
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)

- (1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO THE 2024 FRAMEWORK AGREEMENTS;
(2) PROPOSED ELECTION OF DIRECTOR;
(3) PROPOSED GRANTING OF GENERAL MANDATES TO
ISSUE SHARES AND TO BUY BACK SHARES;
(4) PROPOSED AMENDMENTS TO THE MEMORANDUM AND
ARTICLES OF ASSOCIATION;
AND
(5) NOTICE OF ANNUAL 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 27 of this circular.

A letter from the Independent Board Committee is set out on pages 28 to 29 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 30 to 75 of this circular.

A notice convening the annual general meeting of China Shanshui Cement Group Limited to be held at Meeting Room, 6/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC on Friday, 31 May 2024 at 9:30 a.m. is set out on pages 98 to 104 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 annual general meeting (i.e. not later than 9:30 a.m. on Wednesday, 29 May 2024) 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.

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DEFINITIONS

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

“2023 Announcement”	the announcement of the Company dated 21 April 2023
“2023 Circular”	the circular of the Company dated 2 May 2023
“2023 Framework Agreements”	the mine development services framework agreement, the engineering and technical services framework agreement and the clinker and cement transactions framework agreements, each dated 21 April 2023, details of which are set out in the 2023 Announcement and 2023 Circular
“2024 Clinker and Cement Transactions Framework Agreements”	the 2024 CNBMG Clinker and Cement Transactions Framework Agreement and the 2024 Shandong Quanxing Clinker and Cement Transactions Framework Agreement
“2024 CNBMG Clinker and Cement Transactions Framework Agreement”	the framework agreement with CNBMG in relation to the Clinker and Cement Transactions dated 17 April 2024
“2024 Engineering and Technical Services Framework Agreement”	the framework agreement in relation to the Engineering and Technical Services dated 17 April 2024
“2024 Framework Agreements”	the 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreement
“2024 Mine Development Services Framework Agreement”	the framework agreement in relation to the Mine Development Services dated 17 April 2024
“2024 Shandong Quanxing Clinker and Cement Transactions Framework Agreement”	the framework agreement with Shandong Quanxing in relation to the Clinker and Cement Transactions dated 17 April 2024

DEFINITIONS

“Annual General Meeting” or “AGM”	the annual general meeting of the Company to be held at Meeting Room, 6/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC on Friday, 31 May 2024 at 9:30 a.m., to consider and, if appropriate, to approve the resolutions contained in the notice of the meeting which is set out on pages 98 to 104 of this circular, or any adjournment thereof
“Articles of Association”	the amended and restated articles of association of the Company
“Board”	the board of Directors
“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 (中國山水水泥集團有限公司), an exempted company incorporated in Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company

DEFINITIONS

“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
“General Issuance Mandate”	the general and unconditional mandate proposed to be granted to the Directors at the Annual General Meeting to allot, issue or deal with additional Shares of not exceeding 20% of the total number of issued Shares as at the date of passing of the ordinary resolution in relation thereof
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board, comprising all of the independent non-executive directors of the Company formed to consider the 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 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 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreements and the transactions contemplated thereunder

DEFINITIONS

“Independent Shareholders”	the Shareholders other than CNBMG and its associates
“Latest Practicable Date”	Monday, 22 April 2024, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Memorandum and Articles of Association”	the Amended and Restated Memorandum and Articles of Association of the Company, as amended from time to time
“Memorandum of Association”	the amended and restated memorandum of association of the Company
“Mine Development Services”	the provision of mine development, maintenance and related engineering services by CNBMG Group to the Group
“New Articles of Association”	a new set of articles of association of the Company incorporating and consolidating all the Proposed Amendments
“PRC”	the People’s Republic of China
“Proposed Amendments”	the proposed amendments to the existing Articles of Association as set out in Appendix IV to this circular
“RMB”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Shandong Quanxing”	Shandong Quanxing Jingshi Cement Co., Ltd., an affiliate of CNBMG
“Shandong Shanshui”	Shandong Shanshui Cement Group Company Limited, the Company’s operating entity and indirect wholly-owned subsidiary

DEFINITIONS

“Share Buy-back Mandate”	a general mandate proposed to be granted to the Directors to exercise all the powers of the Company to buy back Shares up to 10% of the total number of issued Shares as at the date of passing of the ordinary resolution in relation thereof
“Share(s)”	ordinary share(s) with a par value of US\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission in Hong Kong, as amended from time to time
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent



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 (*Chairman*)

Ms. WU Ling-ling

Mr. HOU Jianguo

Registered Office:

Third 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:

5/F, Manulife Place

348 Kwun Tong Road

Kowloon

Hong Kong

30 April 2024

To the Shareholders

Dear Sir/Madam,

- (1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION
TO THE 2024 FRAMEWORK AGREEMENTS;
(2) PROPOSED ELECTION OF DIRECTOR;
(3) PROPOSED GRANTING OF GENERAL MANDATES TO
ISSUE SHARES AND TO BUY BACK SHARES;
(4) PROPOSED AMENDMENTS TO THE MEMORANDUM AND
ARTICLES OF ASSOCIATION;
AND
(5) NOTICE OF ANNUAL GENERAL MEETING**

1. INTRODUCTION

The purpose of this circular is to provide you with information reasonably necessary to enable you to make a decision on whether to vote for or against the resolutions to be proposed at the AGM.

LETTER FROM THE BOARD

2. RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE 2024 FRAMEWORK AGREEMENTS

2.1 BACKGROUND

The Company refers to the 2023 Announcement and the 2023 Circular in relation to the 2023 Framework Agreements.

As the 2023 Framework Agreements will expire on 31 May 2024 and it is currently expected that the transactions under the 2023 Framework Agreements will continue on a recurring basis, on 17 April 2024, the Group has entered into the 2024 Framework Agreements with CNBMG and Shandong Quanxing, an affiliate of CNBMG to renew the 2023 Framework Agreements and the annual caps.

Details of the 2024 Framework Agreements are set out below:

2.2 PRINCIPAL TERMS OF THE 2024 FRAMEWORK AGREEMENTS

The principal terms of each of the 2024 Framework Agreements are summarised as follows:

(a) *2024 Mine Development Services Framework Agreement*

Date:	17 April 2024
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 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting

LETTER FROM THE BOARD

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 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.

LETTER FROM THE BOARD

(b) 2024 Engineering and Technical Services Framework Agreement

Date:	17 April 2024
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 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting
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.

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:

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 a 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.

LETTER FROM THE BOARD

- **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

(c) ***2024 CNBMG Clinker and Cement Transactions Framework Agreement***

Date:	17 April 2024
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 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting
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.

LETTER FROM THE BOARD

(d) 2024 Shandong Quanxing Clinker and Cement Transactions Framework Agreement

Date:	17 April 2024
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 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting
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 2024 Framework Agreements were entered into in the ordinary and usual course of business of the Company. The terms of the 2024 Framework Agreements were negotiated on an arm's length basis and on normal commercial terms.

LETTER FROM THE BOARD

2.3 EXISTING ANNUAL CAPS

The table below summarises the existing annual caps in respect of the transactions under the 2023 Framework Agreements:

Existing annual cap	For the year ended 31 December 2023	For the five months ending 31 May 2024
	<i>(RMB'000)</i>	
Mine Development Services	748,370	270,020
Engineering and Technical Services	788,807	527,830
Clinker and Cement Transactions	<u>300,000</u>	<u>125,000</u>

The Company will ensure that the transactions conducted under the 2023 Framework Agreements will not exceed the existing annual cap for the five months ending 31 May 2024.

2.4 HISTORICAL TRANSACTION AMOUNTS

The table below summarises the actual historical transaction amounts in respect of the transactions under the 2023 Framework Agreements:

Historical transaction amounts	For the year ended 31 December 2023	For the three months ended 31 March 2024
	<i>(RMB'000)</i>	
Mine Development Services	601,721	64,522
Engineering and Technical Services	296,011	28,786
Clinker and Cement Transactions	<u>57,508</u>	<u>15,161</u>

The actual historical transaction amounts were lower than the existing annual caps in respect of the transactions under the 2023 Framework Agreements for the following reasons:

1. in respect of the Mine Development Services, it was primarily attributable to the minimal production volume in the first three months in 2024 under the requirements of normalised off-peak production of cement in Shandong Province;

LETTER FROM THE BOARD

2. in respect of the Engineering and Technical Services, multiple projects were not implemented or commenced due to several adverse factors in 2023 such as slowdown economy, prolonged real estate market crisis, plunged cement prices, high costs of fuel and raw materials. In addition, a few projects were cancelled or postponed due to funds pressure, change in government plan or industry outlook. This aligns with serious challenges that the cement industry experienced in 2023, where it recorded a sharp decline in profits amid the intensified competition in the industry, hitting a 16-year low on the whole; and
3. in respect of the Clinker and Cement Transactions, it was due to the combined effects of multiple factors such as the macroeconomic downturn, weak investment in new infrastructure and a decline in real estate investment. For example, according to the NBS, investment in property development amounted to approximately RMB11.1 trillion in 2023, representing a YoY decline of approximately 9.6%, while investment in infrastructure increased by approximately 5.9% compared with that of 2022.

2.5 PROPOSED ANNUAL CAPS

The proposed annual caps in respect of the transactions under the 2024 Framework Agreements are as follows:

	For the year ending 31 December 2024	For the five months ending 31 May 2025
	<i>(RMB'000)</i>	
Mine Development Services	649,310	251,480
Engineering and Technical Services	392,640	138,090
Clinker and Cement Transactions	<u>155,711</u>	<u>62,280</u>

2.6 BASIS OF DETERMINATION OF PROPOSED ANNUAL CAPS

The proposed annual caps in respect of the transactions under each of the 2024 Framework Agreements have been determined by reference to the following factors:

(a) 2024 Mine Development Services Framework Agreement

The proposed annual caps in respect of the transactions contemplated under the 2024 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 2023;

LETTER FROM THE BOARD

- (ii) the expected growth in the Group's corresponding demand for the Mine Development Services from CNBMG Group in 2024, in view of (x) the 26 mining sites in which the Group engaged CNBMG Group for Mine Development Services in 2023; (y) the expected increase in mining and maintenance costs contributed by the two mining sites which have commenced operation upon the completion of infrastructure construction or the application of mining licenses and safety certificates, and in particular the Group's expectation to incur an additional Mine Development Services fee of approximately RMB25.5 million in 2024 and (z) the gradual increase in restoration and governance as a result of increasing requirements on mine management of enterprises imposed by the governmental authorities, which the Group plans to increase its budget in such services to approximately RMB31.9 million in 2024; and
- (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.

(b) 2024 Engineering and Technical Services Framework Agreement

The proposed annual caps in respect of the transactions contemplated under the 2024 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 2023;
- (ii) the expected growth in the Group's corresponding demand for the Engineering and Technical Services from CNBMG Group, in view of the construction, relocation and productivity replacement of around 3 significant infrastructure projects (such as clinker production lines and cement grinding production lines) by the Group, of which the Group expects to incur or recognize a total fee of RMB326.3 million in 2024, in response to development in industry policies and the 14th Five Year Plan of the PRC, of which the construction period will be expanded to continue into 2024 and 2025, as well as the development pace of these significant technological transformation projects;

LETTER FROM THE BOARD

- (iii) the expected increase in corporate environmental costs and labour costs; and
- (iv) the prevailing market prices for the provision of similar engineering and technical services.

(c) *2024 Clinker and Cement Transactions Framework Agreements*

The proposed annual caps in respect of the transactions contemplated under the 2024 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 2023;
- (ii) notwithstanding that the actual expenditures for the Clinker and Cement Transactions for the year ended 31 December 2023 were lower than expected due to the combined effects of multiple factors such as the macroeconomic downturn, weak investment in new infrastructure and a decline in real estate investment, the expected gradual increase in the Group's and CNBMG's demand for the Clinker and Cement Transactions in 2024 in view of (i) current market conditions in the region in which the Group operates and a forecast of future market dynamics; and (ii) the leading market position of the Group and CNBMG in the cement production industry, which the Group considered would be a competitive advantage over other smaller market players to survive in market downturns. For example, the Group estimates that a total of approximately 171,000 tonnes and 68,000 tonnes of clinkers would be purchased from the CNBMG Group and its affiliates, and a total of approximately 440,000 tonnes and 176,000 tonnes of clinkers and cement would be sold to the CNBMG Group and its affiliates, for the year ending 31 December 2024 and for the five months ending 31 May 2025, respectively; and
- (iii) the cost of raw materials and prevailing market prices for the provision of similar Clinker and Cement.

