22 November 2024

To the Independent Board Committee and the Independent Shareholders of
Lygend Resources & Technology Co., Ltd.

Dear Sirs,

REVISION OF ANNUAL CAP FOR AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Connected Agreements (including the proposed annual cap thereof), (the "**Transactions**"), the details of which are set forth in the "Letter from the Board" (the "**Board Letter**") contained in the circular issued by the Company to the Shareholders dated 22 November 2024 (the "**Circular**"), of which this letter forms apart. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Continuing connected transactions

As stated in the Board Letter, as the Board envisaged that the existing annual cap for the year ending 31 December 2024 under the Existing Mutual Supply Framework Agreement in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group will be insufficient to meet the business needs of the Group, and as the Existing Mutual Supply Framework Agreement will expire on 31 December 2024, (1) the Board proposes to revise the annual cap under the Existing Mutual Supply Framework Agreement for the year ending 31 December 2024 in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group; and (2) the Company has entered into the 2025 Mutual Supply Framework Agreement to renew the Existing Mutual Supply Framework Agreement upon its expiry.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Dr. HE Wanpeng, Ms. ZHANG Zhengping and Dr. WANG James Jixian, being all the independent non-executive Directors, has been established to advise the Independent Shareholders in respect of the Transactions. We, Grand Moore Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company, HG, their respective substantial Shareholders, Directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Transactions.

In the past two years, we have not acted in any financial adviser role to the Company. Save for the appointment as the Independent Financial Adviser, there was no other relationship and/or engagement between the Company and us in the past two years.

With regards to our independence from the Company, it is noted that (i) apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no other arrangements exist whereby we had received or will receive any fees or benefits from the Company, its subsidiaries or their respective controlling Shareholders that could reasonably be regarded as relevant to our independence; and (ii) the aggregate professional fees paid or to be paid to us do not make up a significant portion of our revenue during the relevant period which would affect our independence. Accordingly, we consider that we are independent to act as the Independent Financial Adviser in respect of the Transactions pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on (i) the information and facts contained or referred to in the Circular; (ii) the Company's interim report for six months ended 30 June 2024 (the "**2024 Interim Report**"); (iii) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (iv) the opinions expressed by and the representations of the Directors and the Management; and (v) our review of the relevant public information. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the

Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers, the Directors and/or the Management (where applicable), which have been provided to us. The Directors have confirmed that, to the best of their knowledge, they believe that no material fact or information has been omitted from the information supplied to us and that the representations made or opinions expressed have been arrived at after due and careful consideration and there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Chapters 13 and 14A of the Listing Rules. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, HG, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transactions. The Company has been separately advised by its own professional advisers with respect to the Transactions and the preparation of the Circular (other than this letter).

We have assumed that the Transactions will be consummated in accordance with the terms and conditions set forth in the Circular without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Transactions, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Transactions. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation in relation to the Transactions, we have taken into account the following principal factors and reasons:

1. Background Information of the Group

As per the 2024 Interim Report, the operating segments of the Group includes (i) nickel products trading; (ii) nickel products production; (iii) equipment manufacturing and sales and (iv) the "others" segment comprises, the sales of ancillary materials. Set out below is the key consolidated financial information of the Group for the six months ended 30 June 2023 and 2024 as extracted from the 2024 Interim Report.

	For the six months ended 30 June	
	2024	**2023**
	RMB'000	*RMB'000*
	(Unaudited)	*(Unaudited)*
Revenue	10,877,988	9,284,106
Gross Profit	1,827,444	1,567,404
Profit for the period	970,381	662,024

Revenue of the Group amounted to approximately RMB10,877,988,000 for the six months ended 30 June 2024 which represents an increment of approximately RMB1,593,882,000, or approximately 17.2%, from approximately RMB9,284,106,000 for the six months ended 30 June 2023. The 2024 Interim Report carries on to explain that the increment in revenue was primarily due to the increase in revenue generated from the Group's nickel product trading business from approximately RMB4,879,374,000 for the six months ended 30 June 2023 to approximately RMB6,116,648,000 for the six months ended 30 June 2024 which was mainly due to the HJF project reaching full production capacity and the increase in procurement and sales of trading of ferronickel resulting in an increase in revenue of RMB1,592.2 million from the trading of ferronickel.

