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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)**

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE 2023 FRAMEWORK AGREEMENTS**

#### **INTRODUCTION**

The Company refers to the 2021 Announcements and the 2021 Circular in relation to the 2021 Framework Agreements.

Due to an expected decrease in the demand of the Engineering and Technical Services and Cement Production Equipment and Supplies provided by the CNBMG Group to the Group and the Clinker and Cement Transactions between the Group and CNBMG Group and/or Shandong Quanxing for the year ending 31 December 2023, the Board proposes to decrease the existing annual caps in respect of the Cement Production Equipment and Supplies, the Engineering and Technical Services and the Clinker and Cement Transactions for the year ending 31 December 2023. In addition, the 2021 Framework Agreements will expire on 31 December 2023 and it is currently expected that the transactions under the 2021 Framework Agreements will continue on a recurring basis. Therefore, on 21 April 2023, the Group has terminated the 2021 Framework Agreements and has entered into the following agreements with CNBMG and/or Shandong Quanxing, an affiliate of CNBMG:

- (a) the 2023 Mine Development Services Framework Agreement;
- (b) the 2023 Cement Production Equipment and Supplies Framework Agreement;
- (c) the 2023 Engineering and Technical Services Framework Agreement; and
- (d) the 2023 Clinker and Cement Transactions Framework Agreements.

## **LISTING RULES IMPLICATIONS IN RELATION TO THE 2023 FRAMEWORK AGREEMENTS**

As at the date of this announcement, 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. In addition, Shandong Quanxing, which is 49% indirectly held by CNBMG, is a 30%-controlled company of CNBMG and hence a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the 2023 Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the 2023 Clinker and Cement Transactions Framework Agreements were entered into by the Group with parties who are connected with one another within a 12-month period, according to Rule 14A.81 of the Listing Rules, the transactions contemplated under the 2023 Clinker and Cement Transactions Framework Agreements are required to be aggregated as if they were one transaction.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the transactions contemplated under each of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements 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.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the transactions contemplated under the 2023 Cement Production Equipment and Supplies Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder will therefore be exempt from the independent shareholders' approval requirements but will be subject to the reporting, announcement and annual review requirements pursuant to Chapter 14A of the Listing Rules.

The Company intends to seek approval from its Independent Shareholders in respect of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements and the transactions contemplated thereunder at the Company's forthcoming annual general meeting.

A circular containing, among other things, (i) the details of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is expected to be despatched to the Shareholders on Tuesday, 2 May 2023.

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- (c) the 2023 Engineering and Technical Services Framework Agreement; and
- (d) the 2023 Clinker and Cement Transactions Framework Agreements.

## **PRINCIPAL TERMS OF THE 2023 FRAMEWORK AGREEMENTS**

The principal terms of each of the 2023 Framework Agreements are summarised as follows:

### **(a) 2023 Mine Development Services Framework Agreement**

Date:	21 April 2023
Parties:	(i) Shandong Shanshui (ii) CNBMG
Scope of transactions:	Provision of mine development, maintenance and related engineering services by CNBMG Group to the Group
Term:	From the Effective Date to 31 May 2024 (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.
- **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 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 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) 2023 Cement Production Equipment and Supplies Framework Agreement**

Date: 21 April 2023

(i) Shandong Shanshui

(ii) CNBMG

Scope of transactions: Purchase of cement production equipment and supplies by the Group from CNBMG Group

Term: From 21 April 2023 to 31 May 2024 (both days inclusive)

Basis of pricing: The price of the Cement Production Equipment and Supplies will be determined based on the following:

- The Group will seek quotes from at least two comparable suppliers other than CNBMG Group through public tender or price inquiry. When using the method of public tender, the Group will issue the information in relation to the potential transactions, and obtain the bidding documents and details of their qualification and pricing from the suppliers.
- For cement production equipment and supplies of unique services or products that cannot be provided by other companies, the Group will negotiate the price with CNBMG by reference to the prices of the Group's historical purchases and purchase price paid of other major industry participants.

**(c) 2023 Engineering and Technical Services Framework Agreement**

Date:	21 April 2023
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 Group to the Group
Term:	From the Effective Date to 31 May 2024 (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:

<b>Monetary amount involved</b>	<b>Unit that will run the tender/ quotation process</b>	<b>Unit that will approve the final result</b>
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

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.

