



24 November 2021

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the continuing connected transactions contemplated under the Renewed Mutual Supply Agreement in relation to the provision of (i) the Construction Services by Xinjiang Non-ferrous Group to the Group; and (ii) the Company's Products by the Group to Xinjiang Non-ferrous Group (the "**Continuing Connected Transactions**") and the proposed Renewed Annual Caps, details of which are set out in the letter from the Board contained in the circular dated 24 November 2021 to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 29 October 2021, the Company entered into the Renewed Mutual Supply Agreement with Xinjiang Non-ferrous in relation to the provision of (i) the Construction Services and the Supporting and Ancillary Services by Xinjiang Non-ferrous Group to the Group; and (ii) the Company's Products by the Group to Xinjiang Non-ferrous Group for a period of three years, commencing from 1 January 2022.

As at the Latest Practicable Date, Xinjiang Non-ferrous was a controlling Shareholder, which was beneficially interested in 885,204,000 domestic shares of the Company, representing approximately 40.06% of the entire issued share capital of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Renewed Mutual Supply Agreement constitute continuing connected transactions for the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Renewed Annual Caps for the three years ending 31 December 2024 exceed 5% on an annual basis, the Continuing Connected Transactions are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Xinjiang Non-ferrous and its Associates are required to, and will, abstain from voting in relation to the approval of the procurement of the Construction Services and the supply of the Company's Products under the Renewed Mutual Supply Agreement and the Renewed Annual Caps at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Hu Benyuan, Mr. Wang Qingming and Mr. Lee Tao Wai, has been established to advise the Independent Shareholders as to whether the terms of the Continuing Connected Transactions are on normal commercial terms, and such transactions are conducted in the ordinary and usual course of business of the Group, and, including the Renewed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and Shareholders as a whole. We, Crescendo Capital Limited, have been appointed to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard and how to vote on the resolution to be proposed at the EGM.

We are not associated with the Group and its Associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for acting as an independent financial adviser in this appointment and the occasion as detailed in the circular of the Company dated 3 November 2020, we have not acted as a financial adviser or an independent financial adviser to the Company and its Associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its Associates. We are not aware of any relationship or interest between our firm and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders and we are independent from the Company pursuant to the requirements under Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed 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 in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the agreement of the Continuing Connected Transactions. Our opinion is necessarily based on the financial, economic, market 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 material change in the market and economic conditions) may affect and/or change this opinion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Continuing Connected Transactions, we have considered the following principal factors and reasons:

1. Background of the Continuing Connected Transactions and reasons for the entering into of the Renewed Mutual Supply Agreement

(a) Background

The Group is principally engaged in mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metals, which include cobalt and precious metals such as gold, silver, platinum and palladium.

Xinjiang Non-ferrous, the controlling Shareholder, is principally engaged in, among other things, investment in the non-ferrous metal industry and sale of non-ferrous metal products.

Xinjiang Non-ferrous Group has been providing the Construction Services to the Group, and the Group has been providing the Company's Products to Xinjiang Non-ferrous Group, since October 2007. The Existing Mutual Supply Agreement shall expire on 31 December 2021 and the parties to the Existing Mutual Supply Agreement intend to continue the Continuing Connected Transactions on an on-going basis after the expiry of the Existing Mutual Supply Agreement. As such, the Company entered into the Renewed Mutual Supply Agreement with Xinjiang Non-ferrous on 29 October 2021.