Gross profit of the Group amounted to approximately RMB1,827,444,000 for the six months ended 30 June 2024 which represents an increase of approximately RMB260,040,000, or approximately 16.6%, from approximately RMB1,567,404,000 for the six months ended 30 June 2023. The gross profit margin remained relatively stable at approximately 16.8% and 16.9% for the six months ended 30 June 2024 and 2023, respectively.

Profit of the Group amounted to approximately RMB970,381,000 for the six months ended 30 June 2024 which represents an increase of approximately RMB308,357,000, or approximately 46.6%, from approximately RMB662,024,000 for the six months ended 30 June 2023. Such increase was mainly attributable to the increase in gross profit driven by the increase in sales volume of trading of ferronickel and self-produced nickel-cobalt compounds, as well as the decrease in other operating expenses.

Set out below are certain key consolidated financial information of the Group as extracted from the consolidated balance sheet set out in the 2024 Interim Report.

	As at 30 June 2024	**As at 31 December 2023**
	RMB'000	*RMB'000*
	(Unaudited)	*(Audited)*
Total assets	34,882,402	30,679,708
Total liabilities	19,694,796	17,194,358
Equity attributable to owners of the parent	9,538,020	9,185,546
Cash and cash equivalents	3,958,055	4,616,829

The total assets of the Group amounted to approximately RMB34,882,402,000 as at 30 June 2024, representing an increase of approximately RMB4,202,694,000 or approximately 13.7%, as compared to RMB30,679,708,000 as at 31 December 2023. The increase was primarily due to the increase in (i) property, plant and equipment, from approximately RMB16,970,830,000 as at 31 December 2023 to approximately RMB19,629,458,000 as at 30 June 2024; (ii) trade and bills receivables, from approximately RMB1,022,951,000 as at 31 December 2023 to approximately RMB2,105,170,000 as at 30 June 2024; and (iii) prepayments, other receivables and other assets, from approximately RMB1,145,178,000 as at 31 December 2023 to approximately RMB1,998,171,000 as at 30 June 2024.

The total liabilities of the Group amounted to approximately RMB19,694,796,000 as at 30 June 2024, representing an increase of approximately RMB2,500,438,000 or approximately 14.5%, as compared to RMB17,194,358,000 as at 31 December 2023. The increase was primarily due to the increase in (i) interest-bearing bank and other borrowings under current liabilities, from approximately RMB4,692,395,000 as at 31 December 2023 to approximately RMB7,347,842,000 as at 30 June 2024; and (ii) trade and bills payables, from approximately RMB1,249,276,000 as at 31 December 2023 to approximately RMB1,766,225,000 as at 30 June 2024, and partially offset by the decrease in (i) the amount due to related parties, from approximately RMB1,044,215,000 as at 31 December 2023 to approximately RMB891,575,000 as at 30 June 2024; and (ii) other payables and accruals, from approximately RMB2,282,073,000 as at 31 December 2023 to approximately RMB1,799,080,000 as at 30 June 2024.

The Group's equity attributable to owners of the parent increased from approximately RMB9,185,546,000 as at 31 December 2023 to approximately RMB9,538,020,000 as at 30 June 2024, representing an increase of approximately RMB352,474,000 or approximately 3.8%. The 2024 Interim Report attributes the increase in the Group's equity to the net profit during the six months ended 30 June 2024. The cash and cash equivalents of the Group amounted to approximately RMB3,958,055,000 as at 30 June 2024, representing a decrease of approximately RMB658,774,000 or 14.3% as compared to approximately RMB4,616,829,000 as at 31 December 2023.