**(d) 2023 CNBMG Clinker and Cement Transactions Framework Agreement**

Date:	21 April 2023
Parties:	(i) Shandong Shanshui (ii) CNBMG
Scope of transactions:	Sale and purchase of clinker and cement (including aggregate and commercial concrete) between the Group and CNBMG Group
Term:	From the Effective Date to 31 May 2024 (both days inclusive)
Basis of pricing:	The price of the clinker and cement (including aggregate and commercial concrete) purchased from and sold to CNBMG Group will be determined with reference to the quotation from other clinker and cement companies in the nearby area through price inquiry, and determine the price based on comparing the quotes obtained.

**(e) 2023 Shandong Quanxing Clinker and Cement Transactions Framework Agreement**

Date:	21 April 2023
Parties:	(i) Shandong Shanshui (ii) Shandong Quanxing
Scope of transactions:	Sale and purchase of clinker and cement (including aggregate and commercial concrete) between the Group and Shandong Quanxing's subsidiaries, Shandong Quanxing Cement Co., Ltd. and Shandong Shenfeng Cement Co., Ltd.
Term:	From the Effective Date to 31 May 2024 (both days inclusive)
Basis of pricing:	The price of the clinker and cement (including aggregate and commercial concrete) purchased from and sold to Shandong Quanxing's subsidiaries will be determined with reference to the quotation from other clinker and cement companies in the nearby area through price inquiry, and determine the price based on comparing the quotes obtained.

Each of the 2023 Framework Agreements was entered into in the ordinary and usual course of business of the Company. The terms of the 2023 Framework Agreements were negotiated on an arm's length basis and on normal commercial terms.

## EXISTING ANNUAL CAPS

The table below summarises the existing annual caps in respect of the transactions under the 2021 Framework Agreements:

Existing annual cap	For the year ended/ending 31 December		
	2021	2022	2023
	<i>(RMB'000)</i>		
Mine Development Services	600,000	702,850	748,370
Cement Production Equipment and Supplies	80,000	80,000	80,000
Engineering and Technical Services	400,000	1,469,885	1,449,351
Clinker and Cement Transactions	340,000	340,000	340,000

## HISTORICAL TRANSACTION AMOUNTS

The table below summarises the actual historical transaction amounts in respect of the transactions under the 2021 Framework Agreements:

Historical transaction amounts	For the year ended		For three
	31 December		months ended
	2021	2022	31 March
	<i>(RMB'000)</i>		
Mine Development Services	518,400	608,128	75,422
Cement Production Equipment and Supplies	66,207	33,983	4,033
Engineering and Technical Services	327,854	526,407	26,551
Clinker and Cement Transactions	128,303	118,468	18,932

## PROPOSED ANNUAL CAPS

The proposed annual caps in respect of the transactions under the 2023 Framework Agreements are as follows:

	<b>For the year ending 31 December 2023 (RMB'000)</b>	<b>For the five months ending 31 May 2024</b>
Mine Development Services	748,370	270,020
Cement Production Equipment and Supplies	40,000	14,000
Engineering and Technical Services	788,807	527,830
Clinker and Cement Transactions	<u>300,000</u>	<u>125,000</u>

The proposed annual caps for the year ending 31 December 2023 have been decreased as follow:

- (a) in respect of the Cement Production Equipment and Supplies, from RMB80,000,000 to RMB40,000,000;
- (b) in respect of the Engineering and Technical Services, from RMB1,449,351,000 to RMB788,807,000; and
- (c) in respect of the Clinker and Cement Transactions, from RMB340,000,000 to RMB300,000,000.

## **BASIS OF DETERMINATION OF PROPOSED ANNUAL CAPS**

The proposed annual caps in respect of the transactions under the 2023 Framework Agreements have been determined by reference to the following factors:

### **(a) 2023 Mine Development Services Framework Agreement**

The proposed annual caps in respect of the transactions contemplated under the 2023 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 Group since January 2021;
- (ii) the expected growth in the Group's corresponding demand for the Mine Development Services from CNBMG Group in 2024, in view of the expected increase in mining and maintenance costs contributed by the five mining sites which have commenced operation upon the completion of infrastructure construction or the application of mining licenses and safety certificates;
- (iii) the prevailing market prices for the provision of similar mine development, maintenance and related engineering services, which are determined with reference to the geological conditions, the surrounding environment and the construction type of the mining area; and
- (iv) a buffer of 10% to cater for any possible unforeseeable circumstances such as (x) obtaining new resources by utilising resource acquisition advantages from CNBMG such as exploration technologies and (y) fluctuation relating to the actual quantity of limestone extracted.

