5 November 2024

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 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 (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 5 November 2024 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 1 November 2024, 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 2025.

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As at the Latest Practicable Date, Xinjiang Non-ferrous was a controlling Shareholder, that 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. Accordingly, 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 2027 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 Supporting and Ancillary 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. Huang Yong 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 whether 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 our recommendation on 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 5 April 2024 regarding the proposed revision of annual cap for the year ending 31 December 2024 in respect of the provision of the Company's Products, 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 the 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 the 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 and affairs or future prospect 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 and the Supporting and Ancillary 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 2024 and the parties to the Existing Mutual Supply Agreement intend to continue the Continuing Connected Transactions on an ongoing 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 1 November 2024.

(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 the 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 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 cooperation 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 Supporting and Ancillary Services

Pursuant to the Renewed Mutual Supply Agreement, the Supporting and Ancillary Services to be provided by Xinjiang Non-ferrous Group to the Group shall include (i) the provision of production supplies such as supplemental production materials (including copper concentrates, chemical materials, coal, coke and product packaging materials) and work safety products; (ii) storage, transportation and loading services, including warehousing services for the sales and distribution of nickel cathodes to the Company's end-customers in Beijing and its surrounding areas, Hebei province and the north-eastern region of the PRC, and transportation services for delivery of products and materials including coke and coal; and (iii) other supporting and ancillary services like machinery repair and improvement and geological exploration in the mining areas.

We were advised by the management of the Company that the Supporting and Ancillary Services are necessary for the Group to secure a smooth operation in its ordinary course of business. Being a major player in the non-ferrous metals industry in Xinjiang, Xinjiang Non-ferrous Group is considered to be a reliable business partner of the Group which is capable of providing the supplies and materials, transportation, warehousing and geological exploration services that meet the needs and standard of the Group. Therefore, the Directors consider that it is in the interest of the Company to maintain a long-term supplier relationship with Xinjiang Non-ferrous Group to secure a stable supply of the Supporting and Ancillary Services, which is essential for the operations of the Group.

(d) 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 cathodes, copper cathodes, 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 and the Supporting and Ancillary Services provided by Xinjiang Non-ferrous Group; (iii) the Group requires the Construction Services and the Supporting and Ancillary Services for fulfilling its production needs from time to time; (iv) the provision of the Supporting and Ancillary Services by Xinjiang Non-ferrous Group can secure the supply channels and the quality of products and services for the Group; and (v) 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 2025, 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 follow 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 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 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**").

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, the Supporting and Ancillary 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. Pricing policies of the Company in respect of the Continuing Connected Transactions

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 Supporting and Ancillary Services and the supply of the Company's Products and our findings are set out below:

(a) Provision of the Construction Services

According to the 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 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 managers from safety production assurance 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 2022 and 2023 and six months ended 30 June 2024, which were randomly selected from the list of Construction Projects awarded to Xinjiang Non-ferrous Group in 2022, 2023 and the six months ended 30 June 2024 and the transaction amounts of which represent approximately 23%, 38% and 29% 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 Supporting and Ancillary Services

We understand from the management of the Company that the prices for gasoline and diesel are, and will be, determined in accordance with the State-prescribed price released by Xinjiang CNPC based on the notice published by the NDRC from time to time. The prices for the Supporting and Ancillary Services other than gasoline and diesel are, and will be, determined with reference to the best bid price as determined by the tendering process/quotations. The management of the Company confirmed that none of the previous transactions regarding the Supporting and Ancillary Services were transacted based on the Cost-plus Method as all the Supporting and Ancillary Services have either a State-prescribed price, a State-guidance price or a market price. The management of the Company also expected that the Cost-plus Method would not be applicable for the Supporting and Ancillary Services in the foreseeable future.

We were advised by the management of the Company that no gasoline was purchased from Xinjiang Non-ferrous Group during the period under the Existing Mutual Supply Agreement. We have reviewed five samples of invoices for diesel transactions conducted between the Group and Xinjiang Non-ferrous Group and noted that the prices of those transactions were complied with the State-prescribed prices for diesel issued by Xinjiang CNPC at the relevant time. Given the samples were randomly selected from transactions carried out at different times during the term of the Existing Mutual Supply Agreement, we consider that the samples are representative and sufficient.

