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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)

PAST NON-COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

INTRODUCTION

This announcement is made by China Shanshui Cement Group Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

PAST NON-COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

It has recently come to the Company’s attention that the Company’s subsidiaries in China have been carrying out continuing connected transactions with affiliates of one of the Company’s substantial shareholders, China National Building Material Company Limited (“**CNBM**”) since CNBM became a substantial shareholder of the Company at the end of 2014. The continuing connected transactions between the Company’s group and CNBM’s group can be summarised in the following categories:

- (a) provision of mine development, maintenance and related engineering services by CNBM’s group to the Company’s group (“**Mine Development Services**”);
- (b) purchase of cement production equipment and supplies by the Company’s group from CNBM’s group (“**Cement Production Equipment and Supplies**”);
- (c) provision of engineering services (including design, construct and technical upgrade services) and technical services (including inspection and product specification comparison services) by CNBM’s group to the Company’s group (“**Engineering and Technical Services**”); and
- (d) sale and purchase of clinker and cement between the Company’s group and CNBM’s group (“**Clinker and Cement Transactions**”).

LISTING RULES IMPLICATIONS IN RELATION TO THE HISTORICAL CONTINUING CONNECTED TRANSACTIONS

After CNBM became the Company's substantial shareholder in late 2014, CNBM, its ultimate parent company China National Building Material Group Co., Ltd ("CNBMG") and their subsidiaries became connected persons of the Company. In addition, China National Materials Company Limited ("Sinoma") merged with CNBM in 2018 and thereby became a subsidiary of CNBM. Since then, Sinoma and its subsidiaries have also become the Company's connected persons. Transactions with the CNBM's group, including Sinoma and its subsidiaries, are subject to the relevant requirements for connected transactions under Chapter 14A of the Listing Rules.

The Company has calculated the percentage ratios based on the historical transaction amounts of the relevant continuing connected transactions. As the applicable percentage ratios for each category of continuing connected transactions entered into or completed within each year up to 30 September 2021 exceeded 0.1% but all of them were less than 5%, such transactions were subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

However, due to inadvertent oversight, the Company failed to comply with the relevant requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

REMEDIAL MEASURES

The Company regrets and is deeply sorry that such oversight had occurred.

In order to ensure proper compliance of the Listing Rules in the future, the Company is taking several remedial measures as set out in this announcement.

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It has recently come to the Company's attention that the Company's subsidiaries in China have been carrying out continuing connected transactions with affiliates of one of the Company's substantial shareholders, CNBM since CNBM became a substantial shareholder of the Company at the end of 2014. The continuing connected transactions between the Company's group and CNBM's group can be summarised in the following categories:

- (a) the Mine Development Services;
- (b) the Cement Production Equipment and Supplies;
- (c) the Engineering and Technical Services; and
- (d) the Clinker and Cement Transactions.

The aggregate transaction amounts involved in the continuing connected transactions for each category between the Company's group and CNBM's group from 2015 to 30 September 2021 were as follows:

Aggregate transaction amount involved (RMB'000)	Financial year ended 31 December						Nine months ended 30 September
	2015	2016	2017	2018	2019	2020	2021
Mine Development Services	–	–	9,230	14,554	121,639	353,015	368,772
Cement Production Equipment and Supplies	4,492	1,313	5,750	5,937	58,518	53,829	60,609
Engineering and Technical Services	2,578	132	2,531	2,567	20,814	132,989	240,883
Clinker and Cement Transactions	–	16,872	42,811	129,386	93,243	94,013	121,962

The Company has also carried out a detailed review of the terms and conditions of the continuing connected transactions and the Company's independent non-executive directors have confirmed that the historical continuing connected transactions with CNBM's group have been entered into:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms or better; and
- (c) on terms that are fair and reasonable and in the interests of the Company and the Company's shareholders as a whole.

LISTING RULES IMPLICATIONS IN RELATION TO THE HISTORICAL CONTINUING CONNECTED TRANSACTIONS

After CNBM became the Company's substantial shareholder in late 2014, CNBM, its ultimate parent company CNBMG and their subsidiaries became connected persons of the Company. In addition, Sinoma merged with CNBM in 2018. Since then, Sinoma and its subsidiaries have also become the Company's connected persons. Transactions with the CNBM's group, including Sinoma and its subsidiaries, are subject to the relevant requirements for connected transactions under Chapter 14A of the Listing Rules.