**(b) 2023 Cement Production Equipment and Supplies Framework Agreement**

The proposed annual caps in respect of the transactions contemplated under the 2023 Cement Production Equipment and Supplies Framework Agreement have been determined based on:

- (i) the historical expenditures for the Cement Production Equipment and Supplies paid by the Group to CNBMG Group since January 2021;
- (ii) the expected decrease in the demand for the Cement Production Equipment and Supplies from CNBMG Group for the year ending 31 December 2023 due to the Group's ability to manufacture certain types of Cement Production Equipment and Supplies, which the Group previously had to purchase from the CNBMG Group;
- (iii) a stable demand for the Cement Production Equipment and Supplies from CNBMG Group for the five months ending 31 May 2024, in view of the Group's demand for the quality of such Cement Production Equipment and Supplies from CNBMG Group in order to ensure safe and stable operations; and
- (iv) the (x) ongoing increase in the cost of materials and (y) prevailing market prices for the provision of similar Cement Production Equipment and Supplies.



**(c) 2023 Engineering and Technical Services Framework Agreement**

The proposed annual caps in respect of the transactions contemplated under the 2023 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 Group since January 2021;
- (ii) the expected decrease in the Group's corresponding demand for the Engineering and Technical Services from CNBMG Group for the year ending 31 December 2023, in view of:
  - (A) a delay in progress on the implementation of certain technology upgrade projects and infrastructure projects by the Group due to changes in government policies;
  - (B) upon the completion of the significant technology upgrade projects planned by the Group in Shanxi, the Group notes that different policy requirements are adopted for technology upgrade projects in Shandong, including Selective Catalytic denitrification (SCR) related system. As a result, it is expected that the Group's demand for Engineering and Technical Services for such technology upgrade projects in Shandong will decrease for the year ending 31 December 2023; and
  - (C) the provision of certain Engineering and Technical Services by other selected service providers through a public tender or quotation process;

- (iii) the expected growth in the Group's corresponding demand for the Engineering and Technical Services from CNBMG Group, in view of the planned construction, relocation and productivity replacement of around 8 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 (x) 3 significant infrastructure projects have either commenced or have their implementation confirmed, of which the construction period will be expended to continue into 2023 and 2024, and (y) 5 significant infrastructure projects are expected to commence in turn between 2023 and 2024. 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 RMB773 million and RMB528 million for the year ending 31 December 2023 and for the five months ending 31 May 2024, respectively;
- (iv) the expected increase in corporate environmental costs and labour costs;
- (v) the prevailing cost and expected increase in the cost of raw materials, taking into account of the costs of steel, coal and electricity for the projects implemented by the Group since January 2021; and
- (vi) the prevailing market prices for the provision of similar engineering and technical services.

**(d) 2023 Clinker and Cement Transactions Framework Agreements**

The proposed annual caps in respect of the transactions contemplated under the 2023 Clinker and Cement Transactions Framework Agreements have been determined based on:

- (i) the historical expenditures for the Clinker and Cement Transactions paid by the Group to CNBMG Group and its affiliates and by CNBMG Group and its affiliates to the Group since January 2021;
- (ii) the decline in the market price of cement due to a decrease in the demand for cement, and hence the decline in the expenditures for the Clinker and Cement Transactions paid by the Group and/or the CNMBG Group during the first quarter in 2023;
- (iii) notwithstanding that the actual expenditures for the Clinker and Cement Transactions for the years ended 31 December 2021 and 31 December 2022 were lower than expected due to the impact of COVID-19 outbreak on the real estate sector, the expected gradual increase in the Group's and the CNBMG's demand for the Clinker and Cement Transactions in 2024 in view of the efforts by the local governments to tackle the impact of COVID-19 and an overall downward trend in real estate market, as well as multiple government departments have issued favourable real estate policies; and
- (iv) the (x) cost of raw materials and (y) prevailing market prices for the provision of similar Clinker and Cement.

## **APPROVAL BY THE BOARD**

The Directors (including the independent non-executive Directors) are of the view that the terms of the 2023 Cement Production Equipment and Supplies Framework Agreement and the transactions contemplated thereunder (including the proposed annual caps) are (i) fair and reasonable; and (ii) are on normal commercial terms or better, in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

The Directors (excluding the independent non-executive Directors, who will give their opinion after considering the advice from the Independent Financial Adviser) are of the view that the terms of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements, and the transactions contemplated thereunder (including the proposed annual caps) are (i) fair and reasonable; and (ii) are on normal commercial terms or better, in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

Ms. Wu Ling-ling, an executive Director, abstained from voting on the 2023 Framework Agreements and the transactions contemplated thereunder in view of the fact that she was involved in an ongoing litigation with the Company (details of which have been set out in pages 94 to 99 of the annual report of the Company for the financial year ended 31 December 2022). Save for the above, none of the Directors have a material interest in the 2023 Framework Agreements 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.