LETTER FROM THE BOARD

2.7 REASONS FOR AND BENEFITS OF ENTERING INTO 2024 FRAMEWORK AGREEMENTS

The Board considers that the 2024 Framework Agreements will bring the following benefits to the Company:

(a) 2024 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.

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) 2024 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 26,500 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

LETTER FROM THE BOARD

- 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.

(c) ***2024 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.

LETTER FROM THE BOARD

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.

2.8 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 2024 Framework Agreements:

- (a) before confirming the pricing and the terms of the Mine Development Services, the Engineering and Technical Services or the Clinker and Cement Transactions (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 2024 Framework Agreements*" in this circular;
- (b) the Group has adopted internal guidelines which provide that:
 - (i) the procurement and supply management department and the finance department of the Company will collate and monitor the transaction amounts of the Mine Development Services, the Engineering and Technical Services or the Clinker and Cement Transactions (as the case may be) and any relevant information requiring disclosure from the relevant business unit, and report to the Company's management on a monthly basis;

LETTER FROM THE BOARD

- (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, the Engineering and Technical Services or the Clinker and Cement Transactions (as the case may be) is expected to exceed the annual cap in the next three months, the procurement and supply management department and the finance 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, the Engineering and Technical Services or the Clinker and Cement Transactions (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, the Engineering and Technical Services or the Clinker and Cement Transactions (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, the Engineering and Technical Services or the Clinker and Cement Transactions (as the case may be) in all material respects or have exceeded the annual cap applicable to these services.

LETTER FROM THE BOARD

2.9 INFORMATION OF THE PARTIES

(a) *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.

(b) *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.

(c) *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.

(d) *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.

(e) *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.

LETTER FROM THE BOARD

2.10 LISTING RULES IMPLICATIONS IN RELATION TO THE 2024 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 each of the 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the 2024 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 2024 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 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 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.

Ms. Wu Ling-ling, an executive Director, abstained from voting on the 2024 Framework Agreements 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 95 to 98 of the annual report of the Company for the financial year ended 31 December 2023). Save for the above, none of the Directors has a material interest in the 2024 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.

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 each of the 2024 Framework Agreements, 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 2024 Framework Agreements for the purpose of the Listing Rules.

2.11 INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Company has established an Independent Board Committee comprising all the independent non-executive Directors to advise the Independent Shareholders in connection with the entering into of the 2024 Framework Agreements, the transactions contemplated thereunder and the annual cap related thereto. Giraffe Capital Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Independent Board Committee, having taken into account the advice and recommendation of the Independent Financial Adviser, considers that the entering into of the 2024 Framework Agreements and the transactions contemplated thereunder to be in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, the terms of the 2024 Framework Agreements, the transactions contemplated thereunder and the annual caps related thereto are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the AGM.

The letter from the Independent Board Committee to the Independent Shareholders is set out on pages 28 and 29 of this circular. The letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 30 to 75 of this circular.

LETTER FROM THE BOARD

3. PROPOSED ELECTION OF DIRECTOR

China Shanshui Investment Company Limited, a substantial shareholder of the Company, has given a written notice to the Company of its intention to nominate Ms. ZHENG Yingying as a candidate for election as an executive Director. Ms. ZHENG Yingying has also given a written notice to the Company, indicating that she is willing to be elected as an executive Director. The Board will present the proposal in relation to the election of a Director submitted by China Shanshui Investment Company Limited to the AGM for consideration by the Shareholders.

The appointment of Ms. ZHENG Yingying as an executive Director will be subject to the Shareholders' approval at the AGM and, if so approved, will become effective after Ms. ZHENG Yingying obtains legal advice as regards the requirements under the Listing Rules that are applicable to her as a Director pursuant to Rule 3.09D of the Listing Rules.

Details of the above Director are set out in Appendix II to this circular.

Separately, pursuant to Article 16.18 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. Accordingly, Mr. LI Huibao and Mr. HOU Jianguo shall retire from office as executive Directors by rotation at the AGM. Although Mr. LI Huibao and Mr. HOU Jianguo are eligible for re-election, Mr. LI Huibao and Mr. HOU Jianguo will not offer themselves for re-election due to retirement.

Each of Mr. LI Huibao and Mr. HOU Jianguo has confirmed that they have no disagreement with the Board and there is no other matter relating to his respective resignation that needs to be brought to the attention of the Shareholders or the Stock Exchange.

LETTER FROM THE BOARD

4. PROPOSED GRANTING OF GENERAL MANDATES TO ISSUE SHARES AND TO BUY BACK SHARES

In order to give the Company the flexibility to issue and buy back Shares if and when appropriate, ordinary resolutions will be proposed at the AGM to approve the granting to the Directors of general mandates to issue, allot and deal with additional Shares and to buy back its Shares on the Stock Exchange. The Directors believe that the granting of these general mandates will be in the best interests of the Company and the Shareholders as a whole.

At the AGM, an ordinary resolution, full text of which is set out as resolution No. 5 in the notice of AGM, will be proposed to the Shareholders to grant to the Directors a general mandate to allot, issue and deal with additional Shares not exceeding 20% of the total number of issued Shares of the Company as at the date of passing the proposed ordinary resolution (i.e. 870,793,245 Shares, based on the total number of issued Shares as at the Latest Practicable Date and subject to no Shares being issued or bought back by the Company during the period between the Latest Practicable Date and the date of the AGM).

At the AGM, an ordinary resolution, full text of which is set out as resolution No. 4 in the notice of AGM, will be proposed to the Shareholders to grant to the Directors a general mandate to exercise all the powers of the Company to buy back issued Shares not exceeding 10% of the total number of issued Shares of the Company as at the date of passing the proposed ordinary resolution (i.e. 435,396,622 Shares, based on the total number of issued Shares as at the Latest Practicable Date and subject to no Shares being issued or bought back by the Company during the period between the Latest Practicable Date and the date of the AGM).

An explanatory statement in compliance with Rule 10.06(1)(b) of the Listing Rules relating to the Share Buy-back Mandate is set out in Appendix III to this circular.

In addition, an ordinary resolution, full text of which is set out as resolution No. 6 in the notice of AGM, will be proposed at the AGM to authorise the extension of the General Issuance Mandate by adding to it the number of Shares subsequently bought back by the Company under the Share Buy-back Mandate.

LETTER FROM THE BOARD

5. PROPOSED AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

Reference is made to the announcement of the Company dated 15 March 2024 in relation to, among other things, the Proposed Amendments and the adoption of the New Articles of Association.

The Board proposes to amend certain provisions of the Articles of Association to bring the Articles of Association in line with the latest regulatory requirements in relation to the expanded paperless listing regime and the electronic dissemination of corporate communications by listed issuers and the related amendments to the Listing Rules which took effect from 31 December 2023, by way of adoption of the New Articles of Association in substitution for, and to the exclusion of, the Articles of Association, and to incorporate certain housekeeping changes.

Details of the Proposed Amendments to the Articles of Association are set out in Appendix IV to this circular. A special resolution will be proposed at the AGM to approve the Proposed Amendments to the Articles of Association and the adoption of the New Articles of Association.

The Company's legal advisers as to Hong Kong laws and Cayman Islands laws have confirmed that the Proposed Amendments conform with the requirements of the Listing Rules and the Cayman Islands laws, respectively. The Company also confirms that there is nothing unusual about the Proposed Amendments for a company listed in Hong Kong. The Proposed Amendments are prepared in English. The Chinese translation of the New Articles of Association is for reference only. In case there are any inconsistencies between the English version and the Chinese version, the English version shall prevail.

6. ANNUAL GENERAL MEETING AND PROXY ARRANGEMENT

The notice convening the AGM to be held at Meeting Room, 6/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC on Friday, 31 May 2024 at 9:30 a.m. is set out on pages 98 to 104 of this circular.

Enclosed with this circular is the form of proxy for use at the AGM. Such form is also available at the websites of Hong Kong Exchanges and Clearing Limited at <http://www.hkexnews.hk> and the Company at <http://www.sdsunnsygroup.com>. Whether or not you are able to attend the AGM 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 AGM (i.e. not later than 9:30 a.m. on Wednesday, 29 May 2024) 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 AGM 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.

LETTER FROM THE BOARD

7. VOTE BY POLL

Any vote in respect of the resolutions to be put forward for consideration at the AGM will be taken by poll except where the chairman of the AGM 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 AGM in the manner prescribed under the Listing Rules.

To the best information of the Directors after making reasonable enquiries, and save as disclosed on page 22 above, no Shareholder is required to abstain from voting on any resolutions proposed to be adopted at the AGM.

8. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 28 May 2024 to Friday, 31 May 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the AGM, 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 Monday, 27 May 2024.

9. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the opinion that the proposed resolutions set out in the notice of AGM are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the proposed resolutions.

In addition, having considered the qualifications and experience of Ms. ZHENG Yingying, the Board is of the view that Ms. ZHENG Yingying possesses the requisite qualifications to serve as a Director and accordingly a resolution has been submitted to the AGM for your consideration.

LETTER FROM THE BOARD

10. GENERAL

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 other additional information set out in Appendices to this circular.

By Order of the Board
China Shanshui Cement Group Limited
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 April 2024

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO THE 2024 FRAMEWORK AGREEMENTS**

We refer to the circular of the Company dated 30 April 2024 (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 2024 Framework Agreements 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 Board set out on pages 1 to 27 of the Circular; and
- (ii) the letter from the Independent Financial Adviser set out on pages 30 to 75 of the Circular, which contains its advice and recommendation to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons it has taken into consideration.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the opinion of the Independent Financial Adviser as set out in its letter of advice, we consider that (i) each of the 2024 Framework Agreements is 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 each of the 2024 Framework Agreements 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.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to approve each of the 2024 Framework Agreements and the transactions contemplated thereunder (including the proposed annual caps) at the AGM.

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 April 2024

To the Independent Board Committee and the Independent Shareholders

Dear Sir or Madam,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE 2024 FRAMEWORK AGREEMENTS

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 2024 Mine Development Services Framework Agreement, (ii) the 2024 Engineering and Technical Services Framework Agreement and (iii) the 2024 Clinker and Cement Transactions Framework Agreements (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 April 2024 (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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Letter from the Board, the 2023 Framework Agreements will expire on 31 May 2024 and it is currently expected that the transactions under the 2023 Framework Agreements will continue on a recurring basis, on 17 April 2024, the Group has entered into the 2024 Framework Agreements with CNBMG and Shandong Quanxing, an affiliate of CNBMG to renew the 2023 Framework Agreements and the annual caps.

As at the date of this letter, CNBMG and its associates hold 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 each of the 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since the 2024 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 2024 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 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 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.

Ms. Wu Ling-ling, an executive Director, abstained from voting on the 2024 Framework Agreements 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 95 to 98 of the annual report of the Company for the financial year ended 31 December 2023). Save for the above, none of the Directors has a material interest in the 2024 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 each of the 2024 Framework Agreements, 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 2024 Framework Agreements for the purpose 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 in connection with the entering into of the 2024 Framework Agreements, the transactions contemplated thereunder and the annual caps related thereto. We have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

OUR INDEPENDENCE

During the past two years immediately preceding and up to the date of our appointment as the Independent Financial Adviser, we have acted as the independent financial adviser to the Independent Board Committee and Independent Shareholders of the Company in respect of the 2023 Framework Agreements including (i) the mine development services framework agreement, (ii) the engineering and technical services framework agreement and (iii) the clinker and cement transactions framework agreements (together with the proposed annual caps) and the transactions contemplated thereunder as detailed in the 2023 Circular. Notwithstanding the above engagement, 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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among others, (i) the announcement of the Company dated 17 April 2024 for renewal of continuing connected transactions in relation to the 2024 Framework Agreements (together with the proposed annual caps) and the transactions contemplated thereunder, and 2023 Circular; (ii) the terms of the 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreements; (iii) the annual results announcement of the Company for the year ended 31 December 2023 (“FY2023”) (the “**Results Announcement 2023**”), and the annual report of the Company for the year ended 31 December 2022 (“FY2022”) (the “**Annual Report 2022**”); (iv) the information and facts supplied by the Group; (v) the opinions expressed by and the representations of the Directors and management of the Group (the “**Management**”); and (vi) 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 AGM.

