association of the Company
“Board”	the board of directors of the Company
“Cement Production Equipment and Supplies”	the purchase of cement production equipment and supplies from the Company’s group from CNBMG’s group
“Cement Production Equipment and Supplies Framework Agreement”	the framework agreement in relation to the Cement Production Equipment and Supplies
“Clinker and Cement Transactions”	the sale and purchase of clinker and cement between the Company’s group and CNBMG’s group, Shandong Quanxing and/or Shandong Donghua (as the case may be)
“Clinker and Cement Transactions Framework Agreements”	the framework agreements in relation to the Clinker and Cement Transactions
“CNBM”	China National Building Material Company Limited, a joint stock company incorporated in the PRC with limited liability with its shares listed on the Stock Exchange (stock code: 3323) and a substantial shareholder of the Company
“CNBMG”	China National Building Material Group Co., Ltd, a state-owned limited liability company incorporated in the PRC which is engaged in the business of building materials in the PRC, and is the controlling shareholder of CNBM
“Company”	China Shanshui Cement Group Limited, a public limited company incorporated in Cayman Islands
“Directors”	the directors of the Company

DEFINITIONS

“Effective Date”	a date on which the Mine Development Services Framework Agreement and/or the Engineering and Technical Services Framework Agreement (as the case may be) is approved by the independent shareholders of the Company
“EGM”	the extraordinary general meeting of the Company (or any adjournment thereof) to be held at Meeting Room, 3/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC on Friday, 14 January 2022 at 4:30 p.m.
“Engineering and Technical Services”	the provision of engineering services (including design, construction and technical upgrade services) and technical services (including inspection and product specification comparison services) by CNBMG’s group to the Company’s group
“Engineering and Technical Services Framework Agreement”	the framework agreement in relation to the Engineering and Technical Services
“Framework Agreements”	the Mine Development Services Framework Agreement, the Cement Production Equipment and Supplies Framework Agreement, the Engineering and Technical Services Framework Agreement and the Clinker and Cement Transactions Framework Agreement
“Group”	the Company and its subsidiaries
“Independent Board Committee”	the independent committee of the Board, comprising all of the independent non-executive directors of the Company formed to consider the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps relating to such agreements)
“Independent Financial Adviser”	Giraffe Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser appointed to advise the Independent Board Committee and the independent shareholders of the Company in relation to the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps relating to such agreements)

DEFINITIONS

“Independent Shareholders”	the Shareholders other than CNBMG and its associates
“Latest Practical Date”	24 December 2021, being the latest practical date prior to the printing of this circular for the purposes of ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mine Development Services”	the provision of mine development, maintenance and related engineering services by CNBMG’s group to the Company’s group
“Mine Development Services Framework Agreement”	the framework agreement in relation to the Mine Development Services
“PRC”	the People’s Republic of China, which for the purpose of this circular only (unless otherwise indicated) excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Shanshui”	Shandong Shanshui Cement Group Company Limited, the Company’s main operating entity and indirect wholly-owned subsidiary
“Share(s)”	the ordinary share(s) of the Company

LETTER FROM THE BOARD



CHINA SHANSHUI CEMENT GROUP LIMITED

中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 691)

Executive directors:

Mr. LI Huibao

Ms. WU Ling-ling

Mr. HOU Jianguo

Registered office:

Second Floor, Century Yard, Cricket Square

P.O. Box 902

Grand Cayman, KY1-1103

Cayman Islands

Independent Non-executive directors:

Mr. CHANG Ming-cheng

Mr. LI Jianwei

Mr. HSU You-yuan

Principal place of business in Hong Kong:

Level 54, Hopewell Centre

183 Queen's Road East

Hong Kong

30 December 2021

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE
MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND
ENGINEERING AND TECHNICAL SERVICES FRAMEWORK AGREEMENT**

RE-ELECTION OF RETIRING DIRECTOR

NOTICE OF EXTRAORDINARY GENERAL MEETING

LETTER FROM THE BOARD

INTRODUCTION

We refer to the 4 November Announcement, the 13 December Announcement and the 15 December Announcement in relation to, among other things, (i) the past non-compliance with Chapter 14A of the Listing Rules, (ii) the Framework Agreements and (iii) the appointment of Mr. Li Huibao as, among others, the chairman of the Board and an executive Director.

The purpose of this circular is to provide you with information regarding the resolutions to be proposed at the EGM, including the continuing connected transactions involving the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the re-election of retiring Director, and to provide you with the notice of the EGM.

As part of the Company's efforts to rectify the past non-compliance as described in the 4 November Announcement, on 13 December 2021, Shandong Shanshui, the Company's main operating entity and indirect wholly-owned subsidiary, has entered into various framework agreements with CNBMG, including the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement.

These framework agreements will govern all existing contracts between the Company's group companies and CNBMG's group companies on the relevant category of continuing connected transactions. All new continuing connected transactions between the Company's group companies and CNBMG's group companies will be carried out pursuant to the terms of such framework agreements and in compliance with the relevant requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

PRINCIPAL TERMS OF THE MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND THE ENGINEERING AND TECHNICAL SERVICES FRAMEWORK AGREEMENT

The principal terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement are summarised as follows:

(a) Mine Development Services Framework Agreement

Date: 13 December 2021

Parties: (i) Shandong Shanshui
(ii) CNBMG

Scope of transactions: Provision of mine development, maintenance and related engineering services by CNBMG's group to the Company's group

LETTER FROM THE BOARD

Term: From the Effective Date to 31 December 2023 (both days inclusive)

Basis of pricing: The price of the services will be determined through a tender or quotation process, and will depend on the result of the tender or quotation (as the case may be) if CNBM wins the tender or quotation (as the case may be). The Group will use (i) the method of public tender for projects that are commoditised and/or standardised, (ii) the method of selective tender for projects that are non-standardised, relatively specific, require detailed communications with the suppliers on technological aspects of the project, with fewer potential bidders and/or the project timetable is rather urgent, and (iii) the method of request for quotation for projects in which the supply requested is of a smaller scale and/or of a unique quality and there is a lack of competition, the Group has already used public tender recently and/or the market prices for the raw materials involved are relatively stable.

- The pricing procedures are as follows:

Public tender: When using the method of public tender, a tender committee will be established by the procurement and supply management department at Group level, comprising relevant experts from the requesting entity, the corresponding operating region, the mining management office under the development and technology department at Group level, the legal department at Group level and the audit department at Group level. The tender committee will review the tender documents and technical requirements and publish a tender notice via an online platform (e.g., Alibaba). The public tender process will need to have at least three valid tenders. The tender committee will review each tender and provide its feedback based on a number of factors including the participant's quality, costs, timing and services. After the procurement and supply management department at Group level consolidates all relevant feedback, it will prepare a tender award request (including the relevant documents such as feedback on the tender, proposed tender participant to be awarded the tender, pricing comparison list and pricing quotation list) and submit it to the vice president of the procurement and supply department at Group level for approval.

LETTER FROM THE BOARD

Selective tender: The method of selective tender is similar to public tender, with the key difference being that there is no public tender via an online platform, and participants shortlisted by the procurement and supply management department at Group level (on the recommendation of the tender committee) join the tender by way of invitation.

Request for quotation: When using the method of request for quotation, the procurement and supply management department at Group level will shortlist suppliers, based on their quality, from the Group's supplier database and invite these suppliers to provide quotations. After the mining management office under the development and technology department at Group level and the legal department at Group level review the quotation and provide their feedback, the procurement and supply management department at Group level will prepare an award request (including the relevant documents such as feedback on the quotation, pricing comparison list and pricing quotation list) to be submitted to the vice president of the procurement and supply department at Group level for approval.

- If CNBMG's group wins the tender or quotation (as the case may be), the exact price will be determined based on the specific work involved for the project, after the actual costs of CNBMG's group have been ascertained by the Group's technical personnel. The prices will be monitored, revised and adjusted in accordance with the changes in market prices from time to time so as to be in line with the markets.

(b) Engineering and Technical Services Framework Agreement

Date: 13 December 2021

Parties: (i) Shandong Shanshui
(ii) CNBMG

Scope of transactions: Provision of engineering services (including design, construction and technical upgrade services) and technical services (including inspection and product specification comparison services) by CNBMG's group to the Company's group

LETTER FROM THE BOARD

Term: From the Effective Date to 31 December 2023 (both days inclusive)

Basis of pricing: The price of the services (other than inspection services) will be determined through a tender or quotation process, and will depend on the result of the tender or quotation (as the case may be) if CNBM wins the tender or quotation (as the case may be). The Group will use (i) the method of public tender for projects that are commoditised and/or standardised, (ii) the method of selective tender for projects that are non-standardised, relatively specific, require detailed communications with the suppliers as on technological aspects of the project, with fewer potential bidders and/or the project timetable is rather urgent, and (iii) the method of request for quotation for projects in which the supply requested is of a smaller scale and/or of a unique quality and there is a lack of competition, the Group has already used public tender recently and/or the market prices for the raw materials involved are relatively stable.

- In ensuring that the pricing is on normal commercial terms, the Group follows the following grid in determining its internal department that will run the pricing process and approve the final result:

Monetary amount involved	Unit that will run the tender/quotation process	Unit that will approve the final result
Less than RMB1,000,000	Procurement and supply management department at subsidiary (or branch) level	General manager at subsidiary (or branch) level
RMB1,000,000 or above but below RMB2,000,000	Procurement and supply management office at operating region level	General manager at operating region level
RMB2,000,000 and above	Procurement and supply management department at Group level	Vice president of the procurement and supply management department at Group level

LETTER FROM THE BOARD

- The pricing procedures are as follows:

Public tender: When using the method of public tender, a tender committee will be established by the unit running the tender process (in accordance with the requisite levels as set out in the preceding sub-paragraph above), comprising experts from the production, technology, legal and audit departments at the corresponding corporate level. The tender committee will review the tender documents and technical requirements and publish a tender notice via an online platform (e.g., Alibaba). The public tender process will need to have at least three valid tenders. The tender committee will review each tender and provide its feedback based on a number of factors including the participant's quality, costs, timing and services. After the unit running the tender process (depending on the requisite levels as set out in the preceding sub-paragraph above) consolidates all relevant feedback, it will prepare a tender award request (including the relevant documents such as feedback on the tender, proposed tender participant to be awarded the tender, pricing comparison list and pricing quotation list) and submit it to the head of the corresponding unit for approval.

Selective tender: The method of selective tender is similar to public tender, with the key difference being that there is no public tender via an online platform, and participants shortlisted by the unit running the quotation process (in accordance with the requisite levels as set out in the preceding sub-paragraph above) (on the recommendation of the tender committee) join the tender by way of invitation.

Request for quotation: When using the method of request for quotation, the unit running the quotation process (in accordance with the requisite levels as set out in the preceding sub-paragraph above) will shortlist suppliers, based on their quality, from the Group's supplier database and invite these suppliers to provide quotations. After the production, technology and legal departments at the corresponding corporate level review the quotation and provide their feedback, the unit running the quotation process (in accordance with the requisite levels as set out above) will prepare an award request (including the relevant documents such as feedback on the quotation, pricing comparison list and pricing quotation list) to be submitted to the head of the corresponding unit for approval.

The price of the inspection services will be determined based on the prices prescribed by the National Quality Supervision and Testing Center for Cement from time to time.

LETTER FROM THE BOARD

The Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement were entered into in the ordinary and usual course of business of the Company. The terms of these framework agreements were negotiated on an arm's length basis and on normal commercial terms.