## **LISTING RULES IMPLICATIONS IN RELATION TO THE 2023 FRAMEWORK AGREEMENTS**

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. In addition, Shandong Quanxing, which is 49% indirectly held by CNBMG, is a 30%-controlled company of CNBMG and hence a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the 2023 Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the 2023 Clinker and Cement Transactions Framework Agreements were entered into by the Group with parties who are connected with one another within a 12-month period, according to Rule 14A.81 of the Listing Rules, the transactions contemplated under the 2023 Clinker and Cement Transactions Framework Agreements are required to be aggregated as if they were one transaction.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the transactions contemplated under each of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements 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.

As one or more of the applicable percentage ratios in respect of the proposed annual caps of the transactions contemplated under the 2023 Cement Production Equipment and Supplies Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated thereunder will therefore be exempt from the independent shareholders' approval requirements but will be subject to the reporting, announcement and annual review requirements pursuant to Chapter 14A of the Listing Rules.

The Company intends to seek approval from its Independent Shareholders in respect of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements and the transactions contemplated thereunder at the Company's forthcoming annual general meeting.

A circular containing, among other things, (i) the details of the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, and (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, is expected to be despatched to the Shareholders on Tuesday, 2 May 2023.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE 2023 FRAMEWORK AGREEMENTS**

The Board considers that the 2023 Framework Agreements will bring the following benefits to the Company:

### **(a) 2023 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 mining construction 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 in mining to utilise limestones of both superior and sub-par qualities, thereby maximising the utilisation rate of limestones extracted. In addition, CNBM meets the requirements of the local governments and authorities, thereby avoiding the risk of suspension and rectification in production as a result of non-compliant mining; and
- CNBM has established and implemented a strict policy and adheres to the concept of “Simultaneous Mining, Maintenance and Green-mining Construction” (“邊開採、邊治理、邊進行綠色礦山建設”) to ensure the land conditions of the extraction sites are restored simultaneously during the extraction process, thereby reducing the risk of suspension and rectification in production as a result of non-compliant mining and reducing the need for investment in “green-mining” projects and minimising the overall restoration costs for extraction sites.

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) 2023 Cement Production Equipment and Supplies Framework Agreement**

The cement production equipment used by the Company are subject to wear and tear, and need to be replaced over time. Apart from equipment demand, the Company will also need to source supplies to support the cement production and packaging processes.

Compared to other suppliers, CNBMG possesses competitive advantages in the provision of cement production equipment and supplies in terms of its (i) scale, (ii) technological capabilities and (iii) cost-to-performance ratio of its manufactured equipment, as evidenced by the following qualities and achievements of CNBMG:

- CNBMG Group is the largest manufacturer for cement production equipment in the world;
- CNBMG Group has 26 national scientific research and design institutes, 38,000 scientific research and development and technical engineering employees, 55 national industrial quality inspection centres, more than 21,000 patents, three national key laboratories, 8 national engineering (technology) research centres and 19 national standardisation technical committees;
- CNBMG Group owns 7 first class State Science and Technology Progress Awards and 4 China Grand Awards for Industry (together with the preceding sub-paragraph, the "**Capabilities**"); and in light of the above, the Board believes that the Company can leverage on CNBMG's strength to increase the quality of its cement production equipment, and ensure stable operations and the longevity and quality of supplies purchased, thereby reduce the overall cement production costs.

**(c) 2023 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 and market-leading integrated building materials developer and service provider in the world in terms of scale;
- CNBMG Group has 26 national scientific research and design institutes, 38,000 scientific research and development and technical engineering employees, 55 national industrial quality inspection centres, more than 21,000 patents, 3 national key laboratories, 8 national engineering (technology) research centres and 19 national standardisation technical committees;
- CNBMG Group owns 7 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.

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.



(d) **2023 Clinker and Cement Transactions Framework Agreements**

***Purchase of clinker and cement from CNBMG's group companies and its affiliates***

From time to time, various clinker and cement companies in the Group in the Western Shandong Province, Southern Shandong Province and Northeastern China (collectively, the “**Deficit Regions**”) experienced deficit in clinker and cement supply. In addition, for some of the Group’s operations, the closest clinker and cement production unit within the Group are still distant. This means for such operations, it will not be cost-efficient to rely on internal supply of clinker and cement, as this will result in higher transportation costs which may take up a significant portion of the overall cement production cost. Meanwhile, some of the CNBMG Group and its affiliates are geographically close to the clinker and cement companies in the Group within the Deficit Regions.