In order to ensure the actual price of the Supporting and Ancillary Services (other than gasoline and diesel) provided by Xinjiang Non-ferrous Group was on normal commercial terms and not less favourable to the Company than those offered by Independent Third Parties, the Company would obtain tenders/quotations from at least two Independent Third Parties for similar services/products for comparison before entering into the contract. In addition, staff from different levels of the finance department of the Company would perform independent checks by comparing the price charged by Xinjiang Non-ferrous Group with the prevailing market price obtained through tenders/quotations and/or the unit price of similar products purchased from other Independent Third Parties during the relevant period before payment was made. We have reviewed five samples of invoices issued by Xinjiang Non-ferrous Group to the Group for transactions in relation to the Supporting and Ancillary Services (other than gasoline and diesel) and the tenders/quotations obtained from other

Independent Third Parties for the same set of transactions. We noted that the terms offered by Xinjiang Non-ferrous Group were not less favourable to the Group as compared to those offered by the Independent Third Parties and signatures of both the finance officer and the finance manager who performed the verification works were put on the invoices to signify their completion of the verification works on the pricing of such transactions. Given the samples were randomly selected from transactions carried out at different times during the term of the Existing Mutual Supply Agreement, we consider that the samples are representative and sufficient. 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.

(c) Provision of the Company's Products

We understand from the 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. The 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. The management of the Company also expected that the Cost-plus Method would not be applicable to 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 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 and the relevant future prices quoted on Shanghai Futures Exchange; (ii) approved by the sales department manager, (iii) checked by the finance department manager; and (iv) finally approved by the marketing management 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. We understand from the 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 regarding the sales of copper concentrates and/or copper cathodes 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 the 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. The 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 purchase of the Supporting and Ancillary Services and the sale of the Company's Products were transacted based on the Cost-plus Method as all the Supporting and Ancillary Services and the Company's Products have either a State-prescribed price, a State-guidance price or 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 bound 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 our understanding and verification works performed, we are of the view that the pricing policies with respect to the Continuing Connected Transactions are properly developed and implemented by the Company.

4. 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 ending 31 December		For the period from 1 January 2024 to 30 June	For the year ended 31 December		
	2022	**2023**	**2024**	**2025**	**2026**	**2027**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	(audited)	(unaudited)			
Provision of the Construction Services	80,959	160,313	11,129	143,400	133,900	134,100
Provision of the Supporting and Ancillary Services	52,178	54,020	14,967	167,262	171,075	174,556
Provision of the Company's Products	101,650	138,955	224,649	757,481	746,422	778,402

The proposed Renewed Annual Caps were determined based on the historical transaction amounts for the Construction Services, the Supporting and Ancillary Services and the Company's Products for the two years ended 31 December 2023 and the six months ended 30 June 2024, 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 and relevant construction projects for the next three years.

(a) *Provision of the Construction Services*

We understand from the 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 estimation 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 potential projects to be carried out during the three years ending 31 December 2027.

We noted that the transaction amount in respect of the provision of Construction Services for the year ended 31 December 2023 was substantially higher than that of 2022 and the six months ended 30 June 2024 as large-scale technological renovation and capacity expansion projects for Kalatongke Mining and Fukang Refinery were carried out and completed in 2023.

The breakdown of the Renewed Annual Caps for the provision of the Construction Services is summarized as follows:

	For the year ending 31 December		
	2025	**2026**	**2027**
	RMB'000	*RMB'000*	*RMB'000*
(a) Confirmed Projects			
– tail suction technical improvement project	500	–	–
– maintenance and inspection project	5,000	–	–
Sub-total	5,500	–	–
(b) Planned projects			
– projects in Kalatongke Mining	27,900	28,400	28,400
– projects in Fukang Refinery	81,000	76,000	76,000
Sub-total	108,900	104,400	104,400
(c) Potential projects	29,000	29,500	29,700
Renewed Annual Caps for the provision of the Construction Services	**143,400**	**133,900**	**134,100**

Confirmed projects

Two existing projects under the Construction Services, namely the tail suction technical improvement project in Kalatongke Mining and the maintenance and inspection project in Fukang Refinery, have commenced construction in 2024 and are expected to be completed in 2025.