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 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 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 substantial shareholders of the Group, CNBM, CNBMG, Shandong Quanxing, or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or its 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Directors collectively and individually accept full responsibility, including 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 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 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreements (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 2024 Framework Agreements (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.

According to the Annual Report 2022, Shandong Shanshui is a large enterprise group with the production of cement and clinker as the main industry, integrating the production and sales of commercial concrete, aggregate, plastic weaving, machinery manufacturing and maintenance, and new-type wall materials. As of the date of the Annual Report 2022, Shandong Shanshui had 114 subsidiaries spreading across ten provinces (municipalities, autonomous regions) including Shandong, Liaoning, Shanxi, Inner Mongolia and Xinjiang.

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According to the Results Announcement 2023, the Group had a total production capacity of approximately 95.53 million tonnes of cement, approximately 50.12 million tonnes of clinker, and approximately 18.1 million cubic meters of concrete as at 31 December 2023. During FY2023, the Group's total sales volume of cement and clinker was approximately 62,950,000 tonnes, representing an increase of approximately 14.0% as compared to that of FY2022.

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 2022 and the Results Announcement 2023:

	For the year ended 31 December	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(audited)</i>	<i>(audited)</i>
	<i>(restated)</i>	
Revenue		
– Sales of cement	17,161,832	14,208,432
– Sales of clinker	2,337,728	2,238,501
– Sales of concrete	1,403,513	1,118,872
– Sales of other products	585,886	550,582
	21,488,959	18,116,387
Gross profit	3,899,098	1,912,607
Gross profit margin	18.1%	10.6%
Profit/(loss) attributable to equity		
shareholders of the Company	755,411	(883,959)

For the years ended 31 December 2022 and 2023, the Group mainly generated revenue from the manufacturing and sales of cement, clinker, and concrete. According to the Results Announcement 2023, the sales revenue in Shandong Region was approximately RMB10,694.9 million for FY2023, accounting for approximately 59.0% of the Group's total sales revenue and representing a decrease of approximately 21.6% as compared to that of FY2022. Sales revenue in Northeastern China Region, Shanxi Region and Xinjiang Region accounted for approximately 25.3%, 12.8% and 2.9%, respectively, of the Group's total sales revenue in FY2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Comparison of financial performance between the year ended 31 December 2022 and 2023

According to the Results Announcement 2023, the Group's revenue decreased from approximately RMB21,489.0 million in FY2022 to approximately RMB18,116.4 million in FY2023, which was mainly attributable to the decrease in revenue generated from the sales of cement. The decrease in revenue generated from the sales of cement was mainly due to the decrease in price of cement for FY2023. According to the statistics from the website of Digital Cement, the average transaction price of the national cement market for FY2023 was RMB394 per tonne, representing a significant year-on-year (“YOY”) decline of 15%, with the price at the lowest level in nearly six years.

The Group's gross profit decreased from approximately RMB3,899.1 million in FY2022 to approximately RMB1,912.6 million in FY2023 mainly attributable to a YOY decrease in cement and clinker price, and greater reduction in cement sales price than the reduction in its unit production cost during FY2023, resulting in a decline in gross profit margin from 18.1% in FY2022 to 10.6% in FY2023.

The Group recorded loss attributable to equity shareholders of the Company of approximately RMB884.0 million in FY2023 whereas a profit of approximately RMB755.4 million was recorded in FY2022. Such loss was mainly due to the decrease in cement price exceeding the reduction of unit production costs, resulting in a significant decrease in gross profit for FY2023.

1.3 *Business outlook*

Demands for cement and clinker are highly correlated to the level of construction activities in China. Since 2021, more than 50 Chinese property firms have defaulted on debt. The debt woes of property developers kept buyers away and pressured home sales. Thus the property slump contracted demand for the basic building materials sector. According to the National Bureau of Statistics (the “NBS”), investment in property development amounted to approximately RMB11.1 trillion in 2023, representing a YoY decline of approximately 9.6%, while investment in infrastructure remained growing and increased by approximately 5.9% compared with that of 2022. The newly constructed area in the real estate sector decreased by approximately 20.4% in 2023. According to the Statistical Communique of the People’s Republic of China on the 2023 National Economic and Social Development* (《中華人民共和國2023年國民經濟和社會發展統計公報》) published by the NBS in February 2024, the national cement output amounted to approximately 2.02 billion tonnes in 2023, representing a YoY decrease of 0.7%. In 2023, the purchase price of the raw and fuel materials remained high. Cement’s average selling price and volume also faced downside risks due to the increased exposure to property construction and squeezing margins. According to the China’s Cement Economy in 2023 and Outlook for 2024* (《2023年中國水泥經濟運行及2024年展望》) published by Digital Cement in January 2024, which is an information provider for the cement industry in China, the average transaction price of cement was RMB394 per tonne in 2023, representing a YoY decline of 15%. Overall, the cement industry experienced serious challenges in 2023, burdened with intense competition, high costs of raw and fuel materials, slump in the property market, strengthened environmental protection etc. Accordingly, the cement industry profit was estimated to be approximately RMB32 billion in 2023, representing a YoY decrease of around 50%.

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, computed based on the weighted average cement market price collected from 148 major suppliers of the cement industry in China) decreased from approximately 141 points in January 2023 to 113 points in December 2023, representing a decline of approximately 19.9%.

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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 mitigate the problem of excess production capacity of the cement industry, cement manufacturers would be required to alleviate outdated or excess capacity or to replace it with effective and legitimate new capacity. At the same time, restriction on new capacity has become more stringent. Furthermore in November 2022, four central government agencies of the PRC jointly released the Action Plan to the Construction Materials Industry* (《建材行業碳達峰實施方案》), strengthening control of overcapacity, promoting staggered production of cement, cutting carbon dioxide emission, supporting harmless processing of waste, and reducing the energy consumption of cement clinker production by more than 3% during the 14th five-year plan period (i.e. 2021–2025). In addition, in order to promote ultra-low emission transformation of cement clinker production enterprises, independent grinding stations, and coking firms, the Ministry of Ecology and Environment of the PRC together with the other four governmental ministries released the Notice on the Issuance of the “Opinions on Promoting the Implementation of Ultra-Low Emissions in the Cement Industry” and “Opinions on Promoting the Implementation of Ultra-Low Emissions in the Coking Industry”* (關於印發《關於推動實施水泥產業超低排放的意見》《關於推動實施焦化產業超低排放的意見》的通知) in January 2024.

According to the China’s Cement Economy in 2023 and Outlook for 2024*《2023年中國水泥經濟運行及2024年展望》 published by the Digital Cement in January 2024, the demand for cement is expected to continue to drop in 2024 due to the downturn of the property market. Chinese property firms are under the weight of massive debts and sales of new homes plunged. On the other hand, overproduction of cement has intensified and reached record high. There are still challenges for the cement industry to significantly improve its bottom line.

2. Information of CNBM, CNBMG, and Shandong Quanxing

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 and is engaged in the business of building materials in the PRC. 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3. Principal terms of the 2024 Framework Agreements

3.1 2024 Mine Development Services Framework Agreement

Details of the 2024 Mine Development Services Framework Agreement are set out in the Letter from the Board. The principal terms and conditions of the 2024 Mine Development Services Framework Agreement are as follows:

3.1.1 Date

17 April 2024

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 Group to the Group

3.1.4 Term

From 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting

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 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.

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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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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.

We have obtained and reviewed the Supply Management Measure (Trial)* (《採供管理辦法(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 relevant departments including 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 and the basis of price determination are included in the proposals; (ii) comments from different departments or business units such as the procurement officer, related reviewer, finance manager, general manager, legal department, were consolidated and included in the proposals and (iii) major terms were included 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 2024 Mine Development Services Framework Agreement to be on normal commercial terms.

3.2 2024 Engineering and Technical Services Framework Agreement

Details of the 2024 Engineering and Technical Services Framework Agreement are set out in the Letter from the Board. The principal terms and conditions of the 2024 Engineering and Technical Services Framework Agreement are as follows:

3.2.1 Date

17 April 2024

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 Group to the Group

3.2.4 Term

From 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting

3.2.5 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.

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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

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.

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- **Selective tender:** The method of selective tender is similar to a 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.

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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 analysis of potential suppliers providing 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 2024 Engineering and Technical Services Framework Agreement to be on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

3.3 2024 Clinker and Cement Transactions Framework Agreements

Details of the 2024 Clinker and Cement Transactions Framework Agreements are set out in the Letter from the Board. The principal terms and conditions of 2024 Clinker and Cement Transactions Framework Agreements are as follows:

3.3.1 2024 CNBMG Clinker and Cement Transactions Framework Agreement

3.3.1.1 Date

17 April 2024

3.3.1.2 Parties

- (i) Shandong Shanshui
- (ii) CNBMG

3.3.1.3 Scope of transactions

Sale and purchase of clinker and cement (including aggregate and commercial concrete) between the Group and CNBMG Group

3.3.1.4 Term

From 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting

3.3.1.5 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.

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3.3.2 2024 Shandong Quanxing Clinker and Cement Transactions Framework Agreement

3.3.2.1 Date

17 April 2024

3.3.2.2 Parties

- (i) Shandong Shanshui
- (ii) Shandong Quanxing

3.3.2.3 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.

3.3.2.4 Term

From 1 June 2024 to 31 May 2025 (both days inclusive), subject to Independent Shareholders' approval at the Company's forthcoming annual general meeting

3.3.2.5 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.

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We have obtained and reviewed sample supply procurement proposals in relation to purchase of clinker and cement from CNBMG Group and noted that (i) the requisition of purchase of clinker and cement is initiated by the responsible person in production department periodically and approved by the general manager; (ii) quotation is made and the relevant details such as the terms of agreement, the background of potential suppliers, 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 price approval form and approved by the procurement and supply management department and other designated approvers; (iii) comments from different departments and business units are consolidated in the proposal; and (iv) the quotations and draft agreements are 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 2024 Clinker and Cement Transactions Framework Agreements to be on normal commercial terms.

4. Reasons for and benefits of entering into the 2024 Framework Agreements

According to the Letter from the Board, the Board considers that the 2024 Framework Agreements will bring the following benefits to the Company:

4.1 2024 Mine Development Services Framework Agreement

According to the Letter from the Board, 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:

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- 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. According to the 2023 Environmental, Social and Governance Report of CNBM, we noted that the CNBM group has actively optimized and upgraded green mine construction and continuously improves the ecological restoration and management of mines for a better ecological environment of mining areas. By the end of 2023, the CNBM group had constructed 43 national level green mines and 94 green mines at other levels.

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.

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We have reviewed the Green Mine Construction Specifications of Cement Limestone Industry* (《水泥灰岩綠色礦山建設規範》), 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 2023, we noted that the CNBM group has won a number of honorary awards in 2023 such as Dual Certification of Compliance Management System ISO 37301–2021 International Standard and GB/T 35770–2022 National Standard, second prize for the project “Development of a Compliance Supervision Closed-Loop Management System Focusing on Risk Prevention and Control for Building Materials Enterprises”, one of China’s Pioneer 100 ESG Listed Companies, qualified in the “Best Practice of Office of Board of Directors of Public Companies 2023” etc. In addition, in 2023, the CNBM group has formulated and revised 3 international standards and 34 national standards, and had 229 high-tech enterprises with 15,000 valid patents, including more than 3,500 invention patents.