2. Continuing connected transactions

2.1 Reasons for and benefits of revising the annual cap for the year ending 31 December 2024 under the Existing Mutual Supply Framework Agreement

It is stated in the Board Letter that reference is made to the Prospectus in relation to the reasons for and benefits of entering into the Existing Mutual Supply Framework Agreement. As disclosed in the Prospectus, one of the many reasons for entering into the Existing Mutual Supply Framework Agreement is that given the Group's involvement in the Obi projects with TBP, the Indonesian Partner, it is (a) mutually beneficial for the Group to sell a stable and sizable amount of production equipment and supplies, repair materials and raw and auxiliary materials, including critical components for certain production equipment used in the HPAL project and the RKEF project on the Obi Island, to satisfy the production needs of the Indonesian Entities and of other associates of HG; and (b) more convenient for the HG Group and/or associates of HG to provide related administrative services to the Group.

For the year ended 31 December 2023, the annual cap in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group was USD2,377.1 million and the historical transaction amount was USD430 million, representing approximately 18% of the annual cap. The annual cap for the year ended 31 December 2023 was not primarily reached due to the additional time required to obtain the necessary regulatory approvals for the construction of the Obi projects, which resulted in HG Group's demand for the supply of goods from the Group to be lower than initially expected. In particular, phase III of the HPAL project was originally expected to commence operation in December 2023, but did not enter into actual operation until mid-2024 and did not reach the full designed production capacity until the third quarter of 2024; phase II of the RKEF project was originally expected to begin construction in January 2023, but only received the necessary regulatory approvals in December 2023, with the first production line (accounting for approximately 8.3% of the total designed production capacity) now expected to enter into operation by early 2025 and the remaining production lines (accounting for approximately 91.7% of the total designed production capacity) by 2027. Based on the unaudited transaction values for the nine months ended 30 September 2024 as disclosed above, the utilization rate of the existing annual cap for the year ending 31 December 2024 has already reached 99.4%. Due to the backlog of construction of the Obi projects for the year ending 31 December 2024 and given that the construction of the Obi projects will continue to progress, and considering that demand from HG Group corresponds to the status of the construction of the Obi projects, the Board envisages that HG Group's demand will increase for the financial year ending

31 December 2024. In addition, as the Group's procurement team in Indonesia becomes more experienced and mature, the Company decided in September 2024 to supply nickel core and raw and ancillary materials sourced by the Group, as opposed to third party suppliers, to HJF for the purposes of the Obi projects.

In light of the above, the Board proposes to revise the annual cap to reap the benefits of entering into the Existing Mutual Supply Framework Agreement and to satisfy the increasing demand of HG Group and/or associates of HG and/or the Indonesian Entities.

The Directors are of the view that the revised annual cap for the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group pursuant to the Existing Mutual Framework Agreement for the year ending 31 December 2024 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.2 *Historical transaction value and existing annual cap*

The transaction values under the Existing Mutual Supply Framework Agreement for the years ended 31 December 2022 and 2023 (audited) and the nine months ended 30 September 2024 (unaudited) in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group are as follows:

	Year ended 31 December 2022 *(US$ million)*	**Year ended 31 December 2023** *(US$ million)*	**Nine months ended 30 September 2024** *(US$ million)*
Historical transaction value (*note 1*)	297.4	430.0	348.0
Existing annual caps	626.7	2,377.1	350.1 *(Note 2)*
Utilisation rate	47.5%	18.1%	99.4%

Notes:

(1) Includes intra-group transactions involving the supply of nickel products by the Indonesian Entities, which are connected subsidiaries of the Company and project companies of the Obi projects, to other members of the Group, as well as the purchase of production equipment and supplies, repair materials and raw and auxiliary materials by the Indonesian Entities from the Group.

(2) For clarity's sake, the existing annual cap for the year ending 31 December 2024 in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group amounts to approximately US$350.1 million, while the actual transaction value in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group for the nine months ended 30 September 2024 amounts to US$348.0 million.