(b) *Provision of the Construction Services*

Xinjiang Non-ferrous Group has been providing construction related services, including project design, construction and facility installation, to the Group from time to time in its ordinary and usual course of business. We understand from management of the Company that Xinjiang Non-ferrous Group is a major player in the non-ferrous metal industry in Xinjiang and is actively engaged in mining, ore processing, smelting, processing, repairing, manufacturing, equipment installation, construction, transportation, storage and design. The design institute of Xinjiang Non-ferrous Group has the expertise in the design of production facilities for mining, ore processing and refining of non-ferrous and precious metals, and Xinjiang Non-ferrous Group has an experienced and stable construction team in shafts construction and facility installation. The Company considers that Xinjiang Non-ferrous Group has competitive advantages over other suppliers of similar services in Xinjiang. In addition, with the capability and techniques of Xinjiang Non-ferrous Group in designing and producing non-standardized production facilities and equipment, the Group's smelting operation was enhanced through the co-operations with Xinjiang Non-ferrous Group in relation to the Group's previous technical improvement projects. The Group has also been satisfied with the quality of services rendered by Xinjiang Non-ferrous Group in relation to the Group's previous technical improvement projects. Therefore, the Company considers that it is appropriate to continue to engage Xinjiang Non-ferrous Group as one of the construction service providers of the Group if its terms of services are no less favourable than those offered by other service providers.

(c) *Provision of the Company's Products*

Pursuant to the Renewed Mutual Supply Agreement, the Company's Products to be supplied by the Group to Xinjiang Non-ferrous Group include nickel cathode, copper cathode, copper concentrates, self-produced precious metals, sulphuric acid, water, electricity and other ancillary materials. The Directors consider that the sale of the Company's Products to Xinjiang Non-ferrous Group can help secure a stable sales channel and turnover for the Group.

Having considered that (i) Xinjiang Non-ferrous Group is a major player in the non-ferrous metal industry in Xinjiang which has been offering high quality Construction Services that meet the Company's stringent standards in the previous technical improvement and construction projects; (ii) the Group has established a long-term business relationship with Xinjiang Non-ferrous Group and is satisfied with the quality of the Construction Services provided by Xinjiang Non-ferrous Group; (iii) the Group requires the Construction Services for fulfilling its production needs from time to time; and (iv) the sale of the Company's Products is carried out in the ordinary and usual course of business of the Group and provides additional turnover to the Group, we are of the opinion that the Continuing Connected Transactions are commercial transactions conducted in the ordinary and usual course of business of the Group and they are in the interests of the Company and Shareholders as a whole.

2. Principal terms of the Continuing Connected Transactions

Pursuant to the Renewed Mutual Supply Agreement, Xinjiang Non-ferrous agreed to provide the Construction Services and the Supporting and Ancillary Services to the Group, and the Group agreed to provide the Company's Products to Xinjiang Non-ferrous Group, for a period of three years, commencing from 1 January 2022, which may be renewed upon agreement by Xinjiang Non-ferrous and the Company, subject to the approval of the Stock Exchange and/or the Independent Shareholders, if applicable. The Company and Xinjiang Non-ferrous Group are at liberty to procure from, or provide to, any Independent Third Party any of the required services and products, save and except that Xinjiang Non-ferrous Group must provide the Company with services or supplies on terms no less favourable than those offered to any Independent Third Party.

Either party of the Renewed Mutual Supply Agreement may terminate the mutual provision of products and services by giving to the other party not less than six months' prior written notice. However, unless the Company has provided written consent to the termination of the Renewed Mutual Supply Agreement by Xinjiang Non-ferrous Group, Xinjiang Non-ferrous Group may not terminate its supply of services and/or products if the Company has informed them by written notice that the Company is unable to obtain similar products and/or services from an Independent Third Party. The Renewed Mutual Supply Agreement is conditional and effective upon having complied with the relevant Listing Rules and approved by the Independent Shareholders, if applicable, at the EGM.

The Renewed Mutual Supply Agreement is a framework agreement that sets out the principles upon which detailed terms and conditions of the transactions are to be determined between the parties. The Company and Xinjiang Non-ferrous will ensure that any specific agreement, which sets out the specific terms and conditions for the provisions of services or products, to be entered into between the parties shall be following the terms and conditions of the Renewed Mutual Supply Agreement.