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 and sales of cement, clinker, 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 Group was in line with the relevant environmental laws; (iv) related technology and expertise possessed by the CNBMG Group; and (v) the basis of pricing and terms under the 2024 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 2024 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 2024 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 is the largest and market-leading integrated building materials developer and service provider in the world in terms of scale. According to a seminar held by China Building Materials Enterprise Management Associate in December 2023, CNBMG ranked the first among the top 500 building materials companies in China in 2023;
- 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 26,500 patents, 3 national key laboratories, 8 national engineering (technology) research centres and 19 national standardisation technical committees. We have reviewed the official website of CNBMG and noted that the abovementioned qualifications were stated. We further noted that CNBMG Group had modified 33 international standards and ISO 10119: 2020 – Carbon Fibre – Determination of Density led by CNBMG Group is the first international standard of carbon fibre led by China;
- CNBMG Group owns 7 first class State Science and Technology Progress Awards and 4 China Grand Awards for Industry; and

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- CNBMG is able to provide engineering services on at a higher cost-to-performance ratio compared with its competitors. We have reviewed the sustainability report for the year ended 31 December 2022 issued by CNBMG and understood that CNBMG Group developed cement waste heat power generation from cement kilns, with a cumulative installed capacity of about 2,000 MW and an annual power generation of about 8 billion kWh, reducing carbon dioxide emissions by about 4.56 million tons. In 2022, CNBMG's group used 367,000 tons of biomass fuel, and has become the largest biomass alternative fuel enterprise in the building material industry in China. In the face of rising coal prices, increased costs, and reduced profits, China United Cement Linyi invested RMB60 million to build a 6.5 MWp distributed photovoltaic grid connected power station on the basis of the existing low-temperature waste heat power generation of cement kiln. This can generate 10 million kWh of electricity and reduce carbon dioxide emissions by about 5,703 tons throughout the year.

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 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 upgrade 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 inspections 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 2023, CNBM accelerated the progress of internationalization, achieving dual-growth of revenue and profit in BNBM Tanzania, with a trial production of 40 million square meters of production line in Uzbekistan, and a comprehensive commencement of the project in Thailand. Coupled with the awards and titles won by the CNBMG Group discussed in the subsection headed “4.1 2024 Mine Development Services Framework Agreement”, the competitive advantages possessed by CNBMG 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 upgrade of the cement production lines of the Group; (ii) regular quality inspection is required to be conducted on cement manufacturers by qualified inspection centres; (iii) CNBMG Group possessed a number of comparative advantages including but not limited to its technological capabilities as well as the global recognition; (iv) CNBMG Group has 55 national industrial quality inspection centres which are qualified inspection centres under the relevant rules; and (v) the basis of pricing and terms under the 2024 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 2024 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.

4.3 2024 Clinker and Cement Transactions Framework Agreements

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

According to the Letter from the Board, 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:

- (i) reducing the overall procurement and transportation costs for the Group in the Deficit Regions; and
- (ii) 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.

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

According to the Letter from the Board, 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.

We have scrutinized the breakdown of Clinker and Cement Transactions during the period from January 2023 to February 2024 and performed desktop search on the location of the clinker and cement production units of the Group and the CNBMG Group and its affiliates on selected material transactions and noted that the transacted parties are mainly located in the same or adjacent cities. By purchasing clinker and cement from CNBMG Group and its affiliates, the Company could reduce the transportation cost (which are often borne by customers) and improve its cost efficiency. Besides, the comparative advantages in geographical proximity could enable the Company to generate considerable revenue and profits by selling clinker and cement to CNBMG Group and its affiliates. Therefore, we concur with the Directors' view that the entering into of the 2024 Clinker and Cement Transactions Framework Agreements 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 2024 Framework Agreements

5.1 Mine Development Services

5.1.1 Existing annual caps

As disclosed in the Letter from the Board, the existing annual caps in respect of the transactions under the 2023 Framework Agreements were as follows:

Existing annual cap	For the year ended 31 December 2023	For the five months ending 31 May 2024
	(RMB'000)	(RMB'000)
Mine Development Services	748,370	270,020

5.1.2 Historical transaction amounts

As disclosed in the Letter from the Board, the historical transaction amounts in respect of the transactions under the 2023 Framework Agreements were as follows:

Historical transaction amounts	For the year ended 31 December 2023	For the three months ended 31 March 2024
	(RMB'000)	(RMB'000)
Mine Development Services	601,721	64,522

As advised by the Management, the utilisation rate of the existing annual caps was approximately 80.4% and 39.8% in FY2023 and the five months ending 31 May 2024 (based on proportionate annual caps calculated by dividing the historical transaction amounts for the three months ended 31 March 2024 by 3/5 of the annual cap for the five months ending 31 May 2024), respectively. The transaction amount during the first three months of 2024 was much lower than the existing annual cap primarily attributable to the minimal production volume in the said period under the requirements of normalised off-peak production of cement in Shandong Province. We have also reviewed the Notice on Organizing the Normalised Off-Peak Production of Cement in the Heating Season of 2023–2024* (《關於組織做好2023–2024年採暖季水泥常態化錯峰生產的通知》) published by the Department of Industry and Information Technology of Shandong Province and the Department of Ecology and Environment of Shandong Province, the production of cement is prohibited from mid-November 2023 to mid-March 2024.

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5.1.3 Proposed annual caps

As disclosed in the Letter from the Board, the proposed annual caps in respect of the transactions contemplated under the 2024 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 2023;
- (ii) the expected growth in the Group's corresponding demand for the Mine Development Services from CNBMG Group in 2024, in view of (x) the 26 mining sites in which the Group engaged CNBMG Group for Mine Development Services in 2023; (y) the expected increase in mining and maintenance costs contributed by the two mining sites which have commenced operation upon the completion of infrastructure construction or the application of mining licenses and safety certificates, and in particular the Group's expectation to incur an additional Mine Development Services fee of approximately RMB25.5 million in 2024 and (z) the gradual increase in restoration and governance as a result of an increasing requirements on mine management of enterprises imposed by the governmental authorities, which the Group plans to increase its budget in such services to approximately RMB31.9 million in 2024; and
- (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.

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The table below sets out the proposed annual caps in respect of the transactions contemplated under the 2024 Mine Development Services Framework Agreement:

Proposed annual cap	For the year	For the five
	ending 31 December 2024	months ending 31 May 2025
	(RMB'000)	(RMB'000)
Mine Development Services	649,310	251,480

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

(i) Historical fees

As advised by the Management, there are generally three types of mine development services contemplated under the 2024 Mine Development Services Framework Agreement, namely (i) mining, (ii) maintenance, and (iii) related engineering services, where mining fee 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 and understood that in determining the proposed annual caps, historical unit price per tonne of limestone extracted was considered.

We have obtained 14 agreements entered into by the Group and CNBMG Group for mine development services (the “**Mine Sample Agreements**”), of which nine are for the provision of mining services, two for maintenance services, one for both mining and maintenance services, and two for related engineering services. Considering that (i) the transaction amounts of samples selected covered over 50% of the total transaction amount for FY2023 and the two months ended 29 February 2024; and (ii) the samples selected represent the largest projects in terms of transaction amount, we consider the number of samples 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 varies accordingly, ranged from approximately RMB3.76 to RMB25.5 per tonne as stipulated in the Mine Sample Agreements.

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(ii) Increasing demand for the Mine Development Services

We have discussed with the Management and understood the Group engaged CNBMG Group for Mine Development Services in its 26 mining sites in FY2023, of which 15, three, six and two were located in Shandong Province, Shanxi Province, Northeast China and Xinjiang, respectively. Along with the completion of infrastructure construction or the application of mining licenses and safety certificate of two mining sites, the demand for the Mine Development Services from CNBMG Group is expected to increase in 2024 and 2025.

In assessing whether the proposed annual cap for the year ending 31 December 2024 (“FY2024”) is fair and reasonable, we have discussed with the Management and were advised that (i) the production in one mining site under Taiyuan subsidiary is expected to resume after obtaining the relevant certificates with estimated production capacity of 0.5 million tonnes in FY2024, and (ii) the production in one mining site under Weishan subsidiary with estimated production capacity of 1 million tonnes is expected to resume in FY2024. Accordingly, an additional Mine Development Services fee of approximately RMB25.5 million is expected to be incurred in FY2024 with mining fee ranging from RMB15 to RMB21 per tonne, which was determined with reference to historical mining fee of mining sites with similar geographical and topographical features.

Furthermore, as advised by the Management, the governmental authorities imposed higher standards of mine maintenance on mining enterprises and thus there is a gradual increase in the demand for restoration and governance services. Therefore, the Group plans to increase its budget in such services from approximately RMB14.6 million in FY2023 to approximately RMB31.9 million in FY2024 so as to fulfil the increasingly stringent requirements. We performed desktop search and noted that the office of the State Council and the Chinese Communist Party announced Opinions on Further Strengthening Mine Safety* (《關於進一步加強礦山安全生產工作的意見》) in September 2023 stipulating the strict admission to mining industry, improving of mine safety management system, strengthening of the responsibility of enterprises, etc.

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As for the proposed annual cap for the five months ending 31 May 2025, we have discussed with the Management and were advised that in determining the said proposed annual cap, they have taken into account the normalized off-peak production arrangement that the production of cement was prohibited from mid-November 2023 to mid-March 2024, thus approximately 37.5% of the mining services fee for a year would be incurred for the five months ending 31 May 2025 (“5M2025”). We have also reviewed the Notice on Organizing the Normalised Off-Peak Production of Cement in the Heating Season of 2023–2024* (《關於組織做好2023–2024年採暖季水泥常態化錯峰生產的通知》) and noted that the estimated resumption time for cement production is consistent with the relevant policy. Further, we understood that (i) cement aggregates of approximately 250,000 tonnes, 250,000 tonnes, and 500,000 tonnes are expected to be produced in Linfen, Taiyuan, and Weishan, respectively, in 5M2025 with unit price ranging from RMB12 to RMB21 per tonne; (ii) maintenance fees are expected to be approximately RMB7 million in 5M2025 according to each operating region’s maintenance plan; and (iii) RMB2 million of engineering services including exploration and slope maintenance is expected to be incurred in 5M2025 as it is reiterated in government notices, such as the Notice of the State Mine Safety Supervision Bureau on Carrying Out the Construction and Networking of Open-Pit Mine Slope Monitoring Systems* (《國家礦山安全監察局關於開展露天礦山邊坡監測系統建設及聯網工作的通知》), that mine safety is one of the major focuses in these years and mining enterprises are required to monitor the mine safety measures including but not limited to the maintenance of mine slopes.

As discussed with the Management, except for the additional mine development fees to be incurred as abovementioned, the Mine Development Services fees for the existing mine sites are expected to maintain relatively stable for FY2024 and 5M2025.

Considering that (i) there would be additional demand for Mine Development Services in FY2024 and 5M2025 as detailed above; and (ii) the expected mining fees are generally in line with the historical mining fees as stipulated in the Mine Sample Agreements obtained, we are of the view that the basis of determining the additional mine development services fees is fair and reasonable.

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5.2 *Engineering and Technical Services*

5.2.1 *Existing annual caps*

As disclosed in the Letter from the Board, the existing annual caps in respect of the transactions under the 2023 Framework Agreements were as follows:

Existing annual cap	For the year ended 31 December 2023	For the five months ending 31 May 2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Engineering and Technical Services	788,807	527,830

5.2.2 *Historical transaction amounts*

As disclosed in the Letter from the Board, the historical transaction amounts in respect of the transactions contemplated under the 2023 Framework Agreements were as follows:

Historical transaction amounts	For the year ended 31 December 2023	For the three months ended 31 March 2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Engineering and Technical Services	296,011	28,786

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The utilization rate of the Engineering and Technical Services in FY2023 and 5M2024 (based on proportionate annual caps) was merely 37.5% and 9.1% respectively since multiple projects were not implemented or commenced due to several adverse factors in 2023 such as slowdown economy, prolonged real estate market crisis, plunged cement prices, high costs of fuel and raw materials. In addition, as advised by the Management, a few projects were cancelled or postponed due to funds pressure, change in government plan or industry outlook. According to the China's Cement Economy in 2023 and Outlook for 2024* (《2023年中國水泥經濟運行及2024年展望》) published by Digital Cement in January 2024, the cement industry experienced serious challenges in 2023 and recorded a sharp decline in profits amid the intensified competition in the industry, hitting a 16-year low on the whole. According to the Results Announcement 2023, the Group recorded loss attributable to equity shareholders of the Company of approximately RMB884.0 million in FY2023 whereas profit of approximately RMB755.4 million was recorded in FY2022. Furthermore, as advised by the Management, a number of projects, which had been taken into account when determining the existing annual cap in FY2023, had been tendered to other independent service providers instead of the CNBMG Group after the tender process, contributed to a shortfall of more than RMB100 million for FY2023.