2.3 Proposed revised annual cap for the year ending 31 December 2024

As stated in the Board Letter, the existing and revised annual caps under the Existing Mutual Supply Framework Agreement in relation to the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group are as follows:

	Year ending 31 December 2024 *(US$ million)*
Existing annual cap	350.1
Revised annual cap	680.7

As at the Latest Practicable Date, the existing annual cap for the financial year ending 31 December 2024 has not been exceeded. Save for the proposed revision of annual cap in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group for the year ending 31 December 2024, all other terms of the Existing Mutual Supply Framework Agreement remain unchanged. Details of the principal terms and pricing policy of the Existing Mutual Supply Framework Agreement are set out in the Prospectus.

In determining the revised annual cap, the Board took into account the following matters: (i) the historical transaction amount for the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group in the financial years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, respectively; (ii) the expected utilization rate of the existing annual cap for the aforementioned type of transaction for the financial year ending 31 December 2024; (iii) the anticipated continuous increase in demand from HG Group for the supply of goods from the Group as detailed above in "2.1 Reasons for and benefits of revising the annual cap for the year ending 31 December 2024 under the Existing Mutual Supply Framework Agreement"; and (iv) the Group's overall business development strategy and business plan for continuous growth.

2.4 Our analysis on revising the annual cap for the year ending 31 December 2024 under the Existing Mutual Supply Framework Agreement

As discussed in section 2.2 above, for the year ended 31 December 2023, the annual cap in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group was US$2,377.1 million and the historical transaction amount was US$430 million, representing merely approximately 18.1% of the annual cap.

As disclosed in the Board Letter, the annual cap for the year ended 31 December 2023 was not reached due to the additional time required for the construction of the Obi projects that resulted in HG Group's demand for the supply of goods from the Group to be lower than initially expected.

As also discussed in section 2.2 above, based on the unaudited transaction values for the nine months ended 30 September 2024 as disclosed above, the utilization rate of the existing annual cap for the year ending 31 December 2024 has already reached 99.4%.

We enquired the Management and understand that:

(1) Due to certain regulatory approval processes, phase II of the RKEF project and phase III of the HPAL project have experienced delay in construction timetable. As such, the annual cap in respect of the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group was under utilised, and the transaction amount originally expected to incur in the year 2023 has been and will be delayed to the year 2024 onwards. The Management foresees that aforementioned projects are expected to achieve full scale operation in 2027; and

(2) The Group's procurement team in Indonesia has become more mature in second half of 2023, and the nickel ore, raw and auxiliary materials sourced by them are of high quality which could substantially satisfy the demand from the Obi project. Those nickel ore and raw and auxiliary materials to the Obi project have been and are currently supplied by Independent Third Parties. The Management decided in September 2024 to source and supply such nickel ore and raw and auxiliary materials to the Obi projects internally which could enhance the Group's profitability, and such transactions are expected to settle in December 2024. The utilization rate of the existing annual cap for the year ending 31 December 2024 has already reached 99.4% as at 30 September 2024. The existing annual cap in respect of the supply of production equipment and supplies for the year ending 31 December 2024 could not allow the aforesaid to materialize.

We also obtained the calculation basis of the revised annual cap from the Management and note that the revised annual cap is a sum of:

(1) historical transaction amount for the nine months ended 30 September 2024;

(2) the forecasted transaction amount for the fourth quarter of 2024 based on operation team's estimation with reference to the historical transaction unit price actually incurred for the nine months ended 30 September 2024 and the quantity demanded based on expected construction progress in the fourth quarter of 2024; and

(3) supply of nickel ore and raw and auxiliary materials to the Obi project from the Group's Indonesia team to the Obi project which is expected to settle in December 2024, as mentioned above.

Having considered the above, we concur with the Directors that the revision of the existing annual cap and the basis for determining the revised annual cap in respect of the supply of production equipment and supplies for the year ending 31 December 2024 is fair and reasonable so far as the Independent Shareholders are concerned.

2.5 *Reasons for and benefits of the 2025 Mutual Supply Framework Agreement*

Reference is made to the Prospectus in relation to the reasons for and benefits of entering into the Existing Mutual Supply Framework Agreement, including but not limited to procuring sufficient amount of nickel ore and coal from the HG Group in a timely and reliable manner and saving transportation and logistics costs.