HISTORICAL TRANSACTION AMOUNTS

The historical transaction amounts in respect of the transactions under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement from 2015 to 31 October 2021 were as follows:

	Financial year ended 31 December						Ten months ended 31 October 2021
<i>Historical transaction amounts (RMB'000)</i>	2015	2016	2017	2018	2019	2020	
Mine Development Services	–	–	9,230	14,554	121,639	353,015	433,782
Engineering and Technical Services	2,578	132	2,531	2,567	20,814	132,989	264,180

PROPOSED ANNUAL CAPS

The proposed annual caps in respect of the transactions under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement are as follows:

	For the year ending 31 December		
<i>Proposed annual cap (RMB'000)</i>	2021	2022	2023
Mine Development Services	600,000	702,850	748,370
Engineering and Technical Services	400,000	1,469,885	1,449,351

LETTER FROM THE BOARD

BASIS OF DETERMINATION OF PROPOSED ANNUAL CAPS

The proposed annual caps in respect of the transactions under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement have been determined by reference to the following factors:

(a) Mine Development Services Framework Agreement

The proposed annual caps in respect of the transactions contemplated under the Mine Development Services Framework Agreement have been determined based on:

- (i) the historical fees for the Mine Development Services paid by the Group to CNBMG's group since January 2019;
- (ii) the expected growth in the Group's corresponding demand for the Mine Development Services from CNBMG's group over the years ending 31 December 2023, in view of the acquisition by the Group of four new mining sites in Shandong and Northeast China, which the preparatory engineering work is still ongoing and the Group expects to incur a preparatory engineering service fee of approximately RMB26.5 million for the year ending 31 December 2022 before the mining sites are readily available for limestone extraction. Upon completion of the preparatory engineering work, the mining work is expected to commence operations in the third to fourth quarter of 2022 and the Group expects to incur additional mining fees in relation to the four new mining sites of approximately RMB41.4 million and RMB109.2 million for the second half of 2022 and the year ending 31 December 2023, respectively;
- (iii) the prevailing market prices for the provision of similar mine development, maintenance and related engineering services; and
- (iv) a buffer of 10% to cater for any possible unforeseeable circumstances such as (a) obtaining new resources by utilising resource acquisition advantages from CNBMG such as exploration technologies and (b) fluctuation relating to the actual quantity of limestone extracted.

(b) Engineering and Technical Services Framework Agreement

The proposed annual caps in respect of the transactions contemplated under the Engineering and Technical Services Framework Agreement have been determined based on:

- (i) the historical fees for the Engineering and Technical Services paid by the Group to CNBMG's group since January 2019;

LETTER FROM THE BOARD

- (ii) the expected growth in the Group's corresponding demand for the Engineering and Technical Services from CNBMG's group, in particular over the two years ending 31 December 2023, in view of:
 - (a) the significant technology upgrade projects in terms of ultra-low emission conversions as planned by the Group for various production lines located in Shandong and Shanxi, as a result of local environmental regulations and policy requirements, which the Group expects to incur an aggregate transaction amount of approximately RMB75 million and RMB110 million for the year ended 31 December 2022 and 31 December 2023, respectively;
 - (b) the planned implementation of grate cooler upgrades for the production lines of 13 subsidiaries during 2022 and 2023 by the Group, which the Group expects to incur an aggregate transaction amount of approximately RMB110 million and RMB32 million for the year ended 31 December 2022 and 31 December 2023, respectively;
 - (c) the planned construction, relocation and productivity replacement of around 10 significant infrastructure projects (such as clinker production lines and cement grinding production lines) by the Group in response to development in industry policies and the 14th Five Year Plan of the PRC, among which (A) three significant infrastructure projects have either commenced or have their implementation confirmed, of which the construction period will be expended to continue into 2022 and 2023, and (B) seven significant infrastructure projects are expected to commence in turn between 2022 and 2023. Specific works for these projects may include engineering design, civil construction, machinery and equipment, road and installations, and based on the development pace of these significant infrastructure projects, the Group expects to incur an aggregate transaction amount of approximately RMB1,282 million and RMB1,305 million for the year ending 31 December 2022 and 31 December 2023, respectively;
- (iii) the expected increase in corporate environmental costs and labour costs over the years ending 31 December 2023;
- (iv) the prevailing cost and expected increase in the cost of raw materials, in view of the growth in costs of steel, coal and electricity for the projects implemented by the Group over the past two years; and
- (v) the prevailing market prices for the provision of similar engineering and technical services.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF ENTERING INTO THE MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND THE ENGINEERING AND TECHNICAL SERVICES FRAMEWORK AGREEMENT

The Board considers that the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement will bring the following benefits to the Company:

(a) Mine Development Services Framework Agreement

To support the Company's day-to-day operations, the Company will need to extract limestones to serve as raw materials for its cement production. To ensure safe and proper extraction of limestones, mine development, maintenance and related engineering services are necessary. Local environmental laws also require the land conditions of the extraction sites to be restored during the extraction process.

Compared to other companies the Company has previously cooperated with, CNBMG possesses competitive advantages on its mining technology, management standards and infrastructure construction qualities in terms of its (i) market profile, (ii) technological capabilities, (iii) compliance with state environmental laws and (iv) cost efficiency, as evidenced by the following qualities and achievements of its subsidiary and engineering services provider unit, CNBM:

- CNBM is a tier-one service provider in the Chinese mining industry measured by aggregate contracted project value, an industry standard established by the Ministry of Housing and Urban-Rural Development of the PRC. CNBM has been engaged in limestone development and extraction projects for (i) an overwhelming majority of the cement corporations in China and (ii) various other overseas cement corporations;
- CNBM has the technology and expertise to utilise limestones of both superior and sub-par qualities, thereby maximising the utilisation rate of limestones extracted; and
- CNBM has established and implemented a strict policy to ensure the land conditions of the extraction sites are restored simultaneously during the extraction process, thereby reducing the need for investment in "green-mining" projects and minimising the overall restoration costs for extraction sites.

LETTER FROM THE BOARD

In light of the above, the Board believes that the Company can leverage on CNBMG's strengths to:

- enhance the mine development, maintenance and related engineering services quality of the Company;
- ensure (i) compliance with local environmental laws for simultaneous restoration of the land conditions of extraction sites and (ii) minimal restoration costs as a result of CNBM's strict policy for simultaneous restoration; and
- lower its overall production cost as a result of the mixed utilisation of limestones of both superior and sub-par qualities.

(b) Engineering and Technical Services Framework Agreement

From time to time, the Company requires (i) design services when it establishes new production lines, (ii) technical upgrade services when it decides to improve the quality and scale of its cement production and (iii) technical services in compliance with environmental and safety regulations and for purposes of participating in routine specification comparison inspections conducted by state authorities in accordance with cement industry regulations.

Compared to other service providers, CNBMG possesses competitive advantages in the provision of engineering and technical services in terms of its (i) scale, (ii) technological capabilities and (iii) cost-to-performance ratio of its upgrade services, as evidenced by the following qualities and achievements of CNBMG:

- CNBMG is the largest integrated cement and engineering services provider in the world in terms of scale;
- CNBMG's group has 26 national scientific research and design institutes, 38,000 scientific research and development and technical engineering employees, 33 national industrial quality inspection centres, more than 10,000 patents, three national key laboratories, 8 national engineering (technology) research centres and 17 national standardisation technical committees;
- CNBMG's group owns 6 first class State Science and Technology Progress Awards and 4 China Grand Awards for Industry; and
- CNBMG is able to provide engineering services on at a higher cost-to-performance ratio compared with its competitors.

LETTER FROM THE BOARD

In light of the above, the Board believes that the Company can leverage on CNBMG's strength to ensure its engineering quality, increase production quality and volume, ensure stable operations, thereby increasing overall revenue for the Group.

MEASURES TO SAFEGUARD SHAREHOLDERS' INTERESTS

In order to further safeguard the interests of the Shareholders as a whole, the Group has implemented the following internal approval and monitoring procedures in relation to the transactions contemplated under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement:

- before confirming the pricing and the terms of the Mine Development Services or the Engineering and Technical Services (as the case may be), the Group will review and consider the basis of pricing in accordance with the pricing principles set out in the section headed "Principal Terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement" in this circular;
- the Group has adopted internal guidelines which provide that:
 - (a) the finance department and the legal department of the Company will collate and monitor the transaction amounts of the Mine Development Services and the Engineering and Technical Services and any relevant information requiring disclosure from the relevant business unit, and report to the Company's management on a monthly basis;
 - (b) Shandong Shanshui's management team is also required to report connected transaction issues to the Board and the Board's Audit Committee on a regular basis, including the categories, transaction amount and rationale of continuing connected transactions conducted during the covered period; and
 - (c) if the value of any Mine Development Services or Engineering and Technical Services is expected to exceed the annual cap in the next three months, the finance department and the legal department of the Company must (i) follow up and report to the Company's management after discussion with the relevant business unit and (ii) commence the necessary additional assessment and approval procedures to ensure that the Company will comply with the applicable requirements under Chapter 14A of the Listing Rules in relation to annual cap; and

LETTER FROM THE BOARD

- the Company will provide information and supporting documents to its independent non-executive Directors and auditors in order for them to conduct an annual review of the continuing connected transactions entered into by the Company. In accordance with the requirements under the Listing Rules, the independent non-executive Directors will provide an annual confirmation to the Board as to whether the Mine Development Services or the Engineering and Technical Services (as the case may be) have been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and the Company will procure that its auditors will provide confirmation to the Board on an annual basis as to whether anything has come to their attention that causes them to believe that the Mine Development Services or the Engineering and Technical Services (as the case may be) have not been approved by the Board, or are not conducted in accordance with the pricing policies of the Group in all material respects, or are not entered into in accordance with the relevant agreement governing the Mine Development Services or the Engineering and Technical Services (as the case may be) in all material respects or have exceeded the annual cap applicable to these services.

INFORMATION OF THE PARTIES

The Company

The Company is a public limited company incorporated in Cayman Islands. It engages in the production of clinker, cement and concrete in the PRC.

Shandong Shanshui

Shandong Shanshui is a limited liability company incorporated in the PRC and is engaged in investment holding. It is the Company's main operating entity and indirect wholly-owned subsidiary.

CNBMG

CNBMG is a state-owned limited liability company incorporated in the PRC and is engaged in the business of building materials in the PRC. It is a substantial shareholder of CNBM, and is the controlling shareholder of CNBM.

CNBM

CNBM is a leading building materials company in the PRC with significant operations in the cement, new materials and engineering services businesses, with its shares listed on the Stock Exchange (stock code: 3323). It is a substantial shareholder of the Company. Its controlling shareholder and ultimate beneficial owner is CNBMG.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS IN RELATION TO THE MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND THE ENGINEERING AND TECHNICAL SERVICES FRAMEWORK AGREEMENT

As at the date of this circular, CNBMG is a substantial shareholder holding approximately 12.94% of the issued Shares and hence a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the continuing connected transactions contemplated under the Mine Development Services Framework Agreement exceeds 5%, the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

In addition, subsequent to the 4 November Announcement, it came to the attention of the Board that one or more of the applicable percentage ratios in respect of the historical transaction amounts of the Mine Development Services since 1 January 2021 has exceeded 5% as at 31 October 2021, such amount being RMB433,782,000, representing an excess of approximately RMB57,985,000. Since then, the transaction amounts of the Mine Development Services have continued to increase. All such historical transaction amounts should have been subject to independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As the Mine Development Services are necessary for providing the core raw materials to be used in the Group's cement production process, discontinuing the Mine Development Services will lead to a halt in the Group's cement production process, which will result in significant losses for the Group. In addition, as local environmental laws require the land conditions of the extraction sites to be restored during the extraction process (as set out in the section headed "Reasons for and Benefits of Entering into the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement" of this circular), and the Company may be subject to penalties if discontinuation of the Mine Development Services results in cessation of the restoration during the extraction process. In view of the above, the Board has decided to continue the Mine Development Services prior to obtaining independent shareholders' approval in accordance with Chapter 14A of the Listing Rules. Accordingly, a resolution will be proposed at the EGM to ratify such historical transaction amounts.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the continuing connected transactions contemplated under the Engineering and Technical Services Framework Agreement exceeds 5%, the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

An Independent Board Committee has been established to advise the Independent Shareholders on the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps). The Independent Financial Adviser has also been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

APPROVAL BY THE BOARD

Ms. Wu Ling-ling, an executive Director, abstained from voting on the Mine Development Services Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder in view of the fact that she was involved in an ongoing litigation with the Company in which she was accused of not having validly exercised her director powers in the Company (details of which have been set out in pages 32 to 35 of the interim report of the Company for the six months ended 30 June 2021).

Save for the above, none of the Directors has a material interest in the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) nor is any of them required to abstain from voting on the relevant board resolutions.

ADDITIONAL INFORMATION IN RELATION TO THE CEMENT PRODUCTION EQUIPMENT AND SUPPLIES FRAMEWORK AGREEMENT AND CLINKER AND CEMENT TRANSACTIONS FRAMEWORK AGREEMENTS

Cement Production Equipment and Supplies Framework Agreement

The Company sets out further details of the basis of pricing in relation to the Cement Production Equipment and Supplies Framework Agreement.