Under the Renewed Mutual Supply Agreement, the Company and Xinjiang Non-ferrous agreed that the actual price of the services and products would be determined principally by commercial negotiations between the parties according to the principles of fairness and reasonableness with reference to the market prices of the services and products from time to time and would be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from, as appropriate, Independent Third Parties. The mutual supply services will be provided according to the following general pricing policies in order of priority and shall be settled monthly:

- the State-prescribed price, including any price prescribed by any relevant local government, if applicable;
- where there is no State-prescribed price, then the State-guidance price;
- where there is neither a State-prescribed price nor a State-guidance price, the market price which shall be determined by (i) the price offered by an Independent Third Party for providing similar products or services in an area where such products or services are provided under general commercial terms; or (ii) where not applicable, the price offered by an Independent Third Party for providing similar products or services in the PRC under general commercial terms; and
- where none of the above is applicable, the price shall be determined by the parties based on reasonable costs, being costs (including relevant taxes and surcharges) as calculated under the Accounting Standards for Business Enterprises of the PRC, incurred by them in providing the products or services plus a profit margin of not more than 5% of such reasonable costs (the “**Cost-plus Method**”).

We have reviewed the Company’s pricing policies for the Continuing Connected Transactions and practices for price determination in relation to transactions contemplated under the Existing Mutual Supply Agreement in respect of the procurement of the Construction Services and the supply of the Company’s Products and our findings are set out below:

(a) ***Provision of the Construction Services***

According to management of the Company, the service fees for the Construction Services are, and will continue to be, determined by the tendering process as there is neither a State-prescribed price nor a State-guidance price for the Construction Services. Pursuant to the Company's internal guidance on construction projects, the Company is required to select service providers for all major construction projects, including the technical improvement projects, through an open tender process, through which the price and terms of services offered by the vendors will be compared and rated by the tender evaluation committee of the Company and the service contracts will be awarded to vendor(s) which offer(s) the best price and/or terms of service. The tender evaluation committee of the Company consists of the Company's general manager, deputy general manager, financial controller, chairman of the board of supervisors, secretary of the Party Commission for Discipline Inspection of the Company, managers from safety production and security department, sales department and internal audit department and internal experts. For each tender evaluation, in addition to the tender(s) from the connected person(s), there should be at least two or more valid tenders obtained from Independent Third Parties for comparison purposes. In case the only bidder/tenderer of a transaction is a connected person, the Company would not proceed with the transaction.

Since the Construction Services were tailor-made to fit the specific requirements of the Company, we were unable to compare the terms of Construction Services offered by Xinjiang Non-ferrous Group to the Group with the terms of construction services offered by Xinjiang Non-ferrous Group to other Independent Third Parties. However, we have reviewed the sample tender assessment reports of projects carried out in each of the years ended 31 December 2019 and 2020 and nine months ended 30 September 2021, which were randomly selected from the list of Construction Projects awarded to Xinjiang Non-ferrous Group in 2019, 2020 and the nine months ended 30 September 2021 and the transaction amounts of which represent approximately 53%, 50% and 75% of the total transaction amount of Construction Services awarded to Xinjiang Non-ferrous Group in the respective year/period. We noted that the bidding parties of the aforementioned projects included both member(s) of Xinjiang Non-ferrous Group and Independent Third Parties. We also noted that the contracts were awarded to tenderers with the highest scores, which were rated by the tender evaluation committee based on the same assessment criteria such as qualification, experience, technical expertise, reputation and quality of work of the tenderers and the proposed pricing and duration of services. We considered the results of the tender process fair and reasonable. With a similar open tender system in place and taking into account the nature of services and the prevailing market circumstances, we believe that the prices and terms of transactions in respect of the Construction Services under the Renewed Mutual Supply Agreement are, and will be, on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

(b) Provision of the Company's Products

We understand from management of the Company that the prices of the Company's Products are, and will be, determined with reference to the prevailing market price as neither State-prescribed prices nor State-guidance prices were available for such transactions. Management of the Company confirmed that none of the previous transactions regarding the sale of the Company's Products were transacted based on the Cost-plus Method as all the Company's Products have a market price. Management of the Company also expected that the Cost-plus Method would not be applicable for the Company's Products in the foreseeable future.