In view of strengthening the business relationship with the HG Group and to avoid disruptions to the Obi projects, the future development of the Obi projects and the business plans of the Group, the Board considers that the reasons for and benefits of entering into the Existing Mutual Supply Framework Agreement remain apposite.

The Group's Indonesian Partner, which is controlled by HG, currently owns five nickel mines on the Obi Island, including a mine operated by TBP (the "**TBP mine**"), a mine operated by PT Gane Permai Sentosa (the "**GPS mine**"), a mine operated by PT Gane Tambang Sentosa, a mine operated by PT Jikodolong Megah Pertiwi, and a mine operated by PT Obi Anugerah Mineral. Among these mines, the TBP mine and the GPS mine have started mining in 2011 and 2008, respectively, and the remaining three mines have conducted certain exploration activities and will continue to undergo exploration. In light of the significant presence of the HG Group on the Obi Island and the limited availability of other suppliers, save for the supply of coal to the Group, it is envisaged that the HG Group will continue to be the sole supplier/customer of the Group for the relevant goods and services.

The Directors are of the view that the terms of the 2025 Mutual Supply Framework Agreement and the transactions contemplated thereunder are on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

2.6 *Renewal of continuing connected transactions*

As the Existing Mutual Supply Framework Agreement will expire on 31 December 2024, the Company conditionally entered into the 2025 Mutual Supply Framework Agreement with HG on 28 October 2024 in respect of the following transactions:

(1) the HG Group shall supply the Group with nickel ore;

(2) the HG Group and/or associates of HG and/or the Indonesian Entities (which are the subsidiaries of the Group) shall supply the Group (excluding the Indonesian Entities) with nickel products;

(3) the HG Group shall supply coal to the Group, which is used to generate electricity required for the operation of the Obi projects;

(4) the HG Group and/or associates of HG shall lease site construction equipment and machinery used in the construction of the Group's production facilities on the Obi Island ("**Construction Equipment**") to the Group;

(5) the HG Group and/or associates of HG shall provide the Group with administrative services ancillary to the day-to-day administration and operation of the Group in connection with the Obi projects, including without limitation the leasing of vessels to the Group, the making of payments of fees required to be made to the relevant local government authority in Indonesia for the use of certain land located on the Obi Island, Indonesia ("**Land Use Fees**") on behalf of the Group, as well as the provision of electricity to the Group; and

(6) the Group (excluding the Indonesian Entities) shall supply (i) equipment and supplies used for the production of nickel products; (ii) repair materials; and (iii) raw and auxiliary materials required for the nickel product production operations, to the HG Group and/or associates of HG and/or the Indonesian Entities.

2.7 Principal terms of the 2025 Mutual Supply Framework Agreement

A summary of the salient terms of the 2025 Mutual Supply Framework Agreement is set out below:

Date:	28 October 2024
Parties:	(1) the Company; and (2) HG
Term:	From 1 January 2025 to 31 December 2027 (subject to obtaining approval from the Independent Shareholders)
Subject Matter:	Relevant members of the Group (excluding the Indonesian Entities), the HG Group and/or associates of HG and/or the Indonesian Entities, may from time to time enter into separate definitive agreements which shall set out specific terms and conditions for the transactions under the 2025 Mutual Supply Framework Agreement.
Other Terms:	Definitive agreements must in any event be subject to and in compliance with the terms and conditions of the 2025 Mutual Supply Framework Agreement.
Consideration and pricing policies:	Please refer to paragraph headed "2.8 Consideration and pricing policies" below.
Settlement method:	Upon the completion of the relevant services provided, the settlement shall be made within the settlement cycle as agreed under the definitive agreement to be entered into in accordance with the 2025 Mutual Supply Framework Agreement, including but not limited to the settlement of transaction amounts based on a fixed period or other payment methods agreed by both parties.

2.8 *Consideration and pricing policies*

The consideration payable by or to the Group under the 2025 Mutual Supply Framework Agreement will be paid at the time and according to the settlement method to be agreed in the definitive agreements. Such definitive agreements must in any event be subject to and in compliance with the terms and conditions of the 2025 Mutual Supply Framework Agreement.