5.2.3 Proposed annual caps

As disclosed in the Letter from the Board, the proposed annual caps in respect of the transactions contemplated under the 2024 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 2023;
- (ii) the expected growth in the Group's corresponding demand for the Engineering and Technical Services from CNBMG Group, in view of the construction, relocation and productivity replacement of around 3 significant infrastructure projects (such as clinker production lines and cement grinding production lines) by the Group, of which the Group expects to incur or recognize a total fee of RMB326.3 million in 2024, in response to development in industry policies and the 14th Five Year Plan of the PRC, of which the construction period will be expanded to continue into 2024 and 2025, as well as the development pace of these significant technological transformation projects;
- (iii) the expected increase in corporate environmental costs and labour costs; and

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- (iv) the prevailing market prices for the provision of similar engineering and technical services.

The table below sets out the proposed annual caps in respect of the transactions contemplated under the 2024 Engineering and Technical Services Framework Agreement:

Proposed annual cap	For the year	For the five
	ending 31	months ending 31
	December 2024	May 2025
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Engineering and Technical Services	392,640	138,090

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

- (i) Historical fees for the Engineering and Technical Services

According to the Letter from the Board and as advised by the Management, in determining the proposed annual caps, they have taken into account, among others, the historical fees for the Engineering and Technical Services paid by the Group to CNBMG Group since January 2023. We have scrutinized the breakdown of Engineering and Technical Services fees payable to CNBMG Group for the period between January 2023 and February 2024 and noted that (i) provision of infrastructure services and technical upgrade services contributed over 90% of the respective historical transaction amount of Engineering and Technical Services for the respective year; and (ii) infrastructure services projects generally include (a) engineering design services in the early stage, and (b) construction services which generally include site formation, civil engineering and installation of machinery. Thus, we have obtained 12 samples of infrastructure services and technical upgrade services agreements entered into by the Group and the CNBMG Group, which (i) covered over 50% of the

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total transaction amount for FY2023 and the two months ended 29 February 2024; 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 12 samples of infrastructure services and technical upgrade services agreements we have obtained, one is for the provision of engineering design services, seven are for construction services, and four are for technical upgrade services, the details of which were set out below:

- (a) We have obtained and reviewed one sample of historical agreement for engineering design services, in a random basis, and noted that the historical design fee for clinker production line was approximately RMB4.5 million;
- (b) We have obtained and reviewed seven samples of historical agreements for construction services and noted that (i) service fees for road and site formation work were approximately RMB43 million; (ii) service fees for civil engineering work for cement and grinding production line were approximately RMB400 million; and (iii) service fees for slope maintenance work were approximately RMB19 million.
- (c) We have obtained and reviewed four samples of historical agreements for technical upgrade services and noted that technical upgrade services mainly include upgrading grate coolers and grinding production line to improve production of clinkers and cooling efficiency; the fees for grate coolers upgrade (excluding the acquisition cost of grate coolers) generally ranged from approximately RMB5 million to RMB6 million subject to the size of the projects while the fees for grinding production line upgrade were approximately RMB78 million.

As the basis adopted by the Management in estimating the Engineering and Technical Services fees for potential projects generally coincide with the abovementioned projects, we are of the view that the Engineering and Technical Service fees of the projects estimated by the Management in determining the annual caps of the Engineering and Technical Services are fair and reasonable.

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- (ii) Expected growth in the Group's demand for the Engineering and Technical Services from CNBMG Group

Existing or confirmed projects

According to the Letter from the Board and as advised by the Management, there are three significant infrastructure projects with construction period expanding to 2024 and 2025 namely (i) the construction of a clinker production line in Pingyin, Shandong Province has been completed and construction fees of approximately RMB4.2 million are estimated to be recognized in FY2024; (ii) the construction of a cement grinding production line in Pingyin, Shandong Province has been commenced, the fees of which are estimated to be approximately RMB67.2 million in FY2024; (iii) the relocation and replacement of a clinker and cement grinding production line in Chifeng, Inner Mongolia has been commenced and the fees of which are estimated to be RMB254.9 million in FY2024 and RMB127.1 million in 5M2025.

Furthermore, certain existing projects in relation to ultra-low emission assessment are expected to contribute technical service fees of approximately RMB48.8 million in FY2024 and RMB0.2 million in 5M2025.

We have obtained and reviewed the agreements for the projects in Pingyin, Shandong Province and Chifeng, Inner Mongolia projects and noted that details such as the Engineering and Technical Service fees, expected timeline and terms of agreements coincide with the details provided by the Management.

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Potential projects

We were provided by the Management with a schedule of potential projects (the “**Potential Project Schedule**”) which the Management considered to be probable. According to the Potential Project Schedule, there are three types of potential technical services projects which are expected to commence in turn between FY2024 and 5M2025, which are expected to incur Engineering and Technical Services fees of approximately RMB17.5 million in FY2024 and approximately RMB10.8 million in 5M2025, namely, (i) enhancement of equipment and ultra-low emission transformation in Hequ, Shanxi Province with the estimated fees of approximately RMB16.5 million in FY2024 and approximately RMB1.8 million in 5M2025; (ii) ultra-low emission transformation of more than 20 companies in northeastern region in accordance with the relevant government policies with the estimated fees of approximately RMB8.0 million in 5M2025; and (iii) inspection and analysis services with annual fees of approximately RMB1.0 million in each of FY2024 and 5M2025. We performed public search and noted that the Ministry of Ecology and Environment of the PRC together with the other four governmental ministries released the notice about the Opinions on Promoting the Implementation of Ultra-Low Emissions in the Cement Industry* (《關於推進實施水泥行業超低排放的意見》) in January 2024, the primary goal of which is to promote ultra-low emission transformation of cement companies and to complete transformation of 50% of cement clinker production capacity by the end of 2025 and 80% by the end of 2028.

We have discussed with the Management and understood that they have considered factors such as the Company’s business plan on 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.

Based on the above, we concur with the Directors’ view that the proposed annual caps in respect of the transactions contemplated under the 2024 Engineering and Technical Services Framework Agreement are fair and reasonable.

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5.3 *Clinker and Cement Transactions*

5.3.1 *Existing annual caps*

As disclosed in the Letter from the Board, the existing annual caps in respect of the transactions under the 2023 Framework Agreements were as follows:

Existing annual cap	For the year ended 31 December 2023	For the five months ending 31 May 2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Clinker and Cement Transactions	300,000	125,000

5.3.2 *Historical transaction amounts*

As disclosed in the Letter from the Board, the historical transaction amounts in respect of the transactions contemplated under the 2023 Framework Agreements are as follows:

Historical transaction amounts	For the year ended 31 December 2023	For the three months ended 31 March 2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Clinker and Cement Transactions	57,508	15,161

The utilization rate of the Clinker and Cement Transactions in FY2023 and 5M2024 (based on proportionate annual caps) was merely 19.2% and 20.2% respectively. According to the Letter from the Board, the actual expenditures for the Clinker and Cement Transactions for FY2023 were lower than expected due to the combined effects of multiple factors such as the macroeconomic downturn, weak investment in new infrastructure and a decline in real estate investment. According to the NBS, investment in property development amounted to approximately RMB11.1 trillion in 2023, representing a YoY decline of approximately 9.6%, while investment in infrastructure increased by approximately 5.9% compared with that of 2022.

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5.3.3 Proposed annual caps

As disclosed in the Letter from the Board, the proposed annual caps in respect of the transactions contemplated under the 2024 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 2023;
- (ii) notwithstanding that the actual expenditures for the Clinker and Cement Transactions for the year ended 31 December 2023 were lower than expected due to the combined effects of multiple factors such as the macroeconomic downturn, weak investment in new infrastructure and a decline in real estate investment, the expected gradual increase in the Group's and CNBMG's demand for the Clinker and Cement Transactions in 2024 in view of (x) current market conditions in the region in which the Group operates and a forecast of future market dynamics; and (y) the leading market position of the Group and CNBMG in the cement production industry, which the Group considered would be a competitive advantage over other smaller market players to survive in market downturns; and
- (iii) the cost of raw materials and prevailing market prices for the provision of similar Clinker and Cement.

The table below sets out the proposed annual caps in respect of the transactions contemplated under the 2024 Clinker and Cement Transactions Framework Agreements:

Proposed annual cap	For the year	For the five
	ending 31	months ending 31
	December 2024	May 2025
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Clinker and Cement Transactions	155,711	62,280

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

(i) Historical expenditures

As advised by the Management, in determining the estimated price of clinker and cement per tonne, they have taken into account (i) historical manufacturing cost including but not limited to cost of coal, direct labour and other manufacturing overheads; (ii) the prevailing market price and (iii) historical purchase or selling price of similar products.

As disclosed in the Letter from the Board and as advised by the Management, the actual expenditures for the Clinker and Cement Transactions for FY2023 was lower than expected due to the combined effects of multiple factors such as the macroeconomic downturn, weak investment in new infrastructure and a decline in real estate investment. As discussed in the subsection headed “1.3 Business Outlook” of this letter, according to the Statistical Communique of the People’s Republic of China on the 2023 National Economic and Social Development* (《中華人民共和國2023年國民經濟和社會發展統計公報》) published by the NBS in February 2024, the national cement output amounted to approximately 2.02 billion tonnes in 2023, representing a YoY decrease of 0.7%. Therefore, the historical transaction amounts fell significantly behind the existing annual caps for FY2023. We have discussed with the Management that whilst the historical transaction amounts were taken into consideration in determining the proposed annual caps, they believe the transaction volume for clinker and cement between the Group and CNBMG would gradually recover in view of (i) current market conditions in the region in which the Group operates and a forecast of future market dynamics; and (ii) the leading market position of the Group and CNBMG in the cement production industry, which the Management considered would be a competitive advantage over other smaller market players to survive in market downturns.

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We have scrutinized the breakdown of Clinker and Cement Transactions for FY2023 and the two months ended 29 February 2024 and obtained eight samples of agreements entered into by the Group and the CNBMG Group and its affiliates, which (i) covered over 50% of the total transaction amount for the respective year or period; and (ii) represent the largest transactions in the respective year in terms of transaction amount. Therefore, we consider the number of samples to be sufficient, fair and representative. Out of the eight samples of Clinker and Cement Transactions agreements we have obtained, four are in relation to sales of clinker and cement to CNBMG Group and its affiliates (the “**Clinker and Cement Sale Sample Agreements**”) and four are in relation to purchase of clinker and cement from CNBMG Group and its affiliates (the “**Clinker and Cement Purchase Sample Agreements**”). We noted from the Clinker and Cement Sale Sample Agreements that while the production and transportation costs, quality and specification of clinker and cement vary among different locations, the unit selling price of clinker and cement varies accordingly, ranged from approximately RMB270 to RMB460 per tonne. Similarly, as stipulated in the Clinker and Cement Purchase Sample Agreements, the unit purchase price of clinker and cement ranged from approximately RMB270 to RMB330 per tonne.

(ii) Estimated prices and volume of clinker and cement to be transacted

As discussed in the subsection headed “1.3 Business Outlook” of this letter, according to the China’s Cement Economy in 2023 and Outlook for 2024* (《2023年中國水泥經濟運行及2024年展望》) published by Digital Cement in January 2024, the average transaction price of cement was RMB394 per tonne in 2023, representing a YoY decline of 15%. Moreover, according to the website of China Cement Net*(中國水泥網), the national cement price index decreased from approximately 141 points in January 2023 to 113 points in December 2023, representing a decline of approximately 19.9%.

In view of the above, the Management expected that the average selling and purchase price would be slightly lower compared with the estimated price the Management based on when determining the annual caps in 2023, but generally in line with the average selling and purchase price in FY2023 and the two months ended 29 February 2024, which is considered to be representable for the determination of the proposed annual caps for FY2024 and 5M2025.