The price of the cement production equipment and supplies will be determined through a tender or quotation process, and will depend on the result of the tender or quotation (as the case may be) if CNBM wins the tender or quotation (as the case may be).

LETTER FROM THE BOARD

In ensuring that the pricing is on normal commercial terms, the Group follows the following grid in determining its internal department that will run the pricing process and approve the final result:

- In relation to the procurement of equipment:

Unit price for the cement production equipment	Unit that will run the tender/quotation process	Unit that will approve the final result
Less than RMB100,000	Procurement and supply management department at subsidiary (or branch) level	General manager at subsidiary (or branch) level
RMB100,000 or above but below RMB200,000	Procurement and supply management office at operating region level	General manager at operating region level
RMB200,000 and above	Procurement and supply management department at Group level	Vice president of the procurement and supply management department at Group level

- In relation to the procurement of supplies:

Nature of supply	Unit that will run the tender/quotation process	Unit that will approve the final result
Supplies that need to be procured in volume	Procurement and supply management department at Group level	Vice president of the procurement and supply management department at Group level
Other supplies	Procurement and supply management department at subsidiary (or branch) level	General manager at subsidiary (or branch) level

LETTER FROM THE BOARD

The pricing procedures are as follows:

- **Public tender:** When using the method of public tender, a tender committee will be established by the unit running the tender process (in accordance with the requisite levels as set out in the preceding sub-paragraph above), comprising experts from the production, technology, legal and audit departments at the corresponding corporate level. The tender committee will review the tender documents and technical requirements and publish a tender notice via an online platform (e.g., Alibaba). The public tender process will need to have at least three valid tenders. The tender committee will review each tender and provide its feedback based on a number of factors including the participant's quality, costs, timing and services. After the unit running the tender process (depending on the requisite levels as set out in the preceding sub-paragraph above) consolidates all relevant feedback, it will prepare a tender award request (including the relevant documents such as feedback on the tender, proposed tender participant to be awarded the tender, pricing comparison list and pricing quotation list) and submit it to the head of the corresponding unit for approval.
- **Selective tender:** The method of selective tender is similar to public tender, with the key difference being that there is no public tender via an online platform, and participants shortlisted by unit running the quotation process (in accordance with the requisite levels as set out in the preceding sub-paragraph above) (on the recommendation of the tender committee) join the tender by way of invitation.
- **Request for quotation:** When using the method of request for quotation, the unit running the quotation process (in accordance with the requisite levels as set out above) will shortlist suppliers, based on their quality, from the Group's supplier database and invite these suppliers to provide quotations. After the production, technology and legal departments at the corresponding corporate level review the quotation and provide their feedback, the unit running the quotation process (in accordance with the requisite levels as set out above) will prepare an award request (including the relevant documents such as feedback on the quotation, pricing comparison list and pricing quotation list) to be submitted to the head of the corresponding unit for approval.

LETTER FROM THE BOARD

Clinker and Cement Transactions Framework Agreements

Further to the 13 December Announcement, the Company sets out further details of the proposed annual cap for the Clinker and Cement Transactions as follows:

Proposed annual cap <i>(RMB'000)</i>	For the year ending 31 December		
	2021	2022	2023
Clinker and Cement Transactions			
– Purchases by the Group	162,900	162,900	162,900
Clinker and Cement Transactions			
– Sales by the Group	177,100	177,100	177,100

As disclosed in the 13 December Announcement, the basis of pricing for the Clinker and Cement Transactions, whether in respect of the purchase or sale of clinker and cement (including aggregate and commercial concrete), are the same i.e. the Group will seek quotes from other clinker and cement companies in the nearby area through price inquiry, and determine the price based on comparing the quotes obtained. This is because the market prices for clinker and cement are available across different locations, giving full transparency to the price inquiry process.

The Company sets out further details of the basis of pricing in relation to the Clinker and Cement Transactions Framework Agreements:

- For purchases by the Group, the procurement and supply department of the requesting entity, which runs the pricing process, will submit a pricing application (based on research and price inquiry on the surrounding market) to the price evaluation team, which will provide its feedback and then submit the application to (i) the head of the procurement and supply department and the general manager at the entity level, (ii) the head of the procurement and supply management office and (iii) the general manager at operating region level for their respective approval.

LETTER FROM THE BOARD

- For sales by the Group:
 - In ensuring that the pricing is on normal commercial terms, the sales department at Group level will coordinate each operating region to determine the floor price of each product type (based on supply and demand, competition and trending price among industry peers in the region at which the selling entity is located), and no products may be sold below the floor price;
 - The sales department of the selling entity will provide a quotation to the customer for agreement. If the customer does not agree to the quotation, any price counter-offered by the customer which is not lower than the prescribed floor price will need to be approved by the sales department of the selling entity;
 - If any selling entity must sell below the floor price as an exception, the sales department of the selling entity will need to submit an application to (i) the corporate finance manager, corporate general manager and general manager of the sales department and the general manager at operating region level, (ii) the head of the management office under the sales department at Group level, and (iii) the general manager of the sales department at Group level for their respective approval.

RE-ELECTION OF THE RETIRING DIRECTORS

According to Article 16.2 of the Articles, any Director so appointed to fill a casual vacancy shall hold office only until the next following general meeting of the Company and shall then be subject to re-election at that meeting.

Accordingly, Mr. Li Huibao, who was appointed as an executive Director on 15 December 2021 shall retire at the EGM. Mr. Li Huibao, being eligible, will offer himself for re-election at the EGM.

The Nomination Committee has reviewed the structure and composition of the Board, the confirmations and disclosures given by the Directors and the qualifications, skills and experience, time commitment and contribution of the retiring Director with reference to the nomination principles and criteria set out in the Company's Board Diversity Policy and Director Nomination Policy and the Company's corporate strategy. The Nomination Committee has recommended to the Board on re-election of the retiring Director who is due to retire at the EGM. The Company considers that the retiring Director will continue to bring valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning and diversity.

Details of Mr. Li Huibao is set out in Appendix II to this circular.

LETTER FROM THE BOARD

EGM AND PROXY ARRANGEMENT

The notice convening the EGM is set out on pages 64 to 67 of this circular.

Enclosed with this circular is the form of proxy for use at the EGM. Such form is also available at the websites of Stock Exchange at <http://www.hkexnews.hk> and the Company at <http://www.sdsunnsygroup.com>. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM (i.e. not later than 4:30 p.m. on Wednesday, 12 January 2022) or any adjourned meeting thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish and in such event, the form of proxy shall be deemed to be revoked.

RECORD DATE

The record date for determining shareholders' right to attend and vote at the EGM is Thursday, 13 January 2022. Shareholders whose names appear on the Register of Members of the Company on Thursday, 13 January 2022 are entitled to attend and vote at the EGM. In order to qualify for attending and voting at the EGM, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Wednesday, 12 January 2022.

VOTE BY POLL

Any vote in respect of the resolutions to be put forward for consideration at the EGM will be taken by poll except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands in accordance with Rule 13.39(4) of the Listing Rules. An announcement on the poll results will be published by the Company after the EGM in the manner prescribed under the Listing Rules.

LETTER FROM THE BOARD

As at the Latest Practicable Date, CNBMG and its associates hold approximately 12.94% of the issued Shares. Since CNBMG and its associates are considered to have a material interest in respect of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement, CNBMG and its associates shall abstain from voting on the relevant resolutions to approve the same pursuant to the Listing Rules. Save as disclosed above, to the best of the information and knowledge of the Directors after making reasonable enquiries, no other existing Shareholder is required to, or otherwise will, abstain from voting on the relevant resolutions to approve the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement for the purpose of the Listing Rules.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages 23 to 24 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement; (ii) the letter from the Independent Financial Adviser, set out on pages 25 to 56 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement; and (iii) additional information set out in the appendices to this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, considers that the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better, and the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps).

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors, after considering the advice from the Independent Financial Adviser) are of the view that the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better, and the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole. In addition, the Directors are of the view that the ratification of the historical transaction amounts in respect of the Mine Development Services from 1 January 2021 to 12 December 2021 and the re-election of Mr. Li Huibao are in the interests of the Company and the Shareholders as a whole. The Board therefore recommends you to vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL 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 Appendix I to this circular.

Yours faithfully,
By Order of the Board
LI Huibao
Chairman



CHINA SHANSHUI CEMENT GROUP LIMITED

中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 691)

30 December 2021

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE
MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND
ENGINEERING AND TECHNICAL SERVICES FRAMEWORK AGREEMENT**

We refer to the circular of the Company dated 30 December 2021 (the “**Circular**”) despatched to the Shareholders, of which this letter forms part. Unless the context specifies otherwise, capitalised terms used herein have the same meanings as those defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to consider the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) and to advise the Independent Shareholders in connection therewith. We wish to draw your attention to (i) the letter from the Independent Financial Adviser containing details of the advice, together with the principal factors and reasons it has taken into consideration, as set out on pages 25 to 56 of the Circular; and (ii) the letter from the Board set out on pages 1 to 22 of the Circular.

Having taken into account the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that (i) the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better; and (ii) the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable in so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) at the EGM.

Yours faithfully,
For and on behalf of
the Independent Board Committee
China Shanshui Cement Group Limited

Mr. CHANG Ming-cheng
Independent non-executive
Director

Mr. LI Jianwei
Independent non-executive
Director

Mr. HSU You-yuan
Independent non-executive
Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter received from Giraffe Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.



Giraffe Capital Limited

30 December 2021

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE MINE DEVELOPMENT SERVICES FRAMEWORK AGREEMENT AND ENGINEERING AND TECHNICAL SERVICES FRAMEWORK 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 (i) the Mine Development Services Framework Agreement and (ii) the Engineering and Technical Services Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the **“Letter from the Board”**) of the circular issued by the Company dated 30 December 2021 (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 the context otherwise requires.

As disclosed in the Company’s announcement dated 13 December 2021, as part of the Company’s efforts to rectify the past non-compliance as described in the Company’s announcement dated 4 November 2021 (the **“4 November Announcement”**), on 13 December 2021, Shandong Shanshui Cement Group Company Limited (**“Shandong Shanshui”**), the Company’s main operating entity and indirect wholly-owned subsidiary, has entered into the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement with CNBMG.

As at the Latest Practicable Date, CNBMG is a substantial shareholder holding approximately 12.94% of the issued Shares and hence a connected person of the Company under Chapter 14A of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the continuing connected transactions contemplated under the Mine Development Services Framework Agreement exceeds 5%, the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

In addition, subsequent to the 4 November Announcement, it came to the attention of the Board that one or more of the applicable percentage ratios in respect of the historical transaction amounts of the Mine Development Services since 1 January 2021 has exceeded 5% as at 31 October 2021, such amount being RMB433,782,000, representing an excess of approximately RMB57,985,000. Since then, the transaction amounts of the Mine Development Services have continued to increase. All such historical transaction amounts should have been subject to independent shareholders' approval requirement under Chapter 14A of the Listing Rules. As the Mine Development Services are necessary for providing the core raw materials to be used in the Group's cement production process, discontinuing the Mine Development Services will lead to a halt in the Group's cement production process, which will result in significant losses for the Group. In addition, as local environmental laws require the land conditions of the extraction sites to be restored during the extraction process, and the Company may be subject to penalties if discontinuation of the Mine Development Services results in cessation of the restoration during the extraction process. In view of the above, the Board has decided to continue the Mine Development Services prior to obtaining independent shareholders' approval in accordance with Chapter 14A of the Listing Rules. Accordingly, a resolution will be proposed at the EGM to ratify such historical transaction amounts.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the continuing connected transactions contemplated under the Engineering and Technical Services Framework Agreement exceeds 5%, the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Chang Ming-cheng, Mr. Li Jianwei and Mr. Hsu You-yuan, has been formed to consider and advise to the Independent Shareholders as to the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, are qualified to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders. Save for our appointment as the Independent Financial Adviser, there was no engagement between the Group and us in the past two years.