In order to ensure each sales transaction is/was on terms no more favourable to Xinjiang Non-ferrous Group than to other Independent Third Parties, the selling prices of the Company's Products are, and were, (i) determined by sales department of the Company with reference to the prevailing market prices as quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market as set out in the website of Yangtze River Non-ferrous Metals (www.ccmn.cn), an independent e-commerce website hosted by 長江有色(廈門)科技股份有限公司 (Yangtze River Non-ferrous (Xiamen) Technology Co., Ltd.) that provides an online platform for information and trading in relation to transactions of major non-ferrous metals (namely copper, aluminum, zinc, tin, lead and nickel) and major precious metals (including gold); (ii) approved by the sales department manager, (iii) checked by the finance department manager; and (iv) finally approved by the pricing committee of the Company, which consists of the general manager, financial controller and the managers of the sales department and the finance department.

We have visited the website of Yangtze River Non-ferrous Metals and noted that it summarized the pricing information of six major non-ferrous metals, namely copper, aluminum, zinc, tin, lead and nickel in different markets such as the London Metal Exchange and Shanghai Metals Spot Market, and major precious metals, including gold. We understand from management of the Company that the website of Yangtze River Non-ferrous Metals is one of the leading internet platforms widely recognized by the players in the PRC non-ferrous metals and precious metals industry regarding trading and pricing information. Based on the above, we concur with the view of the Directors that it is a valid reference for information in relation to the trading and/or pricing of the relevant non-ferrous metals and precious metals.

We have reviewed ten samples of invoices issued by the Group to Xinjiang Non-ferrous Group to regarding the sales of copper concentrates and/or copper cathode and the relevant prevailing market prices quoted from the website of Yangtze River Non-ferrous Metals at the relevant time and noted that the prices charged by the Group were the same as the then prevailing market prices. In view of the above, we believe that the above-mentioned internal control policy has been properly followed by the Group in its daily operations and the prices of the transactions in respect of the sales of Company's Products under the Existing Mutual Supply Agreement were on normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

We were given to understand that the internal audit department of the Company would perform an annual audit on the transactions with Xinjiang Non-ferrous Group by comparing the invoiced prices with the prevailing market prices of the relevant products and ensuring that the abovementioned internal control procedures were adhered to. Management of the Company also confirmed to us that the aforementioned pricing policy was and would be consistently applied to all transactions in respect of the supply of the Company's Products by the Group to Xinjiang Non-ferrous Group.

Although none of the previous transactions regarding the sale of the Company's Products were transacted based on the Cost-plus Method as all the Company's Products have a market price, we have also tried to assess the fairness and reasonableness of the 5% margin under the Cost-plus Method by looking for public information regarding the profit margin of similar products for comparison purposes. Nevertheless, no such relevant information was available. Given that (i) both parties to the Renewed Mutual Supply Agreement are mutually bounded by the same maximum profit margin of 5% under the Cost-plus Method; (ii) the Cost-plus Method will be adopted only if there are no State-prescribed prices, State-guidance prices or market prices; and (iii) the Cost-plus Method has not been applied for transactions under the Existing Mutual Supply Agreement so far and the Directors consider that the chance of using the Cost-plus Method in determining the prices of the Supporting and Ancillary Services and the Company's Products under the Renewed Mutual Supply Agreement is remote as the pricing of all the existing Supporting and Ancillary Services and the Company's Products can be determined based on the State-prescribed price, the State-guidance price or the market price, we concur with the view of the Directors that the Cost-plus Method is commercially justifiable as the last resort for price determination.