The Company has calculated the percentage ratios based on the historical transaction amounts of the relevant continuing connected transactions. As the applicable percentage ratios for each category of continuing connected transactions entered into or completed within each year up to 30 September 2021 exceeded 0.1% but all of them were less than 5%, such transactions were subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

However, due to inadvertent oversight, the Company failed to comply with the relevant requirements for continuing connected transactions under Chapter 14A of the Listing Rules.

CIRCUMSTANCES FOR NON-COMPLIANCE WITH THE LISTING RULES

The reasons for the Company's oversight which resulted in the Company's past failure to notice and report these transactions with CNBM's group on an aggregated basis are as follows:

(a) It was not obvious to the Company's local staff that they were transacting with CNBM's group due to CNBM's scale and complex corporate structure

CNBM and CNBMG have complex corporate structure and operate in a large scale. CNBM and its ultimate parent company CNBMG own hundreds of direct and indirect subsidiaries. CNBM has also carried out various mergers and acquisitions in recent history including its merger with Sinoma which was completed in 2018 (the "**2018 Merger**").

Given the scale and history of CNBM and its complex corporate structure, it is often not obvious to the local staff of the Company's operating subsidiaries that their transaction counterparty is a member of the CNBM's group and therefore one of the Company's connected persons. For vast majority of the connected transactions identified by the Company, the transaction counterparties are affiliated with CNBM through at least one and often more intermediate companies. For this reason, the transactions with CNBM's group carried out at the local subsidiaries' level and of small transaction value on an individual basis were not reported to the Board nor identified as continuing connected transactions.

(b) The Company was unable to identify transactions that subsequently became continuing connected transactions as a result of the 2018 Merger

As a result of CNBM's complex corporate structure, including its vast number of contracting subsidiaries sitting at various layers, the Company had also failed to identify a number of existing transactions that subsequently became continuing connected transactions of the Company as a result of the 2018 Merger. The relevant contracting entities were originally independent third parties and were subsequently acquired and became indirect subsidiaries of CNBM as a result of the 2018 Merger.

The failure to comply with Chapter 14A of the Listing Rules in relation to these transactions were brought to the Board's attention in July 2021. In reviewing the transaction with an affiliate of CNBM, the Board noted that such transaction would constitute a connected transaction and need to be subject to the requirements under Chapter 14A of the Listing Rules. The Board instructed Shandong Shanshui Cement Group Company Limited ("**Shandong Shanshui**"), the Company's main operating entity and indirect wholly-owned subsidiary to identify if the Company's group has entered into any other similar connected transactions. Shandong Shanshui has since conducted a thorough review of the historical and current continuing connected transactions between the Company's group on the one side and CNBM's group on the other side (including all subsidiaries of CNBM's ultimate parent company, CNBMG) since CNBM became the Company's substantial shareholder in 2014.

PRICING BASIS FOR THE HISTORICAL CONTINUING CONNECTED TRANSACTIONS

Shandong Shanshui has carried out a detailed review of the pricing basis of the historical continuing connected transactions with CNBM's group, which are summarised as follows:

(a) Mine Development Services

The price of the services provided has been determined based on the following:

- The market price quoted by independent third parties on an arm's length basis based on normal commercial terms in the ordinary and usual course of business in the same or nearby area, and the prices have been 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;
- The Group sought quotes from at least two comparable suppliers other than CNBM's group through public tender or price inquiry and CNBM's group won such tender; or
- The exact price was determined based on the specific work involved for the project, after the actual costs have been ascertained by the Group's technical personnel.

(b) Cement Production Equipment and Supplies

The price of the cement production equipment and supplies has been determined based on the following:

- The Group sought quotes from at least two comparable suppliers other than CNBM's group through public tender or price inquiry and CNBM's group won such tender.
- For cement production equipment and supplies of unique services or products that cannot be provided by other companies, the Group negotiated the price with CNBM by reference to the prices of the Group's historical purchases and purchase price paid of other major industry participants.

(c) Engineering and Technical Services

The price of the services provided (other than inspection services) has been determined based on the following:

- The Group sought quotes from at least two comparable suppliers other than CNBM's group through public tender or price inquiry and CNBM's group won such tender.

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

(d) Clinker and Cement Transactions

The price of the clinker and cement purchased from and sold to CNBM's group has been based on the following:

- The Group sought quotes from other clinker and cement companies in the nearby area through price inquiry, and determined the price based on comparing the quotes obtained.

REASONS FOR AND BENEFITS OF ENTERING INTO THE HISTORICAL CONTINUING CONNECTED TRANSACTIONS

The management of Shandong Shanshui considers that the historical continuing connected transactions with CNBM's group were entered into on the basis that (i) CNBM is one of the major players in the cement industry in the PRC in many locations, and (ii) CNBM's nationwide operations have close geographical proximity with the Company's subsidiaries.