Besides, apart from the advisory fee and expenses payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the 4 November Announcement; (ii) the announcement of the Company dated 13 December 2021 in relation to the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder; (iii) the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement; (iv) the annual report of the Company for the year ended 31 December 2020 (“FY2020”) (the “**Annual Report 2020**”), the interim report of the Company for the six months ended 30 June 2021 (“1H2021”) (the “**Interim Report 2021**”); (v) the information and facts supplied by the Group; (vi) the opinions expressed by and the representations of the Directors and management of the Group; and (vii) certain relevant public information, and have assumed that all such information and facts provided and any opinions and representations made to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management of the Company and/or the Directors. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular and the information, opinions and representations provided to us by the Group and/or its management of the Company and/or the Directors were true and accurate at the time when they are made and continue to be true up to the Latest Practicable Date. We have no reason to believe that any statements, information, opinions and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent verification and in-depth investigation into the information provided by the Company as well as the business and affairs of the Group, the controlling shareholder of the Group, CNBMG or their respective subsidiaries or associates

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(if applicable), nor have we considered the taxation implication on the Group or the Shareholders. Our opinion is necessarily based on the financial, economic, market, industry-specific and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information regarding the Group. The Directors, having made all reasonable enquiries and careful consideration, confirm that to the best of their knowledge and belief, the information contained in the 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 the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in respect of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder, we have taken into consideration the following principal factors and reasons:

1. Information on the Group

1.1 Business of the Group

As disclosed in the Letter from the Board, the Company is a public limited company incorporated in Cayman Islands. It engages in the production of clinker, cement and concrete in the PRC. Shandong Shanshui is a limited liability company incorporated in the PRC and is engaged in investment holding. It is the Company's main operating entity and indirect wholly-owned subsidiary.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Annual Report 2020, Shandong Shanshui is one of the 12 national large-scale cement enterprises with national key support, with 108 subsidiaries spreading across more than ten provinces including Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang.

According to the Interim Report 2021, the Group had a total production capacity of 94.97 million tonnes of cement, 50.47 million tonnes of clinker and 17.1 million cubic meters of concrete as at 30 June 2021. During 1H2021, the Group's total sales volume of cement and clinker was approximately 25,145,000 tonnes and 3,992,000 tonnes, representing an increase of approximately 22.1% and 8.0%, respectively, as compared to the six months ended 30 June 2020 ("1H2020").

1.2 Financial performance of the Group

Set out below is a summary of the Group's operating results as extracted from the Annual Report 2020 and the Interim Report 2021:

	For the year ended 31 December		For the six months ended 30 June	
	2019	2020	2020	2021
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue				
– Sales of cement	17,183,378	16,847,525	6,966,619	8,460,283
– Sales of clinker	2,267,395	2,282,506	948,861	1,054,833
– Sales of concrete	1,579,402	1,270,932	602,913	591,526
– Sales of other products	448,656	490,491	228,438	285,379
	<u>21,478,831</u>	<u>20,891,454</u>	<u>8,746,831</u>	<u>10,392,021</u>
Gross profit	7,271,722	6,964,665	3,021,844	2,994,252
<i>Gross profit margin</i>	33.9%	33.3%	34.5%	28.8%
Net profit attributable to owners of the Company	2,973,104	3,186,993	1,296,631	1,203,545

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the years ended 31 December 2019 and 2020 and the six months ended 30 June 2021, the Group mainly generated revenue from the manufacturing and sales of cement, clinker and concrete. According to the Interim Report 2021, the sales revenue in Shandong region was approximately RMB6,723.7 million in 1H2021, accounting for approximately 64.7% of the Group's total sales revenue and representing an increase of 17.7% as compared to 1H2020. Sales revenue in Northeast China region, Shanxi Region and Xinjiang Region accounted for approximately 20.6%, 12.5% and 2.2%, respectively, of the Group's total sales revenue in 1H2021.

Comparison of financial performance between the six months ended 30 June 2020 and 2021

Based on the Interim Report 2021, the Group's revenue increased from approximately RMB8,746.8 million for the six months ended 30 June 2020 ("**1H2020**") to approximately RMB10,392.0 million in 1H2021, which was mainly attributable to the increase in revenue generated from the sales of cement. The increase in revenue generated from the sales of cement was mainly due to the increase in sales volume from approximately 20.6 million tonnes in 1H2020 to approximately 25.1 million tonnes in 1H2021.

The Group's gross profit decreased from approximately RMB3,021.8 million in 1H2020 to approximately RMB2,994.3 million in 1H2021, which was mainly attributable to the increase in the cost of raw materials in 1H2021, resulting from the increase in consumption of raw materials such as limestone, slag powder and fly ash for the period. Accordingly, the Group's gross profit margin decreased from approximately 34.5% in 1H2020 to approximately 28.8% in 1H2021.

The Group's profit attributable to owners of the Company decreased slightly from approximately RMB1,296.6 million in 1H2020 to approximately RMB1,203.5 million in 1H2021, which was in line with the decrease in the Group's gross profit for the same period.

Comparison of financial performance between the year ended 31 December 2019 and 2020

Based on the Annual Report 2020, the Group's revenue decreased slightly from approximately RMB21,478.8 million for the year ended 31 December 2019 ("**FY2019**") to approximately RMB20,891.5 million in FY2020, which was mainly attributable to the decrease in revenue generated from sales of cement and concrete. The decrease in revenue generated from sales of cement was primarily due to the combined effect of (i) the increase in sales volume from approximately 47.5 million tonnes in FY2019 to approximately 51.3 million tonnes in FY2020; and (ii) the decrease in unit selling price from approximately RMB363.6 per tonne in FY2019 to approximately RMB330.7 per tonne in FY2020. The decrease in revenue generated from sales of concrete was primarily due to (i) the decrease in

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

sales volume from approximately 3.2 million m³ in FY2019 to approximately 2.8 million m³ in FY2020; and (ii) the decrease in unit selling price from approximately RMB497.8 per m³ in FY2019 to approximately RMB454.6 per m³ in FY2020.

The Group's gross profit decreased from approximately RMB7,271.7 million in FY2019 to approximately RMB6,964.7 million in FY2020, which was in line with the decrease in the Group's revenue. The Group's gross profit margin remained relatively stable at approximately 33.9% in FY2019 and approximately 33.3% in FY2020.

The Group's net profit attributable to owners of the Company increased from approximately RMB2,973.1 million in FY2019 to approximately RMB3,187.0 million in FY2020, primarily attributable to the combined effect of (i) the decrease in gross profit in FY2020; (ii) the decrease in administrative expenses mainly due to the decrease in total wages and the legal and professional expenses in FY2020, the decrease in expenses of traveling and business entertainment as a result of the COVID-19 pandemic, and the decrease in the amount of social insurance under the relevant relief measures by the government; and (iii) the decrease in finance costs in FY2020 resulting from accelerated repayment of borrowings.

1.3 Business outlook

Demands for cement and clinker are highly correlated to the level of construction activities in China. The growth of fixed asset investment ("FAI") has led to a significant increase in the demand for building materials, including cement and clinker over the years. According to National Bureau of Statistics of China (the "NBS"), China's FAI increased from approximately RMB31,148.5 billion in 2011 to RMB52,727.0 billion in 2020, representing compound annual growth rate ("CAGR") of approximately 6.0%. The production volume of cement in China during the last decade also experienced a stable increase from approximately 20,992.6 million tonnes in 2011 to approximately 23,947.1 million tonnes in 2020, driven by building and civil engineering construction activities.

According to the Annual Report 2020, although faced with the difficult and complicated environment at home and abroad, especially the severe impact of the COVID-19 pandemic, the Chinese government has achieved remarkable results in maintaining stability, coordinating pandemic prevention and control and promoting economic and social development, resulting in a stable recovery of economic operation. The cement industry continued to boom with strong demand of downstream industry. According to the website of China Cement Net* (中國水泥網), which is an information provider for the cement industry in China, the national cement price index (CEMPI), which is computed based on the ex-factory cement price offered by 148 major suppliers of the cement industry in China, increased from approximately 102 points by the end of November 2016 to 203 points by the end of November 2021, representing a CAGR of approximately 14.8%.

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Pursuant to the Measures for the Implementation of Capacity Replacement in the Cement and Glass Industries* (《水泥玻璃行業產能置換實施辦法》) published in July 2021 by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部), to further lessen the problem of excess production capacity of the cement industry, cement manufacturers would be required to retire outdated or excess capacity or to replace them by effective and legitimate new capacity. At the same time, restriction on new capacity has become more stringent.

Pursuant to the Outline of the 14th Five-Year Plan for National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035* (《中華人民共和國國民經濟和社會發展第十四個五年規劃和2035年遠景目標綱要》) published in 2021 by National Development and Reform Commission* (國家發展和改革委員會), the PRC government proposed to maintain reasonable investment growth by various means which include but not limited to speeding up of the infrastructural and municipal engineering and promoting the technological transformation and the construction of large-scale projects such as infrastructure, rural urbanization, transportation and water conservancy etc. Accordingly, the FAI in China in coming years would be strongly supported, which would in turn contribute to the stable demand for building materials such as cement and clinker in the foreseeable future.

2. Information of CNBM and CNBMG

According to the Letter from the Board, CNBM is a leading building materials company in the PRC with significant operations in the cement, new materials and engineering services businesses, with its shares listed on the Stock Exchange (stock code: 3323). It is a substantial shareholder of the Company. Its controlling shareholder and ultimate beneficial owner is CNBMG, a state-owned limited liability company incorporated in the PRC which is engaged in the business of building materials in the PRC.

3. Principal terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement

3.1 Mine Development Services Framework Agreement

Details of the Mine Development Services Framework Agreement are set out in the Letter from the Board. The principal terms and conditions of the Mine Development Services Framework Agreement are as follows:

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3.1.1 Date

13 December 2021

3.1.2 Parties

(i) Shandong Shanshui

(ii) CNBMG

3.1.3 Scope of transactions

Provision of mine development, maintenance and related engineering services by CNBMG's group to the Company's group

3.1.4 Term

From the Effective Date to 31 December 2023 (both days inclusive)

3.1.5 Basis of pricing

The price of the services will be determined through a tender or quotation process, and will depend on the result of the tender or quotation (as the case may be) if CNBM wins the tender. The Group will use (i) the method of public tender for projects that are commoditized and/or standardized, (ii) the method of selective tender for projects that are non-standardised, relatively specific, require detailed communications with the suppliers on technological aspects of the project, with fewer potential bidders and/or the project timetable is rather urgent, and (iii) the method of request for quotation for projects in which the supply requested is of a smaller scale and/or of a unique quality and there is a lack of competition, the Group has already used public tender recently and/or the market prices for the raw materials involved are relatively stable.

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- The pricing procedures are as follows:

Public tender: When using the method of public tender, a tender committee will be established by the procurement and supply management department at Group level, comprising relevant experts from the requesting entity, the corresponding operating region, the mining management office under the development and technology department at Group level, the legal department at Group level and the audit department at Group level. The tender committee will review the tender documents and technical requirements and publish a tender notice via an online platform (e.g. Alibaba). The public tender process will need to have at least three valid tenders. The tender committee will review each tender and provide its feedback based on a number of factors including the participant's quality, costs, timing and services. After the procurement and supply management department at Group level consolidates all relevant feedback, it will prepare a tender award request (including the relevant documents such as feedback on the tender, proposed tender participant to be awarded the tender, pricing comparison list and pricing quotation list) and submit it to the vice president of the procurement and supply department at Group level for approval.

Selective tender: The method of selective tender is similar to public tender, with the key difference being that there is no public tender via an online platform, and participants shortlisted by the procurement and supply management department at Group level (on the recommendation of the tender committee) join the tender by way of invitation.

Request for quotation: When using the method of request for quotation, the procurement and supply management department at Group level will shortlist suppliers, based on their quality, from the Group's supplier database and invite these suppliers to provide quotations. After the mining management office under the development and technology department at Group level and the legal department at Group level review the quotation and provide their feedback, the procurement and supply management department at Group level will prepare an award request (including the relevant documents such as feedback on the quotation, pricing comparison list and pricing quotation list) to be submitted to the vice president of the procurement and supply department at Group level for approval.