We have reviewed the contracts of the construction services for the confirmed projects and noted that the total contract sum of (i) the tail suction technical improvement project in Kalatongke Mining; and (ii) the maintenance and inspection project in Fukang Refinery are RMB0.9 million and RMB10.4 million respectively.

As at the Latest Practicable Date, approximately 44% and 52% of the Construction Services regarding the tail suction technical improvement project in Kalatongke Mining and the maintenance and inspection project in Fukang Refinery to be rendered by Xinjiang Non-ferrous Group have been completed respectively and construction fees of approximately RMB0.4 million and RMB5.4 million have been paid/payable by the Company to Xinjiang Non-ferrous Group for the respective projects. The Company anticipated that both the remaining 56% and 48% of the Construction Services for the tail suction technical improvement project in Kalatongke Mining and the maintenance and inspection project in Fukang Refinery respectively shall be completed in 2025 and therefore construction fees of RMB0.5 million and RMB5.0 million have been scheduled to be payable to Xinjiang Non-ferrous Group for the respective projects during the year ending 31 December 2025.

The proposed Renewed Annual Caps for the aforementioned confirmed projects account for approximately 4% of the total Renewed Annual Caps for Construction Services for the year ending 31 December 2025.

Planned projects

In addition to the Construction Services of the existing project of Kalatongke Mining, the Company has planned to carry out additional environmental protection and safety projects, technical improvement projects and maintenance and inspection projects, with a budgeted total construction fee of approximately RMB84.7 million, in Kalatongke Mining during the three years ending 31 December 2027. 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 32%, 34% and 34% of the Construction Services regarding the abovementioned planned projects shall be completed in 2025, 2026 and 2027 respectively and therefore construction fees in the amount of approximately RMB27.9 million, RMB28.4 million and RMB28.4 million will be payable to Xinjiang Non-ferrous Group in each of the year ending 31 December 2025, 2026 and 2027 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, with a total budgeted construction fee of approximately RMB233.0 million, for Fukang Refinery during the three years ending 31 December 2027. As at the Latest Practicable Date, the Construction Services for Fukang Refinery have not been commenced yet. The Company anticipated that approximately 34%, 33% and 33% of the Construction Services for Fukang Refinery shall be completed in 2025, 2026 and 2027 respectively and therefore construction fees in the amount of approximately RMB81.0 million, RMB76.0 million and RMB76.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2025, 2026 and 2027 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

We have reviewed, and discussed with the management of the Company, the budgets of the abovementioned planned projects and were advised by the 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 RMB108.9 million, RMB104.4 million and RMB104.4 million for the year ending 31 December 2025, 2026 and 2027 respectively, which accounted for approximately 76%, 78% and 78% of the proposed Renewed Annual Caps of the Construction Services for the years ending 31 December 2025, 2026 and 2027 respectively.

Potential 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 RMB29.0 million, RMB29.5 million and RMB29.7 million for the years ending 31 December 2025, 2026 and 2027 respectively, which accounted for approximately 20%, 22% and 22% of the proposed Renewed Annual Caps of the Construction Services for the years ending 31 December 2025, 2026 and 2027 respectively.

Having considered the Company's needs, the budgets and the expected work progress of the scheduled construction works, we consider that the proposed Renewed Annual Caps for the Construction Services are fair and reasonable.

(b) Provision of the Supporting and Ancillary Services

We have discussed with the management of the Company and reviewed the calculation of the Renewed Annual Caps for the Supporting and Ancillary Services. We noted that the historical transaction amounts of the Supporting and Ancillary Services between the Group and Xinjiang Non-ferrous Group maintained at a similar level of approximately RMB52.2 million and RMB54.0 million for the years ended 31 December 2022 and 2023 respectively and decreased to approximately RMB15.0 million for the six months ended 30 June 2024. The Company explained to us that the decrease in transaction amounts of the Supporting and Ancillary Services for the first half of 2024 was mainly due to the decrease in transportation costs for transportation services provided by Xinjiang Non-ferrous Group and the decrease in purchase volume of ancillary production materials from Xinjiang Non-ferrous Group as the Group purchased some of those materials from other independent suppliers during the period.