The consideration under the 2025 Mutual Supply Framework Agreement is determined between the parties following arm's length negotiations and is on normal commercial terms. To understand the pricing policy in the actual transactions under the Existing Mutual Supply Framework Agreement in the year 2022 to 2024, we requested two definitive agreements entered into in each of the year 2022, 2023 and 2024 for each of the above six types of continuing connected transactions under the Existing Mutual Supply Agreement, and we consider the selection basis fair and representative. Further details are set out in the table below:

Type of transaction	Pricing policy	Our work done and analysis
(a) Supply of nickel ore to the Group	The purchase price for nickel ore is determined with reference to the following: (i) the price for nickel ore adjusted for nickel content and moisture content issued by appointed independent surveyors; and (ii) a calculation formula taking into account the mineral benchmark price in accordance with the relevant decree issued by the Minister of Energy and Mineral Resources of Indonesia plus shipping or other transportation costs, as further set out in each definitive agreement. The calculation formula set out in the definitive agreements is typically as follows: Nickel ore purchase price = Mineral Benchmark Price × Nickel Content × (1–Moisture Content) × Correction Factor Please refer to the Board Letter for further details.	The Management provided us with 2 copies of certificate of assay issued and signed by independent surveyors, which certify, among others, percentage of moisture content and nickel content of the subject batch of nickel ore. We also requested, obtained and reviewed six definitive agreements entered into each of year 2022, 2023 and 2024, two in each year, under the Existing Mutual Supply Framework Agreement provided by the Management in relation to supply of nickel ore to the Group, and note that the calculation formula of nickel ore purchase price is substantially the same as those illustrated in the 2025 Mutual Supply Framework Agreement. Having discussed with the Management, we understand that the calculation formula is common in the industry, and we note that the parameters (i.e. nickel content and moisture content) are supported by certificate of assay issued by independent surveyors to ensure fairness between the contracting parties.

Type of transaction	Pricing policy	Our work done and analysis
(b) Supply of nickel products to the Group	The purchase price for the nickel products is determined with reference to the prevailing market price for the relevant type of nickel product, including the prices quoted from Independent Third Party suppliers for the same or comparable nickel products every time when a definitive agreement is about to be entered into, and taking into account the purchase price for nickel ore.	We requested, obtained and reviewed six definitive agreements entered into in each of year 2022, 2023 and 2024, two in each year, under the Existing Mutual Supply Framework Agreement provided by the Management in relation to supply of nickel products to the Group, and we note that the contract price is set at either (i) a fixed unit price for every 1% of nickel content in 1 ton of nickel product or (ii) market price to be obtained at certain point of time on publicly available metal market. We discussed with the Management and understand that the "fixed unit price" is determined with reference to the prevailing market price as quoted from Independent Third Party suppliers every time when a definitive agreement is to be entered into.
(c) Supply of coal to the Group	The supply price for coal is calculated by multiplying the unit price by actual weight. The unit price of coal shall be determined with reference to (a) market price and conditions; (b) relevant local industry index prices; (c) changes in local policies; (d) coal quality characteristics; and (e) transportation costs. In determining the market price, the Group makes reference to the benchmark price of coal periodically published by the Ministry of Energy and Mineral Resources of Indonesia (which, at the time of this circular, can be found on the ministry's website at https://www.minerba.esdm.go.id/harga_acuan).	We requested, obtained and reviewed six definitive agreements entered into in each of year 2022, 2023 and 2024, two in each year, under the Existing Mutual Supply Framework Agreement provided by the Management in relation to supply of coal to the Group, and note that the price of coal is determined with reference to (i) a recent average coal price as quoted on Indonesia Coal index; (ii) coal quality characteristics as specified in the definitive agreement and (iii) certain markup to account for the transportation cost. According to the definitive agreement, in the event of change in market conditions, the contracting parties shall re-negotiate the price of coal.