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We have obtained and reviewed the Supply Management Measure (Trial)* (《采供管理辦法(試行)》) (the “**Measure**”) adopted by the Group in July 2020 and noted that (i) the procedures of determination of pricing by public and selective tender was included detailly in the Measure; (ii) roles of each tender committee member were included in the Measure, where (a) the procurement and supply management department at Group level would be responsible for organising the whole tendering process, (b) audit department at Group level would be responsible for monitoring the whole tendering process, (c) the legal department at Group level would be responsible for reviewing the bidders’ qualifications, and (d) other relevant parties such as representatives from operating regions would be responsible for technical and operational review; (iii) the tender documents would be collected and consolidated by the procurement and supply management department at Group level and submitted to the tender committee for review and comments; and (iv) a tender award request, together with relevant documents, would be prepared by the procurement and supply management department at Group level after consolidating feedbacks and comments from different department, and submitted to the vice president of the procurement and supply department for approval. We have obtained and reviewed sample tender documents and noted that (i) more than three valid tenders were collected during the tender process; (ii) the tendering process was organized by the procurement and supply management department at Group level, and monitored and reviewed by the audit department and legal department; and (iii) the tender result was approved by the vice president of the procurement and supply department at Group level. Further, we have obtained and reviewed samples of the supply procurement proposals submitted to and approved by the vice president of the procurement and supply department and noted that (i) the background of the potential suppliers and details of price inquiry process including but not limited to the composition of prices quoted, the basis of price determination and the reasons for the difference between the current quoted prices and historical prices of similar services are included in the proposals; (ii) comments from different departments and business units such as the development and technology department, quality control department, legal department and audit department were consolidated and included in the proposals and (iii) the quotations and draft agreements were attached in the proposal for review and approval. In view of the above, we concur with the Directors’ view that the pricing procedures and mechanism and the internal control measure to be carried out are effective and sufficient to ensure the pricing of transactions contemplated under the Mine Development Services Framework Agreement to be on normal commercial terms.

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- If CNBMG's group wins the tender or quotation (as the case may be), the exact price will be determined based on the specific work involved for the project, after the actual costs of CNBMG's group have been ascertained by the Group's technical personnel. The prices will be monitored, revised and adjusted in accordance with the changes in market prices from time to time so as to be in line with the markets. We have obtained the internal guidelines for connected transactions from the Company and noted that the Company has stipulated in the internal guidelines that the service fees payable to connected parties must, among others, (i) align with the market price; (ii) be fair and reasonable; and (iii) be no less favourable than fees payable to independent third parties.

3.2 Engineering and Technical Services Framework Agreement

Details of the Engineering and Technical Services Framework Agreement are set out in the Letter from the Board. The principal terms and conditions of the Engineering and Technical Services Framework Agreement are as follows:

3.2.1 Date

13 December 2021

3.2.2 Parties

- (i) Shandong Shanshui
- (ii) CNBMG

3.2.3 Scope of transactions

Provision of engineering services (including design, construction and technical upgrade services) and technical services (including inspection and product specification comparison services) by CNBMG's group to the Company's group

3.2.4 Term

from the Effective Date to 31 December 2023 (both days inclusive)

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3.2.5 Basis of pricing

The price of the services (other than inspection service) will be determined through a tender or quotation process, and will depend on the result of the tender or quotation (as the case may be) if CNBM wins the tender or quotation (as the case may be). The Group will use (i) the method of public tender for projects that are commoditised and/or standardised, (ii) the method of selective tender for projects that are non-standardised, relatively specific, require detailed communications with the suppliers as on technological aspects of the project, with fewer potential bidders and/or the project timetable is rather urgent, and (iii) the method of requests for quotations for projects in which the supply requested is of a smaller scale and/or of a unique quality and there is a lack of competition, the Group has already used public tender recently and/or the market prices for the raw materials involved are relatively stable.

- In ensuring that the pricing is on normal commercial terms, the Group follows the following grid in determining its internal department that will run the pricing process and approve the final result:

Monetary amount involved	Unit that will run the tender/quotation process	Unit that will approve the final result
Less than RMB1,000,000	Procurement and supply management department at subsidiary (or branch) level	General manager at subsidiary (or branch) level
RMB1,000,000 or above but below RMB2,000,000	Procurement and supply management office at operating region level	General manager at operating region level
RMB2,000,000 and above	Procurement and supply management department at Group level	Vice president of the procurement and supply management department at Group level

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- The pricing procedures are as follows:

Public tender: When using the method of public tender, a tender committee will be established by the unit running the tender process (in accordance with the requisite levels as set out in the preceding subparagraph above), comprising experts from the production, technology, legal and audit departments at the corresponding corporate level. The tender committee will review the tender documents and technical requirements and publish a tender notice via an online platform (e.g., Alibaba). The public tender process will need to have at least three valid tenders. The tender committee will review each tender and provide its feedback based on a number of factors including the participant's quality, costs, timing and services. After the unit running the tender process (depending on the requisite levels as set out in the preceding sub-paragraph above) consolidates all relevant feedback, it will prepare a tender award request (including the relevant documents such as feedback on the tender, proposed tender participant to be awarded the tender, pricing comparison list and pricing quotation list) and submit it to the head of the corresponding unit for approval.

Selective tender: The method of selective tender is similar to public tender, with the key difference being that there is no public tender via an online platform, and participants shortlisted by the unit running the quotation process (in accordance with the requisite levels as set out in the preceding subparagraph above) (on the recommendation of the tender committee) join the tender by way of invitation.

Request for quotation: When using the method of request for quotation, the unit running the quotation process (in accordance with the requisite levels as set out in the preceding sub-paragraph above) will shortlist suppliers, based on their quality, from the Group's supplier database and invite these suppliers to provide quotations. After the production, technology and legal departments at the corresponding corporate level review the quotation and provide their feedback, the unit running the quotation process (in accordance with the requisite levels as set out above) will prepare an award request (including the relevant documents such as feedback on the quotation, pricing comparison list and pricing quotation list) to be submitted to the head of the corresponding unit for approval.

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We have obtained and reviewed the Measure adopted by the Group in July 2020 and noted that (i) the procedures of determination of pricing by public and selective tender was included detailly in the Measure; (ii) roles of each tender committee member were included in the Measure, where (a) the procurement and supply management department would be responsible for organising the whole tendering process, (b) audit department would be responsible for monitoring the whole tendering process, (c) the legal department would be responsible for reviewing the bidders' qualifications, and (d) other relevant parties such as representatives from operating regions would be responsible for technical and operational review; (iii) the tender documents would be collected and consolidated by the procurement and supply management department and submitted to the tender committee for review and comments; and (iv) a tender award request, together with relevant documents would be prepared by the procurement and supply management department after consolidating feedbacks and comments from different department, and submitted to the designated approvers for approval. We have obtained and reviewed sample tender documents and noted that (i) more than three valid tenders were collected during the tender process; (ii) the tendering process was organized by the procurement and supply management department, and monitored and reviewed by the audit department and legal department; (iii) the tender result was approved by the designated approvers according to the scale of the projects. Further, we have obtained and reviewed samples of the supply procurement proposals submitted to and approved by the designated approvers and noted that (i) the background of the potential suppliers and details of price inquiry process including but not limited to the composition of prices quoted, the basis of price determination and the reasons for the difference between the current quoted prices and historical prices of similar services are included in the proposals; (ii) comments from different departments and business units such as the development and technology department, quality control department, legal department and audit department were consolidated and included in the proposals and (iii) the quotations and draft agreements were attached in the proposal for review and approval. In view of the above, we concur with the Directors' view that the pricing procedures and mechanism and the internal control measure carried out are effective and sufficient to ensure the pricing of transactions contemplated under the Engineering and Technical Services Framework Agreement to be on normal commercial terms.

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The price of the inspection services will be determined based on the prices prescribed by the National Quality Supervision and Testing Center for Cement from time to time. We have reviewed the Notice of 18th National Cement Product Specification Comparison* (《關於開展“砼燦杯”全國第十八次水泥品質指標檢驗大對比工作的通知》) issued by the National Quality Supervision and Testing Center for Cement and noted that details such as the prescribed price, samples to be inspected, the inspection methods are outlined.

4. Reasons for and benefits of entering into the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement

According to the Letter from the Board, the Board considers that the Framework Agreements will bring the following benefits to the Company:

4.1 Mine Development Services Framework Agreement

To support the Company's day-to-day operations, the Company will need to extract limestones to serve as raw materials for its cement production. To ensure safe and proper extraction of limestones, mine development, maintenance and related engineering services are necessary. Local environmental laws also require the land conditions of the extraction sites to be restored during the extraction process.

Compared to other companies the Company has previously cooperated with, CNBMG possesses competitive advantages on its mining technology, management standards and infrastructure construction qualities in terms of its (i) market profile, (ii) technological capabilities, (iii) compliance with state environmental laws and (iv) cost efficiency, as evidenced by the following qualities and achievements of its subsidiary and engineering services provider unit, CNBM:

- CNBM is a tier-one service provider in the Chinese mining industry measured by aggregate contracted project value, an industry standard established by the Ministry of Housing and Urban-Rural Development of the PRC. CNBM has been engaged in limestone development and extraction projects for (i) an overwhelming majority of the cement corporations in China and (ii) various other overseas cement corporations;
- CNBM has the technology and expertise to utilise limestones of both superior and sub-par qualities, thereby maximising the utilisation rate of limestones extracted; and

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- CNBM has established and implemented a strict policy to ensure the land conditions of the extraction sites are restored simultaneously during the extraction process, thereby reducing the need for investment in “green-mining” projects and minimising the overall restoration costs for extraction sites. According to the 2020 Environmental, Social and Governance Report of CNBM (the “**2020 CNBM ESG Report**”), CNBM’s mining activities were carried out according to the Green Mine Convention* (《綠色礦山公約》), which requires mining activities to be scientific and orderly, in order to strictly control the impacts on mining areas and the surrounding environment and to protect ecological environment. The CNBM’s group carries out ecological restoration swiftly after the mining is completed.

In light of the above, the Board believes that the Company can leverage on CNBMG’s strengths to:

- enhance the mine development, maintenance and related engineering services quality of the Company;
- ensure (i) compliance with local environmental laws for simultaneous restoration of the land conditions of extraction sites and (ii) minimal restoration costs as a result of CNBM’s strict policy for simultaneous restoration; and
- lower its overall production cost as a result of the mixed utilisation of limestones of both superior and sub-par qualities.

We have reviewed the Green Mine Construction Specifications of Cement Limestone Industry* (《水泥灰巖綠色礦山建設規範》), an industry standard issued by the Ministry of Natural Resources of the PRC, and noted that restoration of extraction sites during the extraction process was required. We further noted that CNBM has participated in the drafting of the industry standards including but not limited to the Green Mine Construction Specifications of Cement Limestone Industry, which signified the recognition of CNBM in the mining industry and its technology capability. Moreover, according to the annual report of CNBM for the year ended 31 December 2020, we noted that the CNBM’s group has won a number of honorary awards such as China Grand Awards for Industry* (中國工業大獎), the Commendation Award of China Grand Awards for Industry* (中國工業大獎表彰獎), the Gold Award of National Quality Engineering* (國家優質工程金獎), the National Green Demonstration Factory for Ready-mixed Concrete Industry* (全國預拌混凝土行業綠色示範工廠), the Advanced Collective of the State-owned Enterprises in Fighting the COVID-19* (中央企業抗擊新冠肺炎疫情先進集體), the Best Environmental (E) Responsibility Award of the 2019 China ESG Golden Responsibility Award* (2019 中國ESG 金責獎– 最佳環境(E)責任獎), which serve as additional proof of the technology and expertise possessed by the CNBMG’s group.

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Considering that (i) limestones are one of the major raw materials for the production of cement by the Group and the Group is principally engaged in the production of clinker, cement and concrete; (ii) established business relationship between the Company and CNBMG and the satisfactory performance during the past cooperation would facilitate continuous business cooperation in the future; (iii) the mining process adopted by CNBMG's group was in line with the relevant environmental laws; (iv) related technology and expertise possessed by the CNBMG's group; and (v) the basis of pricing and terms under the Mine Development Services Framework Agreement are on normal commercial terms and are fair and reasonable, we concur with the Directors' view that the entering into of the Mine Development Service Framework Agreement is fair and reasonable so far as the Independent Shareholders are concerned, and the transaction contemplated thereunder are conducted in the ordinary and usual course of business and in the interest of the Company and its Shareholders as a whole.

4.2 Engineering and Technical Services Framework Agreement

According to the Letter from the Board, from time to time, the Company requires (i) design services when it establishes new production lines, (ii) technical upgrade services when it decides to improve the quality and scale of its cement production and (iii) technical services in compliance with environmental and safety regulations and for purposes of participating in routine specification comparison inspections conducted by state authorities in accordance with cement industry regulations.