Despite the aforementioned, the management of the Company estimated that the transaction amount for the Supporting and Ancillary Services would increase substantially to approximately RMB167.3 million for the year ending 31 December 2025 and then increase at a compound annual growth rate of approximately 2.2% in 2026 and 2027, having considered (i) the increase in demand of ancillary production materials as a result of expected increase in production volume of nickel cathodes and copper cathodes and the possible increase in proportion of ancillary production materials to be purchased from Xinjiang Non-ferrous Group; (ii) the increase in price of raw materials; and (iii) the possible increase in transportation costs for the transportation services to be provided by Xinjiang Non-ferrous Group as Xinjiang Non-ferrous Group would also be invited to bid for the tender for transportation services of water quenching and copper leaching tailings, some of which are currently provided by independent third parties, to be published by the Company in end of 2024.

Since the purchases of soda ash and transportation services account for around 60% of the Renewed Annual Caps for the provision of the Supporting and Ancillary Services, we focus our analysis in this regard.

Purchase of soda ash

The historical transaction amount of soda ash for the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024 was approximately RMB4.7 million, RMB6.3 million and RMB4.0 million respectively. Such increase was mainly attributable to the increases in purchase volume of soda ash from Xinjiang Non-ferrous Group and selling price of soda ash during the period. The Company estimated that the transaction amount of soda ash for the years ending 31 December 2025, 2026 and 2027 will increase substantially to approximately RMB38.9 million, RMB40.3 million and RMB41.8 million respectively as a result of (i) the increase in purchase volume of soda ash from Xinjiang Non-ferrous Group, having considered the increase in production volume of nickel cathodes and copper cathodes in the coming years and the increase in proportion of soda ash to be purchased from Xinjiang Non-ferrous; and (ii) the increase in price of soda ash during the three years ending 31 December 2027.

Production plans of the Group

We have discussed with the management of the Company the production plans of the Group for the three years ending 31 December 2027. We noted that the targeted production volume of the Group's major products, namely nickel cathodes and copper cathodes, were projected to be approximately 11,000 tonnes and 10,000 tonnes for the year ending 31 December 2025 and then grow slightly at a compound annual growth rate of approximately 2.2% and 1% respectively for the three years ending 31 December 2027, having taken into account the existing production capacity of the Group and the expected future demand of nickel cathodes and copper cathodes.

We understand from the management of the Company that the production volume of nickel cathodes for the year ended 31 December 2022 and 2023 and the six months ended 30 June 2024 was 11,083 tonnes, 7,513 tonnes and 4,757 tonnes respectively, accounted for approximately 92%, 63% and 40% (or 79% if the output is annualized for the year ending 31 December 2024) of the Group's maximum production capacity respectively while the production volume of copper cathodes for the year ended 31 December 2022 and 2023 and the six months ended 30 June 2024 was 9,302 tonnes, 5,768 tonnes and 4,102 tonnes respectively, accounted for approximately 78%, 48% and 34% (or 68% if the output is annualized for the year ending 31 December 2024) of the Group's maximum production capacity respectively.

It is noted that the production output for both nickel cathodes and copper cathodes for the year ended 31 December 2023 was relatively low. We were given to understand that in order to enhance production safety and to improve the level of safety at the mines in Xinjiang Uygur Autonomous Region, upon the approval of the Work Safety Committee of the State Council, the Office of the Work Safety Committee of the State Council dispatched a National Mine Safety Assistance and Guidance Working Group to provide assistance and guidance on mine safety in Xinjiang Uygur Autonomous Region. Since February 2023, the Ministry of Emergency Management and the State Administration of Mine Safety have organized the relevant departments, scientific research institutes and production safety experts from mining enterprises to provide assistance and guidance on production safety at the mines in Xinjiang Uygur Autonomous Region (the "**National Assistance Guidance on Production Safety**"), during such time the normal production of the Group had been affected and resulted in a reduction in production volume of the Group's products, including nickel cathodes and copper cathodes. The National Assistance Guidance on Production Safety have been completed and the Group's production has now resumed to normal. It is expected that the production volume of nickel cathodes and copper cathodes would increase to around 11,000 tonnes and 10,000 tonnes respectively in 2025, which is similar to the level of 2022.