The Board believes that purchasing clinker and cement from such CNBMG Group and its affiliates can bring the following benefits to the Company:

- reducing the overall procurement and transportation costs for the Group in the Deficit Regions; and
- the clinker and cement produced by CNBMG Group and its affiliates are reliable and of high quality, as evidenced by CNBMG Group and its affiliates being consistently named as one of the designated clinker and cement suppliers for large scale projects in the cement industry and key national cement projects.

***Sale of clinker and cement to CNBMG Group companies and its affiliates***

CNBMG Group and its affiliates have similar transportation costs concerns due to the lack of geographical proximity among certain of their clinker and cement production units and clinker and cement companies, and therefore would need to purchase clinker and cement from suppliers in closer proximity from time to time.

The Group owns clinker and cement production units that are close to quite a few clinker and cement companies within CNBMG Group and by selling clinker and cement to CNBMG Group and its affiliates, the Board believes that the Company can increase its overall sales volume, thereby effectively generating higher revenue and profits.

Based on the abovementioned reasons, the Company believes that entering into such transactions with CNBMG Group and its affiliates will be beneficial to the Group.

## **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.

### **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 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.

### **Shandong Quanxing**

Shandong Quanxing is a limited liability company incorporated in the PRC, and is engaged in the business of the operations of cement, sandstone and aggregate products under the "Shenfeng" and "Quanxing" brands, the production and processing of cement products, and provision of cement technology services. It is a 30%-controlled company (as defined under Chapter 14A of the Listing Rules) of CNBMG. Its ultimate beneficial owner is Shandong Quanxing Energy Group Co., Ltd., a state-owned company incorporated in the PRC.

## DEFINITIONS

“2021 Announcements”	the announcements of the Company dated 13 December 2021 and 14 January 2022
“2021 Circular”	the circular of the Company dated 30 December 2021
“2021 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 Agreements, each dated 13 December 2021, details of which are set out in the 2021 Announcements and 2021 Circular
“2023 Cement Production Equipment and Supplies Framework Agreement”	the framework agreement in relation to the Cement Production Equipment and Supplies
“2023 Clinker and Cement Transactions Framework Agreements”	the 2023 CNBMG Clinker and Cement Transactions Framework Agreement and the 2023 Shandong Quanxing Clinker and Cement Transactions Framework Agreement
“2023 CNBMG Clinker and Cement Transactions Framework Agreement”	the framework agreement with CNBMG in relation to the Clinker and Cement Transactions dated 21 April 2023
“2023 Engineering and Technical Services Framework Agreement”	the framework agreement in relation to the Engineering and Technical Services dated 21 April 2023
“2023 Framework Agreements”	the 2023 Mine Development Services Framework Agreement, the 2023 Cement Production Equipment and Supplies Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements
“2023 Mine Development Services Framework Agreement”	the framework agreement in relation to the Mine Development Services dated 21 April 2023

“2023 Shandong Quanxing Clinker and Cement Transactions Framework Agreement”	the framework agreement with Shandong Quanxing in relation to the Clinker and Cement Transactions dated 21 April 2023
“Board”	the board of directors of the Company
“Cement Production Equipment and Supplies”	the purchase of cement production equipment and supplies by the Group from CNBMG Group
“Clinker and Cement Transactions”	the sale and purchase of clinker and cement between the Group and CNBMG Group and/or Shandong Quanxing (as the case may be)
“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
“CNBMG Group”	CNBMG and its subsidiaries
“Company”	China Shanshui Cement Group Limited, a public limited company incorporated in Cayman Islands
“Directors”	the directors of the Company
“Effective Date”	a date on which the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements (as the case may be) are approved by the Independent Shareholders
“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 Group to the Group

“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 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements and the transactions contemplated thereunder
“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 in relation to the 2023 Mine Development Services Framework Agreement, the 2023 Engineering and Technical Services Framework Agreement and the 2023 Clinker and Cement Transactions Framework Agreements and the transactions contemplated thereunder
“Independent Shareholders”	the Shareholders other than CNBMG and its associates
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mine Development Services”	the provision of mine development, maintenance and related engineering services by CNBMG Group to the Group
“PRC”	the People’s Republic of China, which for the purpose of this circular only (unless otherwise indicated) excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Quanxing”	Shandong Quanxing Jingshi Cement Co., Ltd., an affiliate of CNBMG

“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
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong

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

Hong Kong, 21 April 2023

*As at the date of this announcement, 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.*