Type of transaction	Pricing policy	Our work done and analysis
(d) Lease of Construction Equipment to the Group	The rental consideration for each type of Construction Equipment is determined with reference to the prevailing market prices of the same or comparable equipment or machinery leased in the ordinary and usual course of business. Before entering into a definitive agreement, the Group will seek quotation from two or more comparable Independent Third Parties to ensure that the rental charged by HG is fair and reasonable and is no less favourable than those offered by the Independent Third Parties. The total rent payable is based on the quantity of each type of Construction Equipment used and the recorded rental usage of the same, as further set out in each definitive agreement.	We requested two definitive agreements entered into in each of year 2022, 2023 and 2024 under the Existing Mutual Supply Framework Agreement, six definitive agreements in total, and were advised by the Management that there was only one definitive agreement entered into in each of the year ended 2022, 2023 and 2024, and the lease of Construction Equipment is occasional for a certain period of time and on as-needed base. We then obtained and reviewed three definitive agreements entered into in each of year 2022, 2023 and 2024, one in each year, under the Existing Mutual Supply Framework Agreement provided by the Management in relation to lease of equipment to the Group, and we discussed with the Management and understand that the lease of Construction Equipment is occasional for a certain period of time and on as-needed base, and the rental consideration of each type of Construction Equipment is determined based on the then current market price of same or similar equipment or machinery available for lease from Independent Third Party vendors in the ordinary and usual course of business (further detail of the Group's internal control measure on obtaining quotation from Independent Third Parties to safeguard the fairness and reasonableness of transaction price will be discussed in Section 2.11 below).

Type of transaction	Pricing policy	Our work done and analysis
(e) Provision of administrative services to the Group	The fees for the administrative services is generally determined on a cost basis depending on actual usage of the relevant services. For example, rental payable for the lease of vessels is based on the type and/or size of vessels, and is determined with reference to the prices charged by Independent Third Parties. The Group also reimburse the HG Group for the amount of land use fees paid by them on behalf of the Group, which is calculated with reference to the area of land used by the relevant member of the Group and the rate of fees charged by the relevant local government authority in Indonesia.	We requested two definitive agreements entered into in each of year 2022, 2023 and 2024 under the Existing Mutual Supply Framework Agreement, six definitive agreements in total, and were advised by the Management that there are no definitive agreement regarding the administrative services. We discussed with the Management and understand that the administrative services currently provided to the Group under the Existing Mutual Supply Framework Agreement and to be provided to the Group pursuant to the 2025 Mutual Supply Framework Agreement refers to the administrative services ancillary to the day-to-day administration and operation of the Group in connection with the Obi projects, including without limitation the leasing of vessels to the Group, the making of payments of the Land Use Fee on behalf of the Group, as well as the provision of electricity to the Group, which is/will be incurred along the operation of the Obi projects, and is/will be charged to the Group based on actual usage of such services with nil markup. We obtained and reviewed two debit notes in each of year 2022, 2023 and 2024, two in each year, six in total, charged to the Group. We note that the description on debit notes says the subject fee is "reimbursement" on certain service rendered to the Group on a cost basis, and we understand from the Management that no markup has been added.

Type of transaction	Pricing policy	Our work done and analysis
(f) Supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group	The price for the Group's sale of production equipment and supplies and repair materials is determined based on reasonable profit margin on top of the Group's procurement costs and related expenses (e.g. labor and logistics costs). The Company engaged an independent consultant to conduct a benchmarking study in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The transactional net margin method was selected as the pricing method for the purpose of the study and the full cost mark-up ("**FCMU**") ratio was selected as the most appropriate profit margin indicator. A range of reasonable profit margin levels was determined by reference to the weighted average FUMU ratios of a number of comparable companies over a three-year period. The FCMU ratios adopted by the Group for the sale of production equipment and supplies and repair materials are within the arm's length interquartile range as determined in the benchmarking study. The price for the Group's sale of raw and auxiliary materials is determined with reference to the prevailing market price for the relevant type of material, including the prices offered by Independent Third Party suppliers for the same or comparable materials every time when a definitive agreement is about to be entered into.	We requested, obtained and reviewed six definitive agreements entered into in each of year 2022, 2023 and 2024, two in each year, under the Existing Mutual Supply Framework Agreement provided by the Management in relation to supply of production equipment by the Group, and we note that the total contract price in each of the definitive agreements is a fixed price including all charges before the equipment delivery. We also note that the total contract price is arrived at after adding the products of number of units and unit price of all equipment and supplies under such definitive agreement. We discussed with the Management and understand that the unit price of each equipment has taken into account all the costs, including but not limited to procurement costs, labor and logistic costs with certain percentage of markup. Accordingly, the total contract price in each of the definitive agreements is a fixed price including all charges before the equipment delivery. The transaction price will be no less favorable than those offered by Independent Third Parties buyers. Further detail of the Group's internal control measure on obtaining quotation from Independent Third Parties to safeguard the fairness and reasonableness of transaction price will be discussed in Section 2.11 below.