According to the statistics released by China Non-ferrous Metals Industry Association, a national non-profit association with members from enterprises, institutions and social organizations relating to China's non-ferrous metals industry and registered with the PRC Ministry of Civil Affairs, China's production volume of nickel for the year ended 31 December 2022 was approximately 173,000 tonnes, representing an increase of approximately 7.4% as compared to the previous year while the production volume of nickel for the year ended 31 December 2023 was approximately 232,000 tonnes, representing an increase of approximately 34.1% as compared to the previous year.

With reference to the press release issued on 24 September 2024 (Source: https://insg.org/wp-content/uploads/2024/09/pressrel_INSG-Press_Release_Sep24-ok885blj.pdf) by the International Nickel Study Group ("**INSG**"), an inter-governmental organization to improve the nickel market's transparency, the world's primary nickel production was 3.36 million tonnes in 2023 and is projected to increase to 3.516 million tonnes in 2024 and 3.649 million tonnes in 2025. INSG also stated that the world's primary nickel usage was 3.193 million tonnes in 2023 and would increase to 3.346 million tonnes and 3.514 million tonnes in 2024 and 2025 respectively. Based on the reports namely "Copper Market Forecast 2024/2025" released on 26 September 2024 (Source: https://icsg.org/download/2024-09-26-press-release-icsg-copper-market-forecast-2024–2025/) and "Copper: Preliminary Data for July 2024" released on 30 September 2024 (Source: https://icsg.org/download/2024-09-30-monthly-press-release/) by the International Copper Study Group ("**ICSG**"), an inter-governmental organization that serves to increase copper market's transparency and promote international discussions and cooperation on the issues related to copper, the world's apparent usage of refined copper increased by 2.8% for the year ended 31 December 2023 and 2.9% for the seven months ended 31 July 2024 and the growth rate for the PRC was 3.5% for the seven months ended 31 July 2024. ICSG expected that the world's apparent usage of refined copper would increase by around 2.2% and 2.7% in 2024 and 2025 respectively while the PRC's apparent usage of refined copper would grow at approximately 2% in 2024 and 1.8% in 2025.

Given that (i) the market demand for nickel and refined copper in the PRC is generally projected to be on a rising trend in the next few years; and (ii) the Group is well experienced in sales and manufacturing of nickel cathodes and copper cathodes and the production of the Group has resumed following the National Assistance Guidance on Production Safety, we are satisfied that the production plans of the Group have been prepared after due and careful consideration.

Based on the information provided by the Company, the actual selling price of soda ash purchased by the Group from Xinjiang Non-ferrous Group fluctuated during the period from 2022 to 2024 and the average annual selling price grew at a compound annual growth rate of approximately 8.3% from 2022 to 2024. The management of the Company anticipated that the price of soda ash would continue to fluctuate in the future while the average annual selling price for the year ending 31 December 2025 would be maintained at a rate more or less the same as the current level before an upsurge at a compound annual growth rate of approximately 3.6% in 2026 and 2027, in view of the fluctuation in price of soda ash during the past years. Having considered the fluctuation in price of soda ash and the historical compound annual growth rate of the average annual selling price of soda ash during 2022 to 2024, we consider that the projected selling price of soda ash for the three years ending 31 December 2027 is reasonable.

Purchase of transportation services

The historical transaction amount of transportation services provided by Xinjiang Non-ferrous Group for the years ended 31 December 2022 and 2023 and the six months ended 30 June 2024 was approximately RMB20.4 million, RMB14.6 million and RMB5.6 million respectively. We were advised by the management of the Company that such decrease was mainly due to a lower demand of transportation services resulted from the decrease in production and sales volume of the Company's products. Furthermore, the Company also increased the use of transportation services from independent service providers during the period.