Based on the above and taking into account that (i) the Company has the liberty to procure from, or provide to, any Independent Third Party any of the Construction Services and the Company's Products; (ii) Xinjiang Non-ferrous Group must provide the Company with services or supplies on terms no less favourable to the Company than those offered to any Independent Third Party and such practices have been and will be consistently applied by Xinjiang Non-ferrous Group; and (iii) the Company may terminate the mutual provision of products and services by giving to Xinjiang Non-ferrous Group not less than six months' prior written notice while the termination of the provision of services and products by Xinjiang Non-ferrous Group is subject to the consent of the Company, and Xinjiang Non-ferrous Group may not terminate its supply of services and/or products if the Company has informed them by written notice that the Company is unable to obtain similar products and/or services from other Independent Third Parties, we consider that the Continuing Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

3. The Renewed Annual Caps

The historical transaction amounts and the proposed Renewed Annual Caps of the Continuing Connected Transactions are summarized as follows:

	Historical transaction amounts			Renewed Annual Caps		
	For the year ended 31		For the	For the year ending		
	December		period from	31 December		
	2019	2020	1 January	2022	2023	2024
		2021 to				
		30 September				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Provision of the Construction Services	<u>73,714</u>	<u>72,723</u>	<u>26,009</u>	<u>291,790</u>	<u>204,720</u>	<u>117,090</u>
Provision of the Company's Products	<u>83,950</u>	<u>104,946</u>	<u>70,969</u>	<u>176,229</u>	<u>201,442</u>	<u>224,730</u>

The breakdown of the Renewed Annual Caps is summarized as follows:

Renewed Annual Caps			
For the year ending 31 December			
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Provision of the Construction Services			
(a) Confirmed projects			
(i) Delayed projects			
– staff canteen	1,300	–	–
– smoke ring set system renovation project	3,400	–	–
Sub-total	4,700	–	–
(ii) New project			
– material warehouse	15,000	5,000	–
Sub-total	15,000	5,000	–
(b) Planned projects			
– projects in Kalatongke Mining	140,090	81,720	41,090
– projects in Fukang Refinery	40,000	26,000	4,000
– projects in Yakesi	60,000	40,000	20,000
– a project in Xinjiang Zhongxin	–	20,000	20,000
Sub-total	240,090	167,720	85,090
(c) Possible projects			
	32,000	32,000	32,000
Proposed Renewed Annual Caps for the provision of the Construction Services			
	<u>291,790</u>	<u>204,720</u>	<u>117,090</u>
Provision of the Company's Products			
(a) copper concentrates	82,977	102,461	119,111
(b) copper cathode	30,973	31,858	33,186
(c) other Company's Products	62,279	67,123	72,433
Proposed Renewed Annual Caps for the provision of the Company's Products			
	<u>176,229</u>	<u>201,442</u>	<u>224,730</u>

The proposed Renewed Annual Caps were determined based on the historical transaction amounts, the expected market conditions, the development trend in the non-ferrous metals industry, the expected supply of the Company's Products and its production expansion plans for the next three years. In determining the Renewed Annual Caps, the Directors have taken into account (i) the historical transaction amounts for the Construction Services and the Company's Products for the two years ended 31 December 2020 and the nine months ended 30 September 2021; (ii) the Company's expansion plan and the increase in construction projects, leading to an increase in demand for the Construction Services; and (iii) the possible increases in the prices of utilities, raw materials and finished products in the three years ending 31 December 2024, taking into account the anticipated general inflation rate in the PRC during the years.

(a) Provision of the Construction Services

We understand from management of the Company that the Renewed Annual Caps for the provision of the Construction Services were determined by the Directors with reference to the estimations on the Group's demand for the Construction Services for its existing developments, having taken into account the works required, the expected construction progress and the prevailing market price of the existing projects, planned projects and possible projects to be carried out during the three years ending 31 December 2024.

Confirmed projects

Currently, the Group is undergoing three major projects under the Construction Services in Kalatongke Mining, including the construction projects of a staff canteen, a material warehouse and a smoke ring set system renovation project. The staff canteen construction project and the smoke ring set system renovation project were originally planned to be completed by 2021 but the construction progress of these projects was adversely affected by the outbreak of the COVID-19 pandemic in 2020. Accordingly, the completion of the construction works of such projects shall be postponed to 2022. In addition, a new project for construction of a material warehouse has been awarded to Xinjiang Non-ferrous Group through the tendering process. The construction works of the material warehouse are scheduled to be carried out in 2022 and 2023.