Compared to other service providers, CNBMG possesses competitive advantages in the provision of engineering and technical services in terms of its (i) scale, (ii) technological capabilities and (iii) cost-to-performance ratio of its upgrade services, as evidenced by the following qualities and achievements of CNBMG:

- CNBMG's group is the largest integrated cement and engineering services provider in the world in terms of scale. We have reviewed an article released by China Internet Information Center, an government authorised press led by State Council Information Office (國務院新聞辦公室), and understood that CNBMG's group ranked the first in terms of scale in seven industries including integrated cement and engineering services;

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- CNBMG's group has 26 national scientific research and design institutes, 38,000 scientific research and development and technical engineering employees, 33 national industrial quality inspection centres, more than 10,000 patents, three national key laboratories, 8 national engineering (technology) research centres and 17 national standardisation technical committees. We have reviewed the official website of CNBMG's group and noted that the abovementioned qualifications were stated. We further noted that the CNBMG's group had qualifications on conducting inspection on more than 3,000 standards and had issued, on average, more than 500,000 inspection reports annually;
- CNBMG's group owns 6 first class State Science and Technology Progress Awards and 4 China Grand Awards for Industry; and
- CNBMG is able to provide engineering services at a higher cost-to-performance ratio compared with its competitors. We have reviewed the sustainability report for the year ended 31 December 2020 issued by CNBMG and understood that the CNBMG's group adopted an intelligent production and operation model which advocated production and operation efficiency, the advanced technology of CNBMG's group lowered the energy consumption, including coal and electricity, in cement production progress.

In light of the above, the Board believes that the Company can leverage on CNBMG's strength to ensure its engineering quality, increase production quality and volume, ensure stable operations, thereby increasing overall revenue for the Group.

We have discussed with the management of the Company and understood that cement production process involves a number of steps which include but not limited to raw materials quarrying, raw materials crushing, raw meal preparation and clinker calcination. Such production steps involve different types of complex facilities and machinery such as crushers, grinders and grate coolers. Therefore, the establishment of new production lines as well as the technical update of cement production require the engagement of qualified engineers to ensure the facilities and machinery are well-equipped for the production processes to be carried out with high and stable efficiency, quality and safety.

Further, we have reviewed the Notice of the Enhancement of Quality Control Capability of Cement* (《關於提升水泥質量保障能力的通知》) issued by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) and the Quality Control Regulations for Cement Manufacturer (《水泥生產企業質量管理規程》) published by the China Building Materials Federation (中國建築材料聯合會), and noted that regular quality inspection are required to be conducted on cement manufacturers by qualified inspection centres.

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According to the interim report of CNBM for the six months ended 30 June 2021, CNBM progressed a number of overseas projects smoothly which include but not limited to battery diaphragm project in Vietnam, calcium silicate board project in Nigeria and logistics park project in Tanzania, which evidenced the technological capabilities as well as the global recognition of CNBM in the engineering services industry. Coupled with the awards and titles won by the CNBMG's group discussed in the section headed "4 Reasons for and benefits of entering into the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement – 4.1 Mine Development Services Framework Agreement", the competitive advantages possessed by CNBMG's group were well supported. We also noted from the official website of CNBMG that they possess Grade-A design certificate issued by the PRC Ministry of Construction in areas of building materials, architectural engineering, environmental engineering and engineering, procurement and construction ("EPC") services, which are required for providing engineering design and EPC services in China.

Considering that (i) the engagement of qualified engineers is required for the design, engineering and technical update of the cement production lines of the Group; (ii) regular quality inspection are required to be conducted on cement manufacturers by qualified inspection centres; (iii) CNBMG's group possessed a number of comparative advantages including but not limited to its technological capabilities as well as the global recognition; (iv) CNBMG's group has 33 national industrial quality inspection centres which are qualified inspection centers under the relevant rules; and (v) the basis of pricing and terms under the Engineering and Technical Services Framework Agreement are on normal commercial terms and are fair and reasonable, we concur with the Directors' view that the entering into of the Engineering and Technical Services Framework Agreement is fair and reasonable so far as the Independent Shareholders are concerned, and the transaction contemplated thereunder are conducted in the ordinary and usual course of business and in the interest of the Company and its Shareholders as a whole.

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5. Historical transaction amounts and the proposed annual caps under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement

5.1 Mine Development Services Framework Agreement

As disclosed in the Letter from the Board, the historical transaction amounts in respect of the transactions under the Mine Development Services Framework Agreement from 2017 to 31 October 2021 were as follows:

Financial year ended 31 December			Ten months ended	
2017	2018	2019	2020	31 October 2021
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
9,230	14,554	121,639	353,015	433,782

The proposed annual caps in respect of the transactions contemplated under the Mine Development Services Framework Agreement have been determined based on:

- (i) the historical fees for the Mine Development Services paid by the Group to CNBMG's group since January 2019;
- (ii) the expected growth in the Group's corresponding demand for the Mine Development Services from CNBMG's group over the years ending 31 December 2023, in view of the acquisition by the Group of four new mining sites in Shandong and Northeast China, which the preparatory engineering work is still ongoing and the Group expects to incur a preparatory engineering service fee of approximately RMB26.5 million for the year ending 31 December 2022 before the mining sites are readily available for limestone extraction. Upon completion of the preparatory engineering work, the mining work is expected to commence operations in the third to fourth quarter of 2022 and the Group expects to incur additional mining fees in relation to the four new mining sites of approximately RMB41.4 million and RMB109.2 million in the second half of 2022 and the year ending 31 December 2023, respectively;
- (iii) the prevailing market prices for the provision of similar mine development, maintenance and related engineering services; and
- (iv) a buffer of 10% to cater for any possible unforeseeable circumstances such as (a) obtaining new resources by utilising resource acquisition advantages from CNBMG such as exploration technologies and (b) fluctuation relating to the actual quantity of limestone extracted.

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The table below sets out the proposed annual caps in respect of the transactions contemplated under the Mine Development Services Framework Agreement for the three years ending 31 December 2023:

For the year ending 31 December		
2021	2022	2023
RMB'000	RMB'000	RMB'000
600,000	702,850	748,370

In assessing the fairness and reasonableness of the proposed annual caps, we have discussed with the management of the Company regarding the principal assumptions and basis adopted for determining the proposed annual caps. We understood that the Company has considered the following factors:

Historical fees

As advised by the management of the Company, there are generally three types of mine development services contemplated under the Mine Development Services Framework Agreement, namely (i) mining, (ii) maintenance and (iii) related engineering services, where the transaction amount of mining services contributed the majority of the historical transaction amounts. Mining fee is generally determined based on the unit price per tonne of limestone extracted and the quantity of limestone extracted. We have discussed with the management of the Company and understood that in determining the proposed annual caps, historical unit price per tonne of limestone extracted was considered.

We have obtained 12 agreements entered into by the Group and the CNBMG's group for mine development services, of which nine are agreements for the provision of mining services, two are agreements for related engineering services and one is agreement for provision of both mining and maintenance services. Considering that (i) the transaction amounts of samples selected covered over 50% of the total transaction amount for the respective year/period; and (ii) the samples selected represent the largest projects in the respective year/period in terms of transaction amount, we consider the number of samples to be sufficient, fair and representative. We noted from the historical agreements that while the time, effort, and other costs of extraction of limestone vary among different mining sites, the unit price of limestone extracted varies accordingly, ranged from approximately RMB3.8 to RMB27.0 per tonne as stipulated in the sample agreements entered into by the Group and the CNBMG's group during the period from January 2019 to October 2021.

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Mine development services at existing mining sites

We have discussed with the management of the Company and understood that, in FY2021, the Group engaged CNBMG's group for mine development services at its 19 existing mining sites, of which 13, two, one and three were located in Shandong province, Shanxi province, Liaoning province and Xinjiang, respectively. According to the Letter from the Board, for the ten months ended 31 October 2021, mine development service fees of approximately RMB433.8 million has been incurred. As advised by the management of the Company, due to the weather and requirements of normalised off-peak production of cement in various regions in China, the production volume was minimal in the first quarter of 2021, while the peak season would fall in August to November in 2021. The quantity of limestone to be extracted and the corresponding service fees to be charged are expected to maintain relatively stable for the two years ending 31 December 2023.

Mine development services at new mining sites

As advised by the management of the Company, the Group has obtained the mining right of four additional mining sites of which the preparatory engineering work were still undergoing. Accordingly, it is expected that a preparatory engineering service fee of approximately RMB26.5 million would be incurred for the year ending 31 December 2022 before the mining sites are readily available for limestone extraction.

We were provided with the certificates of limestone mining right of the four additional mining sites and noted that (i) three of them were obtained in 2020 and 2021; and (ii) one of them was owned by Xinghao Cement Co., Ltd, a non-wholly owned subsidiary of the Group, the Group's control over which was resumed in 2019 as disclosed in the annual report of the Company for FY2019. We further understood from the management of the Company that the preparatory engineering work of the Group's four additional mining sites is expected to be completed in 2022. Upon the completion of the preparatory engineering work, the mining work is expected to commence in the third to fourth quarter of 2022 and it is expected that additional mining fees of approximately RMB41.4 million and RMB109.2 million would be incurred at the four additional mining sites in the second half of 2022 and for the year ending 31 December 2023, respectively, with a per unit mining fee ranging from approximately RMB11.0 per tonne to RMB20.2 per tonne, which was determined with reference to historical mining fee of mining sites with similar geographical and topographical features. Considering that (i) there would be additional demand for mine development service as the mining work for additional mining sites is expected to commence in 2022; and (ii) the expected mining fees are generally in line with the historical mining fee as stipulated in the sample agreements obtained, we are of the view that the basis of determining the mine development services fee at new mining sites are fair and reasonable.

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Buffer

As advised by the management of the Company, a buffer of 10% is included in determining the annual caps in order to cater for any unforeseeable circumstances possible unforeseeable circumstances such as (i) obtaining new resources by utilising resource acquisition advantages from CNBMG such as exploration technologies and (ii) fluctuation relating to the actual quantity of limestone extracted. Considering that the buffer would provide flexibility to the Company in the event that new mining resources are available to the Company or any other unexpected fluctuations occur, we consider that the buffer applied by the management of the Company to be acceptable.

Based on the above, we concur with the Directors' view that the proposed annual caps in respect of the transactions contemplated under the Mine Development Services Framework Agreement are fair and reasonable.

5.2 Engineering and Technical Services Framework Agreement

As disclosed in the Letter from the Board, the historical transaction amounts in respect of the transactions under the Engineering and Technical Services Framework Agreement from 2015 to 31 October 2021 were as follows:

Financial year ended 31 December						Ten months ended
2015	2016	2017	2018	2019	2020	31 October
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	2021
						RMB'000
2,578	132	2,531	2,567	20,814	132,989	264,180

The proposed annual caps in respect of the transactions contemplated under the Engineering and Technical Services Framework Agreement have been determined based on:

- (i) the historical fees for the Engineering and Technical Services paid by the Group to CNBMG's group since January 2019;

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- (ii) the expected growth in the Group's corresponding demand for the Engineering and Technical Services from CNBMG's group, in particular, over the two years ending 31 December 2023, in view of
 - (a) the significant technology upgrade projects in terms of ultra-low emission conversions as planned by the Group for various production lines located in Shandong and Shanxi, as a result of local environmental regulations and policy requirements, which the Group expects to incur an aggregate transaction amount of approximately RMB75 million and RMB110 million for the year ending 31 December 2022 and 31 December 2023, respectively;
 - (b) the planned implementation of grate cooler upgrades for the production lines of 13 subsidiaries during 2022 and 2023 by the Group, which the Group expects to incur an aggregate transaction amount of approximately RMB110 million and RMB32 million for the year ending 31 December 2022 and 31 December 2023, respectively;
 - (c) the planned construction, relocation and productivity replacement of around 10 significant infrastructure projects (such as clinker production lines and cement grinding production lines) by the Group in response to development in industry policies and the 14th Five Year Plan of the PRC, among which (A) three significant infrastructure projects have either commenced or have their implementation confirmed, of which the construction period will be expended to continue into 2022 and 2023, and (B) seven significant infrastructure projects, which are expected to commence in turn between 2022 and 2023. Specific works for these projects may include engineering design, civil construction, machinery and equipment, road and installations, and based on the development pace of these significant infrastructure projects, the Group expects to incur an aggregate transaction amount of approximately RMB1,282 million and RMB1,305 million for the year ending 31 December 2022 and 31 December 2023, respectively;
- (iii) the expected increase in corporate environmental costs and labour costs over the years ending 31 December 2023;
- (iv) the prevailing cost and expected increase in the cost of raw materials, in view of the historical increase in costs of steel, coal and electricity for the projects implemented by the Group over the past two years; and
- (v) the prevailing market prices for the provision of similar engineering and technical services.