We were given to understand from the management of the Company that the demand for transportation services would increase in the coming years as the production and sales volume of the Group was expected to increase during the three years ending 31 December 2027. We have discussed the production plans of the Group for the three years ending 31 December 2027 with the management of the Company and are satisfied that the production plans of the Group have been prepared after due and careful consideration, details of which are set out in the paragraph "Production plans of the Group" above. Moreover, the Group will invite tenders for transportation services of water quenching and copper leaching tailings in late 2024. It is expected that Xinjiang Non-ferrous Group will submit a tender for the services and therefore a buffer for the transportation services under the proposed tender is budgeted for the Renewed Annual Caps in respect of transportation services to cater for the possible transactions in case Xinjiang Non-ferrous Group is awarded with the contracts.

Given the aforementioned factors, the Company anticipated that the transaction amount for transportation services from Xinjiang Non-ferrous Group would increase at a commensurate rate consistent with the expected growth in production and sales volume of the Company's products to approximately RMB60.4 million, RMB61.8 million and RMB62.9 million for the years ending 31 December 2025, 2026 and 2027 respectively.

Based on the above and having considered that the Renewed Annual Caps represent only the maximum amounts that can be transacted between the Group and Xinjiang Non-ferrous Group during the relevant period and the actual prices to be charged by Xinjiang Non-ferrous Group will depend on the prevailing market rate at the time of the transactions, we consider that the proposed Renewed Annual Caps in respect of the Supporting and Ancillary Services for the three years ending 31 December 2027 are fair and reasonable.

(c) 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 RMB101.7 million for the year ended 31 December 2022 to approximately RMB139.0 million for the year ended 31 December 2023 and further increased to approximately RMB224.6 million for the six months ended 30 June 2024. We were advised by the management of the Company that the increase during the year ended 31 December 2023 was mainly attributable to the increases in average selling prices of copper concentrates and gold of approximately 4.2% and 11.4% respectively in 2023, as compared to 2022, as well as the increase in sales volume of copper concentrates and gold sold to Xinjiang Non-ferrous Group in 2023. Starting from June 2024, the Group adjusted its selling strategy in respect of sales of copper cathodes by selling all copper cathodes to Xinjiang Non-ferrous Group, instead of selling a majority of the copper cathodes to independent third-party customers. As a result, the transaction amount of the sales of copper cathodes to Xinjiang Non-ferrous Group significantly increased to approximately RMB208.8 million for the six months ended 30 June 2024. It is expected that such selling strategy will continue in the coming years.

The breakdown of the Renewed Annual Caps in respect of the provision of the Company's Products are summarized as follows:

	Renewed Annual Caps		
	For the year ending 31 December		
	2025	**2026**	**2027**
	RMB'000	*RMB'000*	*RMB'000*
Sales of copper cathodes	682,301	667,898	696,438
Sales of other Company's Products	75,180	78,524	81,964
Renewed Annual Caps for the provision of the Company's Products	757,481	746,422	778,402

We have discussed with the management of the Company, and reviewed, the calculation of the Renewed Annual Caps in respect of the provision of the Company's Products. It was noted that the sales of copper cathodes account for around 90% of the Renewed Annual Caps for the provision of the Company's Products. Therefore, our analysis focuses on the sales of copper cathodes.

The Company anticipated that the transaction amounts of sales of copper cathodes to Xinjiang Non-ferrous Group for the years ending 31 December 2025, 2026 and 2027 would be approximately RMB682.3 million, RMB667.9 million and RMB696.4 million, which corresponds to a sales volume of copper cathodes of approximately 10,280 tonnes, 10,063 tonnes and 10,493 tonnes for the years ending 31 December 2025, 2026 and 2027 respectively.

According to the Company's annual reports for the years ended 31 December 2021, 31 December 2022 and 31 December 2023 and the interim report for the six months ended 30 June 2024, the Group's sales volume of copper cathodes was 11,051 tonnes, 9,775 tonnes, 4,908 tonnes and 3,008 tonnes for the years ended 31 December 2021, 31 December 2022 and 31 December 2023 and the six months ended 30 June 2024 respectively.