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We were provided with a schedule (the “**Estimation Schedule**”) showing the estimated volume of clinker and cement to be purchased from and sold to the CNBMG Group and its affiliates for FY2024 and 5M2025. As shown in the Estimation Schedule, the Management estimated that a total of approximately 171,000 tonnes and 68,000 tonnes of clinkers would be purchased from the CNBMG Group and its affiliates, which are located in Shanxi Province and Shandong Province, with the unit purchase price ranging from approximately RMB270 to RMB335 per tonne for FY2024 and 5M2025, respectively. Similarly, the Management estimated a total of approximately 440,000 tonnes and 176,000 tonnes of clinkers and cement would be sold to the CNBMG Group and its affiliates, which are located in Shandong Province, Northeast China and Xinjiang, with the unit selling price ranging from approximately RMB229 to RMB530 per tonne for FY2024 and 5M2025, respectively.

Further, as discussed with the Management, in negotiation with CNBMG Group on the estimated volume of clinker and cement to be transacted, the parties have taken into account the benefits brought by the sales to and purchase from the Group and CNBMG Group and its affiliates. As the Group is currently facing problems such as periodic insufficient supply of self-produced clinker, excessive operating costs of certain individual kilns, and high transportation costs for intra-group clinker and cement due to geographical distances of the group companies’ locations, by selling cement and clinker to CNBMG Group and its affiliates, it could help improve the utilization rate of the Group’s kilns which would in turns help increase the production efficiency and reduce per unit production costs of the Group. Further, such sales to CNBMG Group and its affiliates could also help maintain the Group’s market competitiveness by increasing the market entry barrier of other competitors, which would in turn stabilize the market order and strengthen the Group’s market share in local cement industry. Similarly, by purchasing from CNBMG Group and its affiliates, the Group would be able to maintain their normal operation needs and effectively reduce the costs of their cement products when the purchase prices from CNBMG Group and its affiliates are lower than the Group’s internal production costs. In view of such a win-win situation for both the Group and CNBMG Group, the Management expects that the volume of clinker and cement to be transacted would be rebounded despite the challenging market outlook.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Considering that (i) the estimated selling and purchase prices used in determining the proposed annual caps reflects the latest market sentiment and are generally in line with the selling and purchase prices noted from the Clinker and Cement Sale Sample Agreements and Clinker and Cement Purchase Sample Agreements; (ii) the estimated volume of clinker and cement to be purchased from and sold to the CNBMG Group and its affiliates for FY2024 and 5M2025 would be rebounded in view of the win-win situation for both the Group and CNBMG Group; and (iii) the benefits brought by the clinker and cement transactions have been considered by the Management when negotiating the estimated transaction volume with CNBMG Group, we concur with the Directors' view that the proposed annual caps in respect of the transactions contemplated under the 2024 Clinker and Cement Transactions Framework Agreements are fair and reasonable.

6. Internal control measures

As stated in the Letter from the Board, in order to 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 2024 Framework Agreements:

- (a) before confirming the pricing and the terms of the Mine Development Services, the Engineering and Technical Services or the Clinker and Cement Transactions (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 2024 Framework Agreements" in the Letter from the Board;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (b) the Group has adopted internal guidelines which provide that:
- (i) the procurement and supply department and the finance department of the Company will collate and monitor the transaction amounts of the Mine Development Services, the Engineering and Technical Services or the Clinker and Cement Transactions (as the case may be) and any relevant information requiring disclosure from the relevant business unit, and report to the Company's management on a monthly basis. We have reviewed nine monthly reports and four quarterly reports prepared by the procurement and supply department and the finance department of the Company from January 2023 to January 2024 and noted that the required internal control procedures were properly implemented. Considering that (i) the monthly reports were obtained on a random basis and spread over each of the four quarters in FY2023, (ii) the monthly reports represent the majority of the reports, and (iii) the quarterly reports specify details of the transactions under the 2023 Framework Agreements including comparison of historical transaction amount with annual caps, utilization rate, and newly signed contracts, we consider the number of samples obtained to be sufficient, fair and representative;
 - (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. We have obtained the reports and noted that they contain details such as the comparison of accumulated transaction amounts with the relevant annual caps, explanation for the difference, brief discussion on the fluctuation on the transaction amounts in the covered period, procurement models, and the basis of pricing; and
 - (iii) if the value of any Mine Development Services, the Engineering and Technical Services or the Clinker and Cement Transactions (as the case may be) is expected to exceed the annual cap in the next three months, the procurement and supply management department and the finance 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 INDEPENDENT FINANCIAL ADVISER

- (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, the Engineering and Technical Services or the Clinker and Cement Transactions (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, the Engineering and Technical Services or the Clinker and Cement Transactions (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, the Engineering and Technical Services or the Clinker and Cement Transactions (as the case may be) in all material respects or have exceeded the annual cap applicable to these services. We have obtained the independent auditor's assurance report on continuing connected transactions for FY2023, which presented the above confirmations.

Having considered that (i) the Company has adopted internal guidelines which provide that the transactions contemplated under the 2024 Framework Agreements shall comply with the applicable requirements under Chapter 14A of the Listing Rule; (ii) a monitoring system is 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 2024 Framework Agreements will be annually reviewed by the independent non-executive Directors and the external auditors of the Company; and (iv) the effective internal control system in place, we are of the view that the internal control measures are adequate and effective in ensuring that the transactions contemplated under the 2024 Framework Agreements will be on normal commercial terms and an effective system has been in place to monitor the annual caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that (i) each of the 2024 Framework Agreements is 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 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement, and the 2024 Clinker and Cement Transactions Framework Agreements 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. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolutions for approving the 2024 Framework Agreements (together with the proposed annual caps) and the transactions contemplated thereunder at the AGM.

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 16 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 C3 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 ⁽⁶⁾
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 ⁽⁵⁾	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%

Name of Substantial Shareholder	Capacity	Total Number of Shares held ⁽¹⁾	Approximate percentage of the total number of the issued Shares of the Company ⁽⁶⁾
Shen Neng International SPC – Green Planet SP ⁽⁷⁾	Beneficial owner	434,897,854(L)	9.99%
Shen Neng Investment Management Limited ⁽⁷⁾	Interests of corporations controlled by substantial shareholder	434,897,854(L)	9.99%

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. According to the Form 2 filed on 25 July 2022, a loan agreement entered into between Tianrui Group (as the borrower) and Bohai Bank (as the lender) on 24 February 2022. Tianrui Group has pledged 951,462,000 shares held by it in favour of Bohai Bank. 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 Caikuai 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) Shen Neng International SPC – Green Planet SP is wholly owned by Shen Neng Investment Management Limited.
- (8) 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 2023, 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 the Latest Practicable Date, the above expert (i) 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; and (ii) did not have any interest, either directly or indirectly, in any assets which have been since 31 December 2023 (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 2023 (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

A copy of each of the 2024 Mine Development Services Framework Agreement, the 2024 Engineering and Technical Services Framework Agreement and the 2024 Clinker and Cement Transactions Framework Agreements 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.

The particulars of Ms. ZHENG Yingying are set out below, which are derived from and based solely on information provided by the nominating shareholders. Such information has not been independently verified by the Company or the Directors.

Ms. ZHENG Yingying

Ms. ZHENG Yingying, aged 43, is currently the chairman of the board of directors of China Shanshui Investment Company Limited, a substantial shareholder of the Company. She has also served as the deputy general manager of Jinan Industrial Development Investment Group Co., Ltd. since November 2019, and a member of the Party committee and the general counsel of Jinan Industrial Development Investment Group Co., Ltd. since March 2023.

She served as a delegate of the 13th Shandong Provincial Women's Congress, a delegate of the 14th Jinan Municipal Women's Congress and an executive member of 14th Congress, a delegate of the 17th Congress of Jinan Municipal Labor Union, a delegate of the 17th National Congress of Trade Unions of China, a clerk, a deputy secretary of the Youth League Committee, a deputy director of the office, a director of the office, and a deputy researcher of the Civil Affairs Bureau of Lixia District, Jinan City, and also a deputy director of the Yanshan Street office of Lixia District, Jinan City, the vice chairman of the Women's Federation of Lixia District, Jinan City. She also served as the deputy director of general management department, the deputy director of human resources department, the director of supervision and audit department (Party committee of the organization), the vice chairman of Group Labor Union and the director of Group Women's Committee of Jinan Railway Transportation Group.

She obtained a bachelor's degree in management from Shandong University of Economics in 2003 and a master's degree in law from Tongji University in 2010.

Ms. ZHENG Yingying does not hold any other position with the Company or other members of the Group and Ms. ZHENG Yingying does not hold any other directorships in public listed companies in Hong Kong or overseas in the past three years.

Save as aforesaid, Ms. ZHENG Yingying does not have any relationship with any other Directors, senior management or substantial or controlling shareholders of the Company.

Subject to and upon the approval of appointment of Ms. ZHENG Yingying as an executive Director at the AGM, Ms. ZHENG Yingying will sign a service contract with the Company subject to the relevant provisions of retirement by rotation and re-election at the AGM of the Company in accordance with the Articles of Association. Following her election to the Board, the remuneration of Ms. ZHENG Yingying will be duly considered and determined by the Board with reference to her qualification, experience, positions in the Company and duties as well as the prevailing market situation.

As at the Latest Practicable Date, Ms. ZHENG Yingying does not have interests in any Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, there is no other information relating to the proposed election of a director that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules and there are no other matters that need to be brought to the attention of the Shareholders.

The following explanatory statement contains all the information required by the Listing Rules in connection with the Share Buy-back Mandate.

1. LISTING RULES

The Listing Rules permit companies with a primary listing on the Stock Exchange to buy back their shares on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

- (i) the shares to be bought back by a company must be fully paid-up;
- (ii) the company has previously sent to its shareholders an explanatory statement complying with the Listing Rules; and
- (iii) all on market buy-back of shares by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a specific approval in relation to specific transactions or by a general mandate to the directors of the company to make such buy-back, and a copy of such resolution together with the necessary documentation have been delivered to the Stock Exchange in accordance with the Listing Rules.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was US\$100,000,000 divided into 10,000,000,000 Shares of par value of US\$0.01 each and the number of Shares in issue was 4,353,966,228.

Subject to the passing of the ordinary resolution for approving the Share Buy-back Mandate at the AGM and on the basis that no further Shares will be issued or bought back prior to the AGM, the Company would be allowed under the Share Buy-back Mandate to buy back up to a maximum of 435,396,622 Shares during the period in which the Share Buy-back Mandate remains in force. Any Shares bought back pursuant to the Share Buy-back Mandate must be fully paid-up. The Directors wish to state that they have no immediate plan to buy back any Shares pursuant to the Share Buy-back Mandate.

3. REASONS FOR SHARE BUY-BACK

The Directors believe that the Share Buy-back Mandate is in the interests of the Company and the Shareholders as a whole. Such Share buy-back may, depending on the market conditions and funding arrangements, result in an increase in net assets of the Company and/or earnings per Share. The Directors are seeking the Share Buy-back Mandate to give the Company the flexibility to buy back Shares if and when appropriate. The Directors will decide the number of Shares to be bought back on each occasion and the price and other terms upon which the same are bought back at the relevant time having regard to the circumstances then pertaining.

4. FUNDING OF SHARE BUY-BACK

It is envisaged that any Share Buy-back would be funded out of the funds legally available for such purpose under the Cayman Islands law and the Memorandum and Articles of Association. Under the Cayman Islands law, the Shares so bought back will be treated as cancelled but the aggregate amount of authorised share capital will not be reduced. The working capital or gearing position of the Company may be adversely affected in the event that the proposed Share Buy-back Mandate were to be carried out in full at any time during the period which the Share Buy-back Mandate remains in force. However, the Directors do not propose to exercise the Share Buy-back Mandate to such an extent that would, in the circumstances, have a material adverse effect on the working capital or gearing position of the Company and is from time to time appropriate.

5. MARKET PRICES OF SHARES

The highest and lowest prices per Share at which Shares have been traded on the Stock Exchange in each of the previous twelve months preceding the Latest Practicable Date and up to that date were as follows:

	Highest	Lowest
	<i>HK\$</i>	<i>HK\$</i>
2023		
April	1.38	1.15
May	1.35	1.07
June	1.20	1.10
July	1.13	0.95
August	0.95	0.58
September	0.65	0.58
October	0.71	0.58
November	0.70	0.59
December	0.58	0.45
2024		
January	0.59	0.45
February	0.56	0.45
March	0.74	0.50
April (up to and including the Latest Practicable Date)	0.79	0.63

6. GENERAL

To the best of their knowledge and having made all reasonable enquiries, none of the Directors nor any of their close associates (as defined in the Listing Rules) have any present intention to sell Shares to the Company in the event that the Share Buy-back Mandate is granted by the Shareholders.