The Board considers that the transactions are conducive to the business of the Company's group, and are in line with the business and commercial objectives of the Company's group.

REMEDIAL MEASURES

The Company regrets and is deeply sorry that such oversight had occurred.

As soon as the Company became aware of the continuing connected transactions with CNBM's in July 2021, the Board and senior management of the Company has instructed Shandong Shanshui to carry out a detailed review of all past and current continuing connected transactions between the Company's group and CNBM's group. For the purpose of carrying out such review, Shandong Shanshui has reviewed all historical transactions that the Company's group entered into since CNBM became the Company's connected person in 2014 and checked the background of those transaction counterparties whom the Company reasonably doubted to be a connected person. Shandong Shanshui conducted further investigations of these companies' ownership structure up to their ultimate beneficial owners. The above findings by Shandong Shanshui were consolidated into a summary report, which was submitted to the Board for further review.

The Company has engaged its auditors to report on its continuing connected transactions with CNBM's group for the year of 2021 pursuant to Rule 14A.56 and will provide a copy of the auditors' letter to the Stock Exchange 10 business days before the bulk printing of its 2021 annual report.

The Company, through Shandong Shanshui, is in the process of negotiating and will enter into framework agreements (the “**Framework Agreements**”) with CNBM’s group in relation to each category of the continuing connected transactions. The Framework Agreements will govern all existing contracts between the Company’s group companies and CNBM’s group companies on the relevant category of continuing connected transactions. All new continuing connected transactions between the Company’s group companies and CNBM’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. Further announcement(s) will be made to update the Shareholders and the market on the Framework Agreements in accordance with the Listing Rules.

The Company has also reinforced its KYC system by requiring its subsidiaries and local management to check and confirm the identity and ultimate beneficial ownership of any transaction counterparty before any transaction can be entered into. Should such KYC checks identify that the transaction counterparty is a connected person of the Company, such transaction will be escalated to the Company’s headquarters in China for review to make sure that the Company complies with the Listing Rules.

The Company will enhance its internal control system by, among other things:

- (a) distributing the Company’s internal policies and guidelines on connected transactions and connected persons to all subsidiaries of the Company;
- (b) providing the management of the Company and the Company’s subsidiaries with a list of the Company’s connected persons on a monthly basis and making timely updates to such list;
- (c) monitoring the transaction amounts of the Company’s connected transactions and reporting to the Company’s management on a monthly basis;
- (d) improving the coordination and communication among various departments and subsidiaries of the Company responsible for reporting, monitoring and handling connected transactions;
- (e) organising routine trainings to the management and staff of the Company and the Company’s subsidiaries to keep them updated of the latest requirements of Listing Rules, especially the rules on connected transactions; and
- (f) reporting connected transaction issues to the Board and the Board’s Audit Committee on a regular basis.

INFORMATION ON THE RELEVANT 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.

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.

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 the controlling shareholder of CNBM.

Sinoma

Sinoma is a joint stock company incorporated in the PRC with limited liability. It is principally engaged in three business segments, namely cement equipment and engineering services, cement and high-tech materials, including glass fibre, composite materials, synthetic crystals and advanced ceramics. It is a wholly-owned subsidiary of CNBM.

DEFINITIONS

2018 Merger	has the meaning given in the section headed “Circumstances for Non-compliance With the Listing Rules” of this announcement
Board	the board of directors of the Company
Cement Production Equipment and Supplies	the purchase of cement production equipment and supplies by the Company’s group from CNBM’s group
Clinker and Cement Transactions	the sale and purchase of clinker and cement between the Company’s group and CNBM’s group

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
Engineering and Technical Services	the provision of engineering services (including design, construct and technical upgrade services) and technical services (including inspection and product specification comparison services) by CNBM's group to the Company's group
Framework Agreements	has the meaning given in the section headed "Remedial Measures" of this announcement
Group	the Company and its subsidiaries
KYC	know your customer
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 CNBM's group to the Company's group
PRC	the People's Republic of China, which for the purpose of this announcement 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
Shandong Shanshui	Shandong Shanshui Cement Group Company Limited, the Company's main operating entity and indirect wholly-owned subsidiary

Sinoma

China National Materials Company Limited, a joint stock company incorporated in the PRC with limited liability

By Order of the Board
China Shanshui Cement Group Limited
CHANG Zhangli
Chairman

Hong Kong, 4 November 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. CHANG Zhangli, 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.