The proposed Renewed Annual Caps for the delayed projects are estimated to be approximately RMB4.7 million for the year ending 31 December 2022 while the proposed Renewed Annual Caps for the newly confirmed project are estimated to be approximately RMB15.0 million and RMB5.0 million for the years ending 31 December 2022 and 2023 respectively, representing an aggregated of approximately 7% and 2% of the Renewed Annual Caps for the respective year. We have reviewed, and discussed with management of the Company, the Company's budgets for the construction services of the confirmed projects. As at the Latest Practicable Date, approximately 10% and 97% of the Construction Services regarding the construction project of a staff canteen and a smoke ring set system renovation project in Kalatongke Mining has been completed respectively and construction fee of approximately RMB0.14 million and RMB107.1 million has been paid/payable by the Company to Xinjiang Non-ferrous Group for the respective projects.

The Company anticipated that the remaining 90% and 3% of the Construction Services for the construction of the staff canteen and the smoke ring set system renovation project shall be completed in 2022 respectively and therefore construction fees of RMB1.3 million and RMB3.4 million have been scheduled to be paid to Xinjiang Non-ferrous Group in the year ending 31 December 2022 respectively. Moreover, it is anticipated that approximately 75% and 25% of the Construction Services for the construction of the material warehouse in Kalatongke Mining shall be completed in 2022 and 2023 respectively and therefore construction fees of RMB15.0 million and RMB5.0 million are scheduled to be paid to Xinjiang Non-ferrous Group in the year ending 31 December 2022 and 2023 respectively.

Planned projects

In addition to the Construction Services of the existing projects of Kalatongke Mining, the Company has planned to carry out additional environmental protection and safety projects, technical improvement projects and construction of a comprehensive office building and a staff quarter with a total construction fee of approximately RMB262.9 million, in Kalatongke Mining during the three years ending 31 December 2024. As at the Latest Practicable Date, the Construction Services regarding the planned projects of Kalatongke Mining have not been commenced yet. The Company anticipated that approximately 53%, 31% and 16% of the Construction Services regarding the abovementioned planned projects shall be completed in 2022, 2023 and 2024 respectively and therefore construction fees in the amount of approximately RMB140.1 million, RMB81.7 million and RMB41.1 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2022, 2023 and 2024 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

The Company has also planned to carry out environmental protection projects and technical improvement projects, namely electrolytic cell renovation projects, external wall insulation projects and sewage advanced treatment projects, with a total construction fee of approximately RMB70.0 million, for Fukang Refinery during the three years ending 31 December 2024. As at the Latest Practicable Date, the Construction Services for Fukang Refinery have not been commenced yet. The Company anticipated that approximately 57%, 37% and 6% of the Construction Services for Fukang Refinery shall be completed in 2022, 2023 and 2024 respectively and therefore construction fees in the amount of approximately RMB40.0 million, RMB26.0 million and RMB4.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2022, 2023 and 2024 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

In addition, the Company has budgeted to carry out expansion and technical improvement projects for selection factory and smelter with a total construction fee of approximately RMB120.0 million for Yakesi during the three years ending 31 December 2024. As at the Latest Practicable Date, the Construction Services for Yakesi have not been commenced yet. The Company anticipated that approximately 50%, 33% and 17% of the Construction Services for Yakesi shall be completed in 2022, 2023 and 2024 respectively and therefore construction fees in the amount of approximately RMB60.0 million, RMB40.0 million and RMB20.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2022, 2023 and 2024 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

Moreover, a technical transformation project for smelting of Xinjiang Zhongxin with a total construction fee for 2023 and 2024 of approximately RMB40.0 million has been scheduled to commence in 2023. The Company anticipated that approximately 50% and 50% of the Construction Services for Xinjiang Zhongxin shall be completed in 2023 and 2024 respectively and therefore construction fees in the amount of approximately RMB20.0 million and RMB20.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2023 and 2024 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