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The table below sets out the proposed annual caps in respect of the transactions contemplated under the Engineering and Technical Services Framework Agreement for the three years ending 31 December 2023:

For the year ending 31 December		
2021	2022	2023
RMB'000	RMB'000	RMB'000
400,000	1,469,885	1,449,351

In assessing the fairness and reasonableness of the proposed annual caps, we have discussed with the management of the Company regarding the principal assumptions and basis adopted for determining the proposed annual caps. We understood that the Company has considered the following factors:

Historical fees of engineering projects and the trend of raw material price

According to the Letter from the Board and as advised by the management of the Company, in determining the proposed annual caps, they have taken into account, among others, the historical fees for engineering services paid by the Group to CNBMG's group since January 2019. We have scrutinized the breakdown of Engineering and Technical Services fees payable to CNBMG's group for the years ended 31 December 2019 and 2020 and the ten months ended 31 October 2021 and noted that (i) provision of engineering services contributed over 90% of the respective historical transaction amount of Engineering and Technical Services for the respective years/period; and (ii) engineering services projects generally include (i) design services in the early stage, (ii) construction services which generally include site formation, civil engineering and installation of machinery and (iii) technical upgrade services. Thus, we have obtained 18 samples of engineering services agreements entered into by the Group and the CNBMG's group, which (i) covered over 50% of the total transaction amount for the respective year/period; and (ii) represent the largest projects in the respective year/period in terms of transaction amount. Therefore, we consider the number of samples to be sufficient, fair and representative. Out of the 18 samples of engineering services agreements we have obtained, two, two and 14 were agreements for the provision of design services, construction services and technical upgrade services, respectively, the details of which were set out below:

- (i) We have obtained and reviewed two samples of historical agreements for design services, in a random basis, and noted that the historical design fee for clinker production line ranged from approximately RMB3.5 million to RMB4.5 million, depending on the scale and type of production line;

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- (ii) We have obtained and reviewed two samples of historical agreements for construction services in similar scale as advised by the management of the Company, in a random basis, and noted that (i) service fees for the construction of grinding production line was approximately RMB80 million, and (ii) service fees for the construction of clinker production line were approximately RMB370 million, subject to the scale of the projects, which were generally in line with the basis adopted by the management of the Company in estimating the construction fees for potential projects. Further, we have conducted independent public search on the price of steel, the major raw materials for construction work, and noted that, by reference to the China Steel Price Index, the price index of steel in China increased from approximately 124.9 points in January 2021 to approximately 151.2 points in September 2021, representing an increase of approximately 21.1%, which was mainly due to the power shortages and the reduction in supply of steel;
- (iii) We have obtained and reviewed 14 samples of agreements for historical technical upgrade services and noted that (i) technical upgrade services include various types of services, while technical service for upgrading grate coolers and production lines to cope with the ultra-low emission standards were two major types of such; (ii) the technical service fees for upgrading grate coolers generally ranged from approximately RMB14 million to RMB18 million; and (iii) the technical service fees for upgrading production lines to cope with the ultra-low emission standards generally ranged from approximately RMB20 million to RMB21 million, subject to the size and nature of the projects.

Based on the above, we are of the view that the service fees per project estimated by the management of the Company in determining the annual caps of the Engineering and Technical Services are fair and reasonable.

Existing or confirmed engineering projects as at 31 October 2021

As advised by the management of the Company, there were various major existing projects that were not completed as at 31 October 2021, such as (i) the construction of clinker and grinding production lines in Pingyin, Shandong Province; (ii) the relocation and construction of clinker and grinding production lines in Chifeng, Inner Mongolia; and (iii) the relocation of grinding production lines in Qingdao, Shandong Province, which are expected to incur, in aggregate, engineering and technical services fees of approximately RMB222.4 million, RMB732.5 million and RMB490.0 million for the years ending 31 December 2021, 2022 and 2023, respectively. As advised by the management of the Company, approximately RMB105.2 million has been incurred in relation to the engineering and technical services on the abovementioned projects for the ten months ended 31 October 2021.

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Potential engineering projects to be entered into for the years ending 31 December 2022 and 2023

We were provided by the management of the Company with a schedule of potential projects (the “**Potential Project Schedule**”) which the management of the Company considered to be probable. According to the Potential Project Schedule, there are 25 potential engineering projects which are expected to commence during the two years ending 31 December 2023.

We have discussed with the management of the Company and understood that they have considered factors such as the Company’s business plan of expanding the production capacity of its cement and clinker production, the needs of relocation and construction of new production line according to the local government policies, and construction of production lines with reference to the location of mine resources owned by the Group. We noted from the annual report of the Company for the year ended 31 December 2019 and the Annual Report 2020 that the sales volume of cement of the Group increased from approximately 39.2 million tonnes for the year ended 31 December 2018 to approximately 51.3 million tonnes in FY2020, representing a growth of approximately 30.9%. Given the significant increase in the sales volume of cement, we considered that it is reasonable for the Group to further expand its production capacity to cope with the increasing production needs. Also, we have reviewed the Announcement on the Transfer of Production Capacity of Jining Shangshui Cement Co., Ltd. and the Production Capacity Replacement of Zaozhuang Shanshui Cement Co., Ltd.* (《關於濟寧山水水泥有限公司產能出讓和棗莊山水水泥有限公司產能置換有關情況的公告》) and the Announcement on the 4000t/d cement clinker project of Shandong Yishui Shangshui Cement Co., Ltd* (《山東沂水山水水泥4000t/d水泥熟料項目情況公示》) published by the Department of Industry and Information Technology of Shandong Province, and the Announcement on the Production Capacity of Shanxi Shanshui Cement Co., Ltd.* (《山西山水水泥有限公司產能情況公示》) published by the Department of Industry and Information Technology of Shanxi Province (altogether, the “**Notices**”), which outlined the replacement plans of the Group’s production lines in Shangdong and Shanxi Province. According to the Notices, various production lines would be constructed in 2022 and 2023, the details of which are agreed with the Potential Project Schedule. Thus, we are of the view that the potential projects as expected by the management of the Company are justifiable.

* For identification purpose only

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In respect of potential technical upgrade projects, we have discussed with the management of the Company and understood that in identifying potential projects, the Company has taken into account (i) the needs for technical services such as technical upgrade of production lines by the Group's existing production lines by reference to relevant policies and guidelines published by the local government. We have reviewed the Technical Guidelines for Evaluation and Monitoring of Ultra-low Emissions in the Cement Industry in Shangxi Province (draft for comment)* (《山西省水泥行業超低排放評估監測技術指南(徵求意見稿)》), and performed public search and noted that various policies and guidelines have been published and continued to be published recently by the local government, which outlined the ultra-low emission standards for cement manufacturers in the PRC. We have also reviewed the notice on the “Fourteenth Cement Industry Chief Engineer Forum”* (《關於召開“第十四屆水泥行業總工程師論壇”的通知》) and noted that the upgrade of grate coolers is one of the focus plans in relation to energy conservation and emission reduction of cement industry in the PRC. Accordingly, cement manufacturers in the PRC would need to reduce their industrial emissions by upgrading their production lines, which include but not limited to grate cooler upgrades and ultra-low emission conversions to cope with the stringent emission standards. In view of the above, we concur with the management of the Company that technical services are needed for their existing production lines and thus the potential technical projects as expected by the management of the Company are justifiable.

Based on the above, we concur with the Directors' view that the proposed annual caps in respect of the transactions contemplated under the Engineering and Technical Services Framework Agreement are fair and reasonable.

6. Internal control measures

As stated in the Letter from the Board, in order to further safeguard the interests of the Shareholders as a whole, the Group has implemented the following internal approval and monitoring procedures in relation to the transactions contemplated under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement:

- (a) before confirming the pricing and the terms of the Mine Development Services or the Engineering and Technical Services (as the case may be), the Group will review and consider the basis of pricing in accordance with the pricing principles set out in the section headed “Principal Terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement” in the Letter from the Board;

* For identification purpose only

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- (b) the Group has adopted internal guidelines which provide that:
 - (i) the finance department and the legal department of the Company will collate and monitor the transaction amounts of the Mine Development Services and the Engineering and Technical Services and any relevant information requiring disclosure from the relevant business unit, and report to the Company's management on a monthly basis;
 - (ii) Shandong Shanshui's management team is also required to report connected transaction issues to the Board and the Board's Audit Committee on a regular basis, including the categories, transaction amount and rationale of continuing connected transactions conducted during the covered period; and
 - (iii) if the value of any Mine Development Services or Engineering and Technical Services is expected to exceed the annual cap in the next three months, the finance department and legal department of the Company must (i) follow up and report to the Company's management after discussion with the relevant business unit and (ii) commence the necessary additional assessment and approval procedures to ensure that the Company will comply with the applicable requirements under Chapter 14A of the Listing Rules in relation to annual cap; and
- (c) the Company will provide information and supporting documents to its independent non-executive Directors and auditors in order for them to conduct an annual review of the continuing connected transactions entered into by the Company. In accordance with the requirements under the Listing Rules, the independent non-executive Directors will provide an annual confirmation to the Board as to whether the Mine Development Services or the Engineering and Technical Services (as the case may be) have been entered into in the ordinary and usual course of business of the Group, are on normal commercial terms and are in accordance with the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and the Company will procure that its auditors will provide confirmation to the Board on an annual basis as to whether anything has come to their attention that causes them to believe that the Mine Development Services or the Engineering and Technical Services (as the case may be) have not been approved by the Board, or are not conducted in accordance with the pricing policies of the Group in all material respects, or are not entered into in accordance with the relevant agreement governing the Mine Development Services or the Engineering and Technical Services (as the case may be) in all material respects or have exceeded the annual cap applicable to these services.

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Further, we noted that remedial measures and enhanced internal control system have been in place in relation to the past non-compliance with chapter 14A of the Listing Rules, which include but not limited to (i) distribution of internal policies and guidelines on connected transactions and connected persons to all subsidiaries of the Company, (ii) timely updates on the list of connected persons, and (iii) provision of routine trainings to the management and staff of the Company on latest requirements of Listing Rules. We have obtained (i) the internal guidelines which stipulated the abovementioned enhanced measures; and (ii) the list of connected persons of the Company, and we concur with the management of the Company that effective remedial measures and enhanced internal control system have been in place to ensure compliance of the Listing Rules in the future.

Having considered that (i) the Company has adopted internal guidelines which provides that the transactions contemplated under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement shall comply with the applicable requirements under Chapter 14A of the Listing Rule; (ii) a monitoring system will be in place where the finance department must follow up and report to the management after discussion with the relevant business unit, and commence the necessary additional assessment and approval procedures; (iii) the transactions contemplated under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement will be annually reviewed by the independent non-executive Directors and the external auditors of the Company; and (iv) the effective remedial measures and enhanced internal control system in place, we are of the view that the internal control measures are adequate and effective in ensuring the transactions contemplated under the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement will be entered into on normal commercial terms and an effective system has been in place to monitor the annual caps.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms or better; and (ii) the terms of the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable in so far as the Company and the Independent Shareholders are concerned and in the interests of the Company and the Shareholders

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as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement (together with the proposed annual caps) and the transactions contemplated thereunder at the EGM.

Yours faithfully,
For and on behalf of
Giraffe Capital Limited
Johnson Chen
Managing Director

Mr. Johnson Chen is a licensed person registered with the Securities and Futures Commission and a responsible officer of Giraffe Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and to undertake work as a sponsor. He has over 13 years of experience in the field of corporate finance advisory.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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**(a) Directors' and chief executive's interests and short positions in the securities of the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations, which would be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Hong Kong Listing Rules.