The Company has not been notified by any core connected persons (as defined in the Listing Rules) of the Company that they have a present intention to sell any Shares to the Company, or that they have undertaken not to sell any Shares held by them to the Company in the event that the granting of the Share Buy-back Mandate is approved by the Shareholders.

The Directors, so far as the same may be applicable, will exercise the powers of the Company to buy back Shares pursuant to the Share Buy-back Mandate in accordance with the Listing Rules, the Memorandum and Articles of Association and the applicable laws of the Cayman Islands.

The Company has confirmed that neither the explanatory statement nor the proposed share buy back has any unusual features.

7. TAKEOVERS CODE

If, as a result of a buy-back of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of Rule 32 of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer under Rule 26 of the Takeovers Code.

To the best knowledge of the Company, as at the Latest Practicable Date, Tianrui (International) Holding Company Limited, the largest substantial shareholder of the Company (as defined in the Listing Rules), was interested in 951,462,000 Shares representing approximately 21.85% of the total issued share capital of the Company. In the event that the Directors exercise the proposed Share Buy-back Mandate in full, the shareholding of Tianrui (International) Holding Company Limited would be increased to approximately 24.28% of the issued share capital of the Company. Such an increase would not trigger an obligation to make a general offer pursuant to the Takeovers Code.

Accordingly, the Directors are not aware of any consequences which may give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. The Directors do not propose to exercise the Share Buy-back Mandate to such an extent that would result in the aggregate number of Shares held by the public shareholders falling below the prescribed minimum percentage required by the Stock Exchange.

8. SHARE BUY-BACK MADE BY THE COMPANY

No buy-back of Shares (whether on the Stock Exchange or otherwise) has been made by the Company during the six months preceding the Latest Practicable Date.

Details of the Proposed Amendments to certain articles of the existing Articles of Association are as follows (as indicated by the marked-up amendments):

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
2.2	In these Articles, unless there be something in the subject or context inconsistent therewith: – –	2.2	In these Articles, unless there be something in the subject or context inconsistent therewith: <u>“corporate communication” shall have the same meaning as defined in the Listing Rules.</u>
4.8	The register may, on 14 days’ notice (or on 6 business days’ notice in the case of a rights issue) being given by advertisement published on the Exchange’s website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as herein provided or by advertisement published in the newspapers, be closed in accordance with the terms equivalent to section 632 of the Companies Ordinance. The Company shall, on demand, furnish any member seeking to inspect the register or part thereof which is closed by virtue of these Articles with a certificate under the hand of the Secretary stating the period for which, and by whose authority, it is closed. In the event that there is an alteration of book closure dates, the Company shall give at least 5 business days’ notice in accordance with the procedures set out in this Article.	4.8	The register may, on 14 days’ notice (or on 6 business days’ notice in the case of a rights issue) being given by advertisement published on the Exchange’s website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as herein provided or by advertisement published in the newspapers, be closed in accordance with the terms equivalent to section 632 of the Companies Ordinance. The Company shall, on demand, furnish any member seeking to inspect the register or part thereof which is closed by virtue of these Articles with a certificate under the hand of the Secretary stating the period for which, and by whose authority, it is closed. In the event that there is an alteration of book closure dates, the Company shall give at least 5 business days’ notice in accordance with the procedures set out in this Article <u>and the Listing Rules.</u>

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
20.6	<p>The Board shall establish an audit committee (the “Audit Committee”), an executive committee (the “Executive Committee”), a remuneration committee (the “Remuneration Committee”), and a nomination committee (the “Nomination Committee”).</p> <p>...</p> <p>The Executive Committee shall act as the executive arm of the Company with all necessary powers, authority and ability delegated by the Board for the management of all business-related affairs of the Company. The Executive Committee shall comprise of not more than four executive Directors and the Chairman of the Board shall be the Chairman of the Executive Committee.</p> <p>...</p>	20.6	<p>The Board shall establish an audit committee (the “Audit Committee”), an executive committee (the “Executive Committee”), a remuneration committee (the “Remuneration Committee”), a nomination committee (the “Nomination Committee”), <u>and an environmental, social and governance committee (the “ESG Committee”).</u></p> <p>...</p> <p>The Executive Committee shall act as the executive arm of the Company with all necessary powers, authority and ability delegated by the Board for the management of all business-related affairs of the Company. The Executive Committee shall comprise of not more than four executive Directors and the Chairman of the Board shall be the Chairman of the Executive Committee.</p> <p>...</p> <p><u>The ESG Committee shall be delegated with the authority and responsibility to co-ordinate and manage the environmental, social and governance and climate-related matters of the Company.</u></p>

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
	In addition to the Audit Committee, Executive Committee, Remuneration Committee and the Nomination Committee, the Board may further delegate any of its powers to other committees consisting of such member or members of the Board (including alternate Directors in the absence of their appointers) as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Board.		In addition to the Audit Committee, Executive Committee , Remuneration Committee and the , Nomination Committee <u>and ESG Committee</u> , the Board may further delegate any of its powers to other committees consisting of such member or members of the Board (including alternate Directors in the absence of their appointers) as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Board.
20.7	All acts done by the Audit Committee, Executive Committee, Remuneration Committee and the Nomination Committee and any other such committee in conformity with such regulations and in fulfilment of the purposes for which they are respectively appointed, but not otherwise, shall have the like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any such committees, and charge such remuneration to the current expenses of the Company.	20.7	All acts done by the Audit Committee, Executive Committee , Remuneration Committee and the , Nomination Committee, <u>ESG Committee</u> and any other such committees in conformity with such regulations and in fulfilment of the purposes for which they are respectively appointed, but not otherwise, shall have the like force and effect as if done by the Board, and the Board shall have power, with the consent of the Company in general meeting, to remunerate the members of any such committees, and charge such remuneration to the current expenses of the Company.

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
20.8	The meetings and proceedings of the Audit Committee, Executive Committee, Remuneration Committee, the Nomination Committee and any other such committees consisting of two or more members of the Board shall be governed by the provisions herein contained for regulating the meetings and proceedings of the Board so far as the same are applicable thereto and are not replaced by any regulations imposed by the Board pursuant to Article 20.6.	20.8	The meetings and proceedings of the Audit Committee, Executive Committee , Remuneration Committee, the Nomination Committee, <u>ESG Committee</u> and any other such committees consisting of two or more members of the Board shall be governed by the provisions herein contained for regulating the meetings and proceedings of the Board so far as the same are applicable thereto and are not replaced by any regulations imposed by the Board pursuant to Article 20.6.
28.5	Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days (or such longer period as may from time to time be required under the applicable laws and regulations, including without limitation to the Listing Rules) before the date of the meeting be sent in the manner in which notices may be served by the Company as provided herein to every member of the Company and every holder of debentures of the Company, provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.	28.5	Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days (or such longer period as may from time to time be required under the applicable laws and regulations, including without limitation to the Listing Rules) before the date of the meeting be sent in the manner in which notices may be served by the Company as provided herein to every member of the Company and every holder of debentures of the Company, provided that the Company shall not be required to send copies of those documents to any person of whose address <u>(including electronic address)</u> the Company is not aware or to more than one of the joint holders of any shares or debentures.

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
28.6	To the extent permitted by and subject to due compliance with these Articles, the Act and all applicable rules and regulations, including, without limitation, the rules of the Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 28.5 shall be deemed satisfied in relation to any member or any holder of debentures of the Company by sending to such person instead of such copies, not less than 21 days (or such longer period as may from time to time be required under the applicable laws and regulations, including without limitation to the Listing Rules) before the date of the annual general meeting, in any manner not prohibited by these Articles and the Act, a summary financial statement derived from the Company's annual accounts, together with the Directors' report and the Auditors' report on such accounts, which shall be in the form and containing the information required by these Articles, the Act and all applicable laws and regulations, provided that any person who is otherwise entitled to the annual accounts of the Company, together with the Director's report and the Auditor's report thereon may, if he so requires, by notice in writing served on the Company, demand that the Company sends to him, in addition to the summary financial statement, a complete printed copy of the Company's annual accounts, together with the Directors' report and the Auditor's report thereon.	28.6	To the extent permitted by and subject to due compliance with these Articles, the Act and all applicable rules and regulations, including, without limitation, the rules of the Exchange, and to obtaining all necessary consents, if any, required thereunder, the requirements of Article 28.5 shall be deemed satisfied in relation to any member or any holder of debentures of the Company by sending to such person instead of such copies, not less than 21 days (or such longer period as may from time to time be required under the applicable laws and regulations, including without limitation to the Listing Rules) before the date of the annual general meeting, in any manner not prohibited by these Articles and the Act, a summary financial statement derived from the Company's annual accounts, together with the Directors' report and the Auditors' report on such accounts, which shall be in the form and containing the information required by these Articles, the Act and all applicable laws and regulations, provided that any person who is otherwise entitled to the annual accounts of the Company, together with the Director's report and the Auditor's report thereon may, if he so requires, by notice in writing served on the Company, demand that the Company sends to him, in addition to the summary financial statement, a complete printed copy of the Company's annual accounts, together with the Directors' report and the Auditor's report thereon.

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
30.1	<p>Except as otherwise provided in these Articles, any notice or document may be served by the Company and any notices may be served by the Board on any member either personally or by sending it through the post in a prepaid letter addressed to such member at his registered address as appearing in the register or, to the extent permitted by the Listing Rules and all applicable laws and regulations, by electronic means, including but not limited to electronic mail number or address or website supplied by the member to the Company or by making it available for examination by the member using electronic means, including the posting of such notice or document on the Company's websites or web pages, provided that if any such notice or document is to be sent or made available to any member by using electronic means, the Company and the Board must first have received from the relevant member (a) a written confirmation or (b) the member's deemed consent, in the manner specified in the Listing Rules that the member wants to receive or to have made available to him such notice or document by the electronic means that the Company and the Board have suggested or (in the case of notice) by advertisement published in the manner prescribed under the Listing Rules. In the case of joint holders of a share, all notices shall be given to that holder for the time being one of the joint holders whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.</p>	30.1	<p>Except as otherwise provided in these Articles, any notice or document <u>from the Company, including any corporate communication, shall be in writing or by facsimile transmission message or other form of electronic transmission or electronic communication and any such notice and document</u> may be served by the Company <u>in any of the following manner:</u> <u>(a) by serving it and any notices may be served by the Board on any member either personally on the relevant person; (b) by delivering or leaving it at the registered address of such member as appearing in the register or at any other address supplied by him to the Company for the purpose;</u> <u>(c) or by sending it through the post in a prepaid letter addressed to such member at his registered address as appearing in the register or at any other address supplied by him to the Company for the purpose;</u> <u>(d) or, to the extent permitted by the Listing Rules and all applicable laws and regulations, by making it available using</u> electronic means, including but not limited to electronic mail number or address or website supplied by the <u>relevant person, subject to the Company complying with the applicable laws, rules and regulations from time to time in force with regard to any requirements for the obtaining of consent (including implied or deemed consent) from such person; (e) by publishing it on the Company's website and/or the Exchange's website, subject to the Company complying with the applicable laws, rules and regulations from time to time in force with regard to any requirements for the obtaining of consent (including implied or deemed consent) from such person; (f) member to the Company or by making it available for examination by the member using electronic means, including the posting of such notice or document on the Company's websites or web pages, provided that if any such notice or document is to be sent or made available to any member by using electronic means, the Company and the Board must first have received from the relevant member (a) a written confirmation or (b) the member's deemed consent, in the manner specified in the Listing Rules that the member wants to receive or to have made available to him such notice or document by the electronic means that the Company and the Board have suggested or (in the case of notice) by advertisement published in appropriate newspaper(s) or other publication and, where applicable, in the manner prescribed under the Listing Rules; or (g) by sending or otherwise making it available to such person through such other means to the extent permitted by and in accordance with applicable laws, rules and regulations.</u> In the case of joint holders of a share, all notices shall be given to that holder for the time being one of the joint holders whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.</p>