We have reviewed, and discussed with management of the Company, the budgets of the abovementioned planned projects and were advised by management of the Company that such budgets were arrived at after taking into account the works required, the expected construction progress and the prevailing market price for similar construction services. We

noted that the proposed construction fees payable to Xinjiang Non-ferrous Group for the planned projects are generally commensurate with the estimated budgets and work progress of those projects. Having considered the anticipated progress of the construction works, the value of the construction contracts and the payment schedules, the construction fees payable to Xinjiang Non-ferrous Group in relation to the above projects were estimated to be approximately RMB240.1 million, RMB167.7 million and RMB85.1 million for the year ending 31 December 2022, 2023 and 2024 respectively, which accounted for approximately 82%, 82% and 73% of the proposed Renewed Annual Caps of the Construction Services for the years ending 31 December 2022, 2023 and 2024 respectively.

Possible projects

In order to further improve the production efficiency of the operations of the Group and provide a buffer for possible maintenance and sundry projects, the Company assumed that certain improvement, maintenance and sundry projects might be carried out in the coming few years. The Company estimated that the construction fees payable to Xinjiang Non-ferrous Group in relation to the improvement, maintenance and sundry projects expected to be carried out for the Group would be approximately RMB32.0 million for each of the years ending 31 December 2022, 2023 and 2024 respectively, which accounted for approximately 11%, 16% and 27% of the proposed Renewed Annual Caps of the Construction Services for the years ending 31 December 2022, 2023 and 2024 respectively.

Having considered the Company's needs, the budgets and expected work progress of the scheduled construction works, which are expected to commence in 2022 and complete during 2023 and 2024 by phases, we consider that the proposed Renewed Annual Caps for the Construction Services are fair and reasonable.

(b) Provision of the Company's Products

The historical transaction amount of the sales of the Company's Products by the Group to Xinjiang Non-ferrous Group increased from approximately RMB84.0 million for the year ended 31 December 2019 to approximately RMB104.9 million for the year ended 31 December 2020. We were advised by management of the Company that such increase was mainly attributable to the increases in average selling prices of copper concentrates and copper cathode of approximately 6.4% and 5.4% respectively in 2020, as compared to 2019, as well as the increase in sales volume of copper concentrates and copper cathode to Xinjiang

Non-ferrous Group in 2020. The annualized transaction amount of the Company's Products between the Group and Xinjiang Non-ferrous Group in 2021 dropped by approximately 9.6% as compared to that of 2020 as a result of the decreases in sales volume of sulfuric acid and gold to Xinjiang Non-ferrous Group during the nine months ended 30 September 2021 since the adoption of the Group's policy to increase the proportion of sulfuric acid sold to independent customers and to reduce the overall sales volume of gold during the nine months ended 30 September 2021.

The Company projected that the transaction amounts, and thus the corresponding annual caps, for sale of the Company's Products to Xinjiang Non-ferrous Group would upsurge significantly by approximately 86% in 2022, as compared to the annualized sales figure of 2021, and then grow at a compound annual growth rate of approximately 12.9% for the three years ending 31 December 2024. In estimating the annual caps for the sales of the Company's Products under the Renewed Mutual Supply Agreement, the Directors assumed that there would be increases in both the selling prices of the Company's Products, in particular, copper concentrates and copper cathode, and the quantity of copper concentrates to be supplied to Xinjiang Non-ferrous Group. It is forecasted that the projected sales amount of copper concentrate and copper cathode would account for over 64% of the Renewed Annual Caps for the sale of the Company's Products for each of the three years ending 31 December 2024.