In order to enhance production safety and to improve the level of safety at the mines in Xinjiang Uygur Autonomous Region, upon the approval of the Work Safety Committee of the State Council, the Office of the Work Safety Committee of the State Council dispatched a National Mine Safety Assistance and Guidance Working Group to provide assistance and guidance on mine safety in Xinjiang Uygur Autonomous Region. Since February 2023, the Ministry of Emergency Management and the State Administration of Mine Safety have organized the National Assistance Guidance on Production Safety, during such time the normal production of the Group had been affected and resulted in a reduction in production volume of copper cathodes of the Group. As such, the sales volume of copper cathodes for the year ended 31 December 2023 decreased significantly. The National Assistance Guidance on Production Safety has been completed and the Group's production has resumed to a normal level.

Based on the discussions between the Group and Xinjiang Non-ferrous Group and having considered the volume of copper cathodes available for sales by the Group, it is expected that the volume of copper cathodes for sales to Xinjiang Non-ferrous Group would be in a range of approximately 10,063 tonnes to 10,493 tonnes during the three years ending 31 December 2027, which are similar to the Group's average sales volume of copper cathodes for the years ended 31 December 2021 and 2022 of approximately 10,413 tonnes. We have reviewed the memorandum of understanding entered into between the Group and Xinjiang Non-ferrous Group regarding the projected sales volume of copper cathodes to be traded between the parties in 2025, 2026 and 2027 and noted that the tentative purchase volume of copper cathodes agreed by both parties is in line with the projected sales volumes adopted by the Group in budgeting the sales of copper cathodes.

As disclosed in the Letter from the Board, the prices of copper cathodes sold by the Company to Xinjiang Non-ferrous Group are determined based upon the spot prices of the product from Shanghai Yangtze River Nonferrous Metals Spot Market and the relevant future prices quoted on Shanghai Futures Exchange. Based on the information from the website of Shanghai Yangtze River Non-ferrous Metals Spot Market, we noted that the price of copper fluctuated significantly during the period from January 2022 to February 2024 and increased to the highest level in May 2024. Then, the price retreated in the recent months. The average spot price (including tax) of copper cathodes in the Shanghai Yangtze River Non-ferrous Metals Spot Market was RMB67,645 per tonne, RMB68,401 per tonne and RMB74,569 per tonne in the year 2022 and 2023 and the first half of 2024 respectively while the Group's average selling price of copper cathodes (tax exclusive) was RMB59,605 per tonne for the year ended 31 December 2022, RMB60,334 per tonne for the year ended 31 December 2023 and RMB69,407 per tonne for the six months ended 30 June 2024.

According to the Commodity Markets Outlook Forecast released in April 2024 (Source: https://openknowledge.worldbank.org/server/api/core/bitstreams/9e84a1ca-8a6b-45c1-8693-01edc068408d/content) by The World Bank, an international financial institution that provides loans and grants to governments of developing countries, copper price was US$8,490 (approximately RMB60,428) per tonne in 2023 and was forecasted to be US$8,900 (approximately RMB63,347) per tonne in 2024 and then falling to US$8,800 (approximately RMB62,635) per tonne in 2025. On the other hand, the management of the Company expected that the average price of copper cathodes in the PRC continue to increase slightly to approximately RMB66,400 in 2025 and then maintain at a relatively stable level thereafter. In view of the Group's average selling prices of copper cathodes in the past years and the Group's expectation on the price of copper cathodes in the PRC in the coming years, the existing selling price of copper cathodes of approximately RMB66,372 per tonne was adopted by the Company for calculating the Renewed Annual Caps for the provision of the Company's Product.

Having considered that the price fluctuation in copper cathodes in the PRC may persist in the coming years and the budgeted transaction amounts represent only the maximum amounts that can be transacted between the Group and Xinjiang Non-ferrous Group during the relevant period and the actual selling price of copper cathodes to be charged by the Group depends on the prevailing market price at the time of the transactions, we consider that a small buffer for price fluctuations is justifiable and the projected selling price of copper cathodes adopted by the Group for estimating the Renewed Annual Caps for the provision of the Company's Product is reasonable although a slight decrease in copper prices in 2025 was expected by The World Bank.

Having considered the substantial increase in sales volume of copper cathodes to Xinjiang Non-ferrous Group in the coming years, 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 over 20 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 16 years of experience in corporate finance.