(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares

As at the Latest Practicable Date, so far as any directors are aware, the interests or short positions owned by the following parties (other than the Directors or chief executive of the Company) in the Shares or underlying shares or debentures of the Company which were recorded in the register of the Company required to be kept under section 336 of the SFO were as follows:

Name of Substantial Shareholder	Capacity	Total Number of Shares held ⁽¹⁾	Approximate percentage of the total number of the issued Shares of the Company
LI Liufa ^(2a)	Interests of corporations controlled by substantial shareholder	951,462,000 (L)	21.85%
LI Fengluan ^(2a)	Interests of corporations controlled by substantial shareholder	951,462,000 (L)	21.85%
Tianrui Group Company Limited ^(2a)	Interests of corporations controlled by substantial shareholder	951,462,000 (L)	21.85%
Tianrui (International) Holding Company Limited ^(2a)	Beneficial owner	951,462,000 (L)	21.85%
China Bohai Bank Co., Ltd. Dalian Branch ^(2b)	Security interest in shares	951,462,000 (L)	21.85%
China Shanshui Investment Company Limited ⁽³⁾	Beneficial owner	847,908,316 (L)	19.47%
Asia Cement Corporation ⁽⁴⁾	Interests of corporations controlled by substantial shareholder, beneficial owner, Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	902,914,315 (L)	20.74%
Yu Yuan Investment Corporation Limited	Beneficial owner, Interests of any parties to an agreement to acquire interests in the Company required to be disclosed under s.317(1)(a) and s.318 of the SFO	902,914,315 (L)	20.74%
CNBMG ⁽⁶⁾	Interests of corporations controlled by substantial shareholder	563,190,040 (L)	12.94%
CNBM ⁽⁶⁾	Interests of corporations controlled by substantial shareholder	563,190,040 (L)	12.94%
China Building Material Holdings Co., Limited ⁽⁶⁾	Beneficial owner	563,190,040 (L)	12.94%
Cithara Investment International Limited	Investment Manager	483,260,335 (L)	11.10%
Cithara Global Multi-Strategy SPC-CMB Chung Wai Greater China Alpha Strategy SP	Beneficial owner	483,260,335 (L)	11.10%

Notes:

- (1) The letter “L” denotes a long position in such Shares.
- (2a) LI Liufa and LI Fengluan (spouse of LI Liufa) owned 70% and 30% respectively of Tianrui Group Company Limited (“**Tianrui Group**”), which owned 100% of Tianrui (International) Holding Company Limited.
- (2b) On 22 March 2016, Tianrui Group Company Limited, the Company’s substantial shareholder, notified the Company that it has pledged 791,000,000 shares of the Company in favor of China Bohai Bank Co., Ltd. (“**Bohai Bank**”) for a bank loan. In addition, according to the Form 2 filed on 8 June 2021 by Bohai Bank, on 25 April 2019, Tianrui Group has pledged an additional 160,462,000 Shares held by it in favour of Bohai Bank pursuant to a loan agreement entered into between Tianrui Group (as the borrower) and Bohai Bank (as the lender) on 7 March 2019. The aggregate of 951,462,000 Shares which were pledged to Bohai Bank as described above represent all of the Shares of the Company held by Tianrui Group.
- (3) According to the Form 2 filed on 18 November 2014, ZHANG Caikui is the person in accordance with whose directions China Shanshui Investment Company Limited or its directors are accustomed to act.
- (4) The interest in 428,393,000 shares of the Company was held by several direct or indirect subsidiaries of Asia Cement Corporation. The interest in 142,643,000 shares of the Company was held by Yu Yuan Investment Corporation Limited, which is the party to the agreement under Section 317 of the SFO.
- (5) Asia Cement Corporation is the party to the agreement under Section 317 of the SFO.
- (6) CNBM was a controlled corporation of CNBMG, which owned 100% of China Building Material Holdings Co., Limited.
- (7) The number of issued shares of the Company as at the Latest Practicable Date was 4,353,966,228.

3. NO MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date up to which the latest published audited consolidated financial statements of the Group were made.

4. DIRECTORS’ SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or was proposing to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. EXPERT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
Giraffe Capital Limited	a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter of advice and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, the above expert did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, the above expert did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2020 (being the date up to which the latest published audited consolidated financial statements of the Company were made) 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.

6. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective close associates (as defined in the Listing Rules) had any interests in businesses which competed or might compete with the businesses of the Group or had any other conflict of interests with the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder).

7. DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2020 (being the date up to which the latest published audited financial statements of the Group were made) 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; and

- (b) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

8. MISCELLANEOUS

- (a) The registered office of the Company is situated at Second Floor, Century Yard, Cricket Square, P.O. Box 902, Grand Cayman, KY1-1103, Cayman Islands.
- (b) The company secretary of the Company is Ms. LEE Mei Yi.
- (c) The Company's share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) This circular and the accompanying proxy form have been prepared in both English and Chinese. In the case of any discrepancies, the English texts shall prevail over their respective Chinese texts.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.sdsunnsygroup.com>) for a period of 14 days from the date of this circular:

- (a) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (b) the letter of advice from the Independent Financial Adviser, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;
- (c) the written consent referred to in the paragraph headed "Expert" in this appendix;
- (d) the Mine Development Services Framework Agreement and the Engineering and Technical Services Framework Agreement; and
- (e) this circular.

APPENDIX II BIOGRAPHICAL DETAILS OF DIRECTOR SUBJECT TO RE-ELECTION

Information as required to be disclosed under the Listing Rules on the Director proposed to be re-elected at the EGM are set out as follows:

Mr. Li Huibao

Mr. Li Huibao, aged 60, has served as the president of Shandong Shanshui Cement Group Company Limited, a subsidiary of the Company, since July 2019 and the chairman of Shandong Shanshui Financial Leasing Co., Ltd, a subsidiary of the Company, since November 2019. Mr. Li Huibao served as the secretary of the Committee of CPC of Tangwang Sub-district of Licheng District, Jinan from December 1998 to March 2000, and deputy director and a member of the Committee of CPC of Jinan Forest Bureau from March 2000 to August 2004, between which Mr. Li Huibao acted successively as the assistant to the administrative officer of Rikaze Prefecture and secretary of the Committee of the CPC of Bailang County from July 2001 to August 2004 under the initiative to support Tibet. Mr. Li Huibao acted as the deputy director and deputy secretary (director level) of the Committee of CPC of the Administration of Grain of Jinan from August 2004 to December 2005, the director and secretary of the Committee of CPC of the Administration of Grain of Jinan from December 2005 to March 2012, the director and secretary of the Committee of CPC of Jinan Municipal Committee of Economy and Information Technology from March 2012 to April 2017 and the executive deputy secretary of the Political and Judiciary Committee of Jinan and director of the Social Comprehensive Governance Office from April 2017 to July 2019. Mr. Li Huibao received a MBA degree from Tsinghua University in 2006 and a PhD degree in management from Tianjin University in 2013.

Mr. Li Huibao will enter into a service contract with the Company and the term of office and other terms and conditions will be determined by the Board at a later stage, subject to the relevant provisions of retirement by rotation and re-election at the general meetings of the Company in accordance with the Articles of Association and the Listing Rules. In accordance with the Articles of Association of the Company, Mr. Li Huibao shall hold office until the next general meeting of the Company and shall be eligible for re-election at that meeting, and is subject to retirement by rotation and re-election at least once every three years at annual general meetings of the Company. Mr. Li Huibao's remuneration will be determined by the remuneration committee of the Board with reference to his qualification, experience, positions in the Company as well as the prevailing market situation.

As at the Latest Practicable Date and save as disclosed above, Mr. Li Huibao did not hold any other position with the Company or any of its subsidiaries and Mr. Li Huibao did not hold any other directorships in public listed companies in Hong Kong or overseas in the past three years or any other major appointments or professional qualifications.

Mr. Li Huibao does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

APPENDIX II BIOGRAPHICAL DETAILS OF DIRECTOR SUBJECT TO RE-ELECTION

As at the Latest Practicable Date, Mr. Li Huibao does not have interests in any shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

There is no information or any matter relating to Mr. Li required to be disclosed pursuant to any of the provisions under Rule 13.51(2) (h) to (v) of the Listing Rules and there are no other matters concerning Mr. Li that need to be brought to the attention of the shareholders of the Company.

NOTICE OF EXTRAORDINARY GENERAL MEETING



CHINA SHANSHUI CEMENT GROUP LIMITED

中國山水水泥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 691)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**EGM**”) of China Shanshui Cement Group Limited (the “**Company**”) will be held at Meeting Room, 3/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC, at 4:30 p.m. on Friday, 14 January 2022 (or any adjournment thereof), for the purpose of considering and, if thought fit, passing with or without amendments, the following ordinary resolutions.

Unless otherwise indicated, capitalised terms used herein shall have the same meaning as those defined in the circular of the Company dated 30 December 2021.

ORDINARY RESOLUTIONS

1. “**THAT** the historical transaction amounts in respect of the Mine Development Services from 1 January 2021 to 31 December 2021 be approved and ratified.”
2. “**THAT:**
 - (a) the Mine Development Services Framework Agreement (a copy of which is tabled at the EGM and marked “**A**” and initialled by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
 - (b) the proposed annual caps in relation to transactions contemplated under the Mine Development Services Framework Agreement as set out in the Circular be and are hereby approved, confirmed and ratified; and

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- (c) any one Director be and is hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Mine Development Services Framework Agreement.”
3. **“THAT:**
- (a) the Engineering and Technical Services Framework Agreement (a copy of which is tabled at the EGM and marked “**B**” and initialled by the chairman of the EGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the proposed annual caps in relation to transactions contemplated under the Engineering and Technical Services Framework Agreement as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (c) any one Director be and is hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Engineering and Technical Services Framework Agreement.”
4. **“THAT** Mr. LI Huibao be re-elected as an executive Director, and the Board be authorised to fix his remuneration.”

By Order of the Board
China Shanshui Cement Group Limited
LI Huibao
Chairman

Hong Kong, 30 December 2021

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Notes:

- (i) All resolutions at the meeting will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Listing Rules. The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.
- (ii) The record date for determining shareholders' right to attend and vote at the EGM is Thursday, 13 January 2022. Shareholders whose names appear on the Register of Members of the Company on Thursday, 13 January 2022 are entitled to attend and vote at the EGM. In order to qualify for attending and voting at the EGM, all transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Wednesday, 12 January 2022.
- (iii) A shareholder of the Company who is entitled to attend and vote at the EGM covered by the above notice is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not to be a shareholder of the Company but must attend in person to represent the shareholder. A shareholder of the Company who is the holder of two or more shares is entitled to appoint one or more person(s) as his proxy/proxies to attend and, on a poll, vote instead of him. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (iv) Taking into account the recent developments of the coronavirus disease 2019 (COVID-19), the Company will implement the following prevention and control measures at the EGM to safeguard the health and safety of the shareholders attending the EGM:
 - Compulsory body temperature check will be conducted for every shareholder or proxy at the entrance of the venue. Any person with a body temperature of over 37.3 degrees Celsius will not be admitted to the venue.
 - Every shareholder or proxy is required to wear surgical mask throughout the meeting.
 - No refreshment will be served, and there will be no corporate gift.
- (v) To facilitate the ongoing prevention and control of COVID-19, the Company encourages that the shareholders, particularly those who are subject to quarantine in relation to COVID-19, consider appointing the Chairman of the EGM as their proxy to vote on the relevant resolutions at the EGM, instead of attending the EGM in person. The directors of the Company may participate at the EGM by conference telephone or other communications equipment by means of which all persons participating in the EGM can communicate with each other simultaneously and instantaneously.
- (vi) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM, then one of the said persons so present whose name stands first on the register of shareholders of the Company in respect of such share shall alone be entitled to vote in respect thereof.

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- (vii) To be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be deposited at the Company's share registrar and transfer office in Hong Kong, 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 appointed for holding the EGM (i.e. not later than 4:30 p.m. on Wednesday, 12 January 2022) or any adjourned meeting thereof (as the case may be). Completion and return of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the EGM or at any adjourned meeting thereof (as the case may be).
- (viii) References to time and dates in this notice are to Hong Kong time and dates.

As at the date of this notice, the Board comprises three executive directors, namely Mr. LI Huibao, Ms. WU Ling-ling and Mr. HOU Jianguo; and three independent non-executive directors, namely Mr. CHANG Ming-cheng, Mr. LI Jianwei and Mr. HSU You-yuan.