Based on the discussions between the Group and Xinjiang Non-ferrous Group, the Group was informed that Xinjiang Non-ferrous Group has planned to increase its production volume of copper cathode in 2022 and thus the demand for copper concentrates from the Group would increase accordingly in 2022. Management of the Company expected that the sales volume of copper concentrates to Xinjiang Non-ferrous Group would increase to 1,500 tonnes, 1,800 tonnes and 2,000 tonnes in 2022, 2023 and 2024 respectively, while the sales volume of the copper cathode to Xinjiang Non-ferrous Group would increase to 500 tonnes in 2022 and remain stable for the two years ending 31 December 2023 and 2024, having considered the estimated increasing demand of copper concentrates and copper cathode by Xinjiang Non-ferrous Group for its increased budgeted production volume of copper cathode and beryllium copper alloy in the coming years.

We have reviewed the memorandum of understanding entered into between the Group and Xinjiang Non-ferrous Group regarding the projected sales volume of copper concentrates and copper cathode between the parties and noted that the tentative purchase volume of copper concentrates and copper cathode agreed by both parties is in line with the projected sales volumes adopted by the Group in budgeting the Renewed Annual Caps.

Based on the information from the website of the London Metal Exchange, we noted that the price of copper had been increasing since March 2020 until reaching the record high in May 2021 and retreated in recent months. The average three-month future price of copper cathode in the London Metal Exchange was US\$6,028 per tonne, US\$6,188 per tonne, and US\$9,064 per tonne in 2019, 2020 and the first half of 2021 respectively, representing a compound annual growth rate of approximately 22.6%. The average spot price (including tax) of copper cathode in Shanghai Yangtze River Non-ferrous Metals Spot Market was RMB47,786 per tonne, RMB48,797 per tonne and RMB66,691 per tonne in 2019, 2020 and the first half of 2021 respectively, representing a compound annual growth rate of approximately 18.1%. According to “Commodity Price Forecast” released on 20 April 2021 by The World Bank, an international financial institution providing loans and grants to governments of developing countries, it is forecasted that copper price would be US\$8,500 per tonne for 2021 and reduced to US\$7,500 per tonne in 2022, then rise slightly with a compound annual growth rate of approximately 0.7% from 2022 to 2024.

With reference to the above market information, management of the Company expected that the price of copper in the PRC would continue to increase at a compound annual growth rate of approximately 3.5% for the three years ending 31 December 2024. Taking into account the projected increases in selling price of copper in the PRC and the historical compound annual growth rate of approximately 20% of the selling prices of both copper concentrates and copper cathode sold to Xinjiang Non-ferrous Group during 2019 and 2021, as well as the projected increase in the quantity of products to be supplied to Xinjiang Non-ferrous Group, management of the Company expected that the transaction amounts of sale of copper concentrates to Xinjiang Non-ferrous Group for the three years ending 31 December 2024 would be approximately RMB83.0 million, RMB102.5 million and RMB119.1 million respectively, representing a compound annual growth rate of approximately 19.8%, while the transaction amounts for copper cathode for the three years ending 31 December 2024 would be approximately RMB31.0 million, RMB31.9 million and RMB33.2 million respectively, representing a compound annual growth rate of approximately 3.5%.

Having considered the substantial increase in demand for copper concentrates from Xinjiang Non-ferrous Group for its production expansion of copper cathode in the coming years and the rising trend of the market price of copper in the foreseeable future, we consider that the Renewed Annual Caps for the sales of the Company’s Products proposed by the Directors are fair and reasonable.

RECOMMENDATION

Having considered the aforementioned principal factors and reasons, we consider that (i) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Continuing Connected Transactions (and the Renewed Annual Caps thereunder) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole. We, therefore, recommend the Independent Board Committee to advise the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the resolution to approve the Continuing Connected Transactions (including the Renewed Annual Caps) at the upcoming EGM.

Yours faithfully,
For and on behalf of
Crescendo Capital Limited



Amilia Tsang
Managing Director



Helen Fan
Director

Notes:

- (i) Ms. Amilia Tsang is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 18 years of experience in corporate finance.
- (ii) Ms. Helen Fan is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 14 years of experience in corporate finance.