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
30.4	<p>A member shall be entitled to have notice served on him at any address within Hong Kong. The Company shall give notice sufficient to enable members, whose registered addresses are in Hong Kong, to exercise their rights or comply with the terms of the notice. Any member who has not given an express positive confirmation in writing to the Company or is not deemed to have given an express confirmation in the manner specified in the Listing Rules to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by electronic means and whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. A member who has no registered address in Hong Kong shall be deemed to have received any notice which shall have been displayed at the transfer office and shall have remained there for a period of 24 hours and such notice shall be deemed to have been received by such member on the day following that on which it shall have been first so displayed, provided that, without prejudice to the other provisions of these Articles, nothing in this Article shall be construed as prohibiting the Company from sending, or entitling the Company not to send, notices or other documents of the Company to any member whose registered address is outside Hong Kong.</p>	30.4	<p>A member shall be entitled to have notice served on him at any address within Hong Kong. The Company shall give notice sufficient to enable members, whose registered addresses are in Hong Kong, to exercise their rights or comply with the terms of the notice. Any member who has not given an express positive confirmation in writing to the Company or is not deemed to have given an express confirmation in the manner specified in the Listing Rules to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by electronic means and whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address. A member who has no registered address in Hong Kong shall be deemed to have received any notice which shall have been displayed at the transfer office and shall have remained there for a period of 24 hours and such notice shall be deemed to have been received by such member on the day following that on which it shall have been first so displayed, provided that, without prejudice to the other provisions of these Articles, nothing in this Article shall be construed as prohibiting the Company from sending, or entitling the Company not to send, notices or other documents of the Company to any member whose registered address is outside Hong Kong.</p>

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
30.5	Any notice or document sent by post shall be deemed to have been served on the day following that on which it is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so addressed and put into such post office shall be conclusive evidence thereof.	30. 5 <u>4</u>	Any notice or document, <u>including any corporate communication,</u> sent by post shall be deemed to have been served on the day following that on which it is put into a post office situated within Hong Kong and in proving such service it shall be sufficient to prove that the envelope or wrapper containing the notice or document was properly prepaid, addressed and put into such post office and a certificate in writing signed by the Secretary or other person appointed by the Board that the envelope or wrapper containing the notice or document was so addressed and put into such post office shall be conclusive evidence thereof.
–	–	<u>30.4A</u>	<u>Any notice or document, including any corporate communication, served by being made available on the Company’s website and/or the Exchange’s website shall be deemed to be served on the day it first appears on the Company’s website and/or the Exchange’s website, or such later time as may be prescribed by the Listing Rules.</u>
30.6	Any notice or other document delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered on the day it was so delivered or left.	30. 6 <u>5</u>	Any notice or other document, <u>including any corporate communication, served personally on the relevant person, or</u> delivered or left at a registered address otherwise than by post shall be deemed to have been served or delivered <u>at the time of personal service or delivery, or as the case may be,</u> on the day it was so delivered or left.

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
30.7	Any notice served by advertisement shall be deemed to have been served on the day of issue of the official publication and/or newspaper(s) in which the advertisement is published (or on the last day of issue if the publication and/or newspaper(s) are published on different dates).	<u>30.76</u>	Any notice <u>or document, including any corporate communication,</u> served by advertisement shall be deemed to have been served on the day of issue of the official publication and/or newspaper(s) in which the advertisement is published (or on the last day of issue if the publication and/or newspaper(s) are published on different dates).
30.8	Any notice given by electronic means as provided herein shall be deemed to have been served and delivered on the day following that on which it is successfully transmitted or at such later time as may be prescribed by the Listing Rules or any applicable laws or regulations.	<u>30.87</u>	Any notice <u>or document, including any corporate communication,</u> given by electronic means as provided herein shall be deemed to have been served and delivered on the day following that on which it is successfully transmitted <u>from the server of the Company or its agent</u> or at such later time as may be prescribed by the Listing Rules or any applicable laws or regulations, <u>and it shall not be necessary for the receipt of the electronic transmission to be acknowledged by the recipient.</u>
30.9	A notice may be given by the Company to the person or persons entitled to a share in consequence of the death, mental disorder or bankruptcy of a member by sending it through the post in a prepaid letter addressed to him or them by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address, if any, within Hong Kong supplied for the purpose by the person claiming to be so entitled, or (until such an address has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.	<u>30.98</u>	A notice may be given by the Company to the person or persons entitled to a share in consequence of the death, mental disorder or bankruptcy of a member by sending it through <u>electronic means or</u> the post in a prepaid letter addressed to him or them by name, or by the title of representative of the deceased, or trustee of the bankrupt, or by any like description, at the address <u>(including electronic address)</u> , if any, within Hong Kong supplied for the purpose by the person claiming to be so entitled, or (until such an address <u>(including electronic address)</u> has been so supplied) by giving the notice in any manner in which the same might have been given if the death, mental disorder or bankruptcy had not occurred.

Existing Articles		Amended Articles	
Articles No.	Articles	Articles No.	Articles
30.10	Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which prior to his name and address being entered on the register shall have been duly given to the person from whom he derives his title to such share.	30.109	Any person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which prior to his name and address <u>(including electronic address)</u> being entered on the register shall have been duly given to the person from whom he derives his title to such share.
–	–	<u>30.9A</u>	<u>Every member or a person who is entitled to receive notice from the Company under the provisions of applicable laws, rules and regulations from time to time in force or these Articles may register with the Company an electronic address to which notices can be served upon him.</u>
–	–	<u>30.9B</u>	<u>Subject to any applicable laws, rules and regulations and the terms of these Articles, any notice or document (including any corporate communication) may be given in either the English language or the Chinese language only or in both the English language and the Chinese language.</u>
30.11	...	30.110	...
30.12	...	30.121	...

NOTICE OF ANNUAL 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 ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT an annual general meeting (the “AGM”) of China Shanshui Cement Group Limited (the “Company”) will be held at Meeting Room, 6/F, Shandong Shanshui Cement Group Company Limited, Shanshui Industrial Park, Gushan Town, Changqing District, Jinan City, Shandong Province, PRC on Friday, 31 May 2024 at 9:30 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors and auditors for the year ended 31 December 2023.
2. To elect Ms. ZHENG Yingying as an executive director of the Company, and authorise the board of directors of the Company to fix her remuneration.
3. To re-appoint Moore Stephens CPA Limited as auditors of the Company and authorise the board of directors of the Company to fix their remuneration.
4. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“**THAT:**

- (a) subject to compliance with the prevailing requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and paragraph (b) below, a general mandate be and is hereby generally and unconditionally given to the directors of the Company to exercise during the Relevant Period (as defined below) all the powers of the Company to buy back its shares in accordance with all applicable laws, rules and regulations (including the application by the Company for a validation order from the Grand Court of the Cayman Islands if required);

NOTICE OF ANNUAL GENERAL MEETING

- (b) the total number of shares of the Company to be bought back pursuant to the mandate in paragraph (a) above shall not exceed 10% of the total number of issued shares of the Company as at the date of passing of this resolution (subject to adjustment in the case of any consolidation or subdivision of shares of the Company after the date of passing of this resolution); and
- (c) for the purposes of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.”

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“**THAT:**

- (a) subject to compliance with the prevailing requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and paragraph (c) below, a general mandate be and is hereby generally and unconditionally given to the directors of the Company during the Relevant Period (as defined below) to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers in accordance with all applicable laws, rules and regulations (including the application by the Company for a validation order from the Grand Court of the Cayman Islands if required);
- (b) The mandate in paragraph (a) above shall authorise the directors of the Company to make or grant offers, agreements and options during the Relevant Period which would or might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

- (c) the aggregate number of shares allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to the mandate in paragraph (a) above, otherwise than pursuant to:
 - (i) a Rights Issue (as defined below);
 - (ii) the exercise of options under a share option scheme of the Company; and
 - (iii) any scrip dividend scheme or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company.

shall not exceed 20% of the total number of issued shares of the Company as at the date of passing of this resolution (subject to adjustment in the case of any consolidation or subdivision of shares of the Company after the date of passing of this resolution); and

- (d) for the purposes of this resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.

“**Rights Issue**” means an offer of shares open for a period fixed by the directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction or the requirements of any recognized regulatory body or any stock exchange).”

NOTICE OF ANNUAL GENERAL MEETING

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“**THAT** conditional upon the passing of the resolutions set out in items 4 and 5 of the notice convening this meeting (the “**Notice**”), the general mandate referred to in the resolution set out in item 5 of the Notice be and is hereby extended by the addition to the aggregate number of shares which may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the directors of the Company pursuant to such general mandate of the number of shares bought back by the Company pursuant to the mandate referred to in the resolution set out in item 4 of the Notice, provided that such number of shares shall not exceed 10% of the total number of issued shares of the Company as at the date of passing of this resolution (subject to adjustment in the case of any consolidation or subdivision of shares of the Company after the date of passing of this resolution).”

7. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“**THAT:**

- (a) the 2024 Mine Development Services Framework Agreement (a copy of which is tabled at the AGM and marked “**A**” and initialled by the chairman of the AGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved and confirmed;
- (b) the proposed annual caps in relation to transactions contemplated under the 2024 Mine Development Services Framework Agreement as set out in the Circular be and are hereby approved and confirmed; 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 2024 Mine Development Services Framework Agreement.”

NOTICE OF ANNUAL GENERAL MEETING

8. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) the 2024 Engineering and Technical Services Framework Agreement (a copy of which is tabled at the AGM and marked “**B**” and initialled by the chairman of the AGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved and confirmed;
- (b) the proposed annual caps in relation to transactions contemplated under the 2024 Engineering and Technical Services Framework Agreement as set out in the Circular be and are hereby approved and confirmed; 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 2024 Engineering and Technical Services Framework Agreement.”

9. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT:

- (a) the 2024 Clinker and Cement Transactions Framework Agreements (a copy of which is tabled at the AGM and marked “**C**” and initialled by the chairman of the AGM for identification purpose) and the transactions contemplated thereunder be and are hereby approved and confirmed;
- (b) the proposed annual caps in relation to transactions contemplated under the 2024 Clinker and Cement Transactions Framework Agreements as set out in the Circular be and are hereby approved and confirmed; 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 2024 Clinker and Cement Transactions Framework Agreements.”

NOTICE OF ANNUAL GENERAL MEETING

SPECIAL RESOLUTION

10. To consider and, if thought fit, pass with or without amendments, the following resolution as a special resolution:

“THAT:

- (a) the proposed amendments to the existing Memorandum and Articles of Association of the Company set out in Appendix IV to the circular of the Company dated 30 April 2024 (the **“Proposed Amendments”**) be and are hereby approved and the new Memorandum and Articles of Association (a copy of which is tabled at the AGM and marked **“D”** and initialled by the chairman of the AGM for identification purpose), incorporating and consolidating all the Proposed Amendments, be and is hereby approved and adopted as the new Memorandum and Articles of Association of the Company in substitution for and to the exclusion of the existing Memorandum and Articles of Association of the Company with immediate effect; and
- (b) any one Director or Company Secretary of the Company be and is hereby authorised to do all such acts and things (including filing the new Memorandum and Articles of Association of the Company with the relevant authorities for approval, endorsement and/or registration in accordance with the relevant requirements of the applicable laws, rules and regulations in the Cayman Islands and Hong Kong) and execute and deliver all such documents, deeds or instruments (including affixing the common seal of the Company thereon) and take all such steps as the Director in his or her sole opinion and absolute discretion may consider necessary, appropriate or desirable to implement or give effect to the Proposed Amendments and the adoption of the new Memorandum and Articles of Association of the Company.”

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

Hong Kong, 30 April 2024

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (i) All resolutions at the meeting will be taken by poll (except where the chairman of the annual general meeting 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) For determining the entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 28 May 2024 to Friday, 31 May 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, 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 Monday, 27 May 2024.
- (iii) A shareholder of the Company who is entitled to attend and vote at the annual general meeting 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) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the annual general meeting, 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 are present at the annual general meeting, 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.
- (v) 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 annual general meeting (i.e. not later than 9:30 a.m. on Wednesday, 29 May 2024) 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 annual general meeting or at any adjourned meeting thereof (as the case may be).
- (vi) References to time and dates in this notice are to Hong Kong time and dates.
- (vii) 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.