As stated in the Board Letter, in any event, the Group will ensure that (i) the consideration payable by the Group shall be no less favorable than the price that is available from Independent Third Party suppliers for the same or comparable products and services; and (ii) the consideration payable to the Group shall be no more favorable to the HG Group and/or associates of HG and/or the Indonesian Entities than the price that is available to Independent Third Party purchasers for the same or comparable products. Where it is impracticable to make reference to the prices offered by Independent Third Party suppliers for comparable goods or services, the Group will take into consideration (i) the terms of market transactions of a similar size and nature recently entered into by the Group or Independent Third Parties, and the latest market information of such Independent Third Party suppliers; and (ii) the cooperative specifications, cost structure, profit margin, market condition and development strategy in determining the prices pursuant to the 2025 Mutual Supply Framework Agreement to ensure the terms of the agreements are in the interest of the Group.

2.9 *Historical transaction amounts and proposed annual caps*

The total payments made by the Group, or to the Group, for the mutual provision of products and services for each of the years ended 31 December 2022 and 2023 and the nine months ended 30 September 2024, together with the proposed annual caps for the aggregate payments to be made by the Group, or to the Group, under the 2025 Mutual Supply Framework Agreement for each of the years ending 31 December 2025, 2026 and 2027 are as follows:

	For the year ended 31 December 2022			For the year ended 31 December 2023			For the year ended 31 December 2024		
	Annual cap	Actual transaction amount	Difference	Annual cap	Actual transaction amount	Difference	Annual cap	Actual transaction amount as of 30 September 2024	
	(US$ million)	*(US$ million)*	*(US$ million)*	*(US$ million)*	*(US$ million)*	*(US$ million)*	*(US$ million)*	*(US$ million)*	*(as a percentage of the annual cap)*
Expense-based									
(a) Supply of nickel ore to the Group	261.8	165.9	95.9	423.7	203.2	220.5	1,026.7	165.9	16.2%
(b) Supply of nickel products to the Group	2,882.5	1,389.8	1,492.7	6,336.4	2,180.6	4,155.8	8,843.3	2,125.3	24.0%
(c) Supply of coal to the Group	46.7	17.5	29.2	109.6	12.5	97.1	251.1	10.5	4.2%
(d) Lease of Construction Equipment to the Group	14.8	4.6	10.2	25.9	2.3	23.6	39.6	1.7	4.3%
(e) Provision of administrative services to the Group	67.8	3.0	64.8	124.2	6.9	117.3	185.6	28.5	15.4%
Revenue-based									
(f) Supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group[(1)]	626.7	297.4	329.3	2,377.1	430.0	1,947.1	350.1	348.0	99.4%

Note:

(1) Includes intra-group transactions between the Indonesian Entities, which are the Company's connected subsidiaries on the one hand, and other members of the Group on the other hand.

The historical annual caps for the years ended 31 December 2022 and 2023 were not fully utilized primarily due to the following factors:

a. Additional time was required to obtain the necessary regulatory approvals for the construction for the Obi projects, which resulted in lower demand for goods than initially expected. In particular, phase III of the HPAL project was originally expected to commence operation in December 2023, but did not enter into actual operation until mid-2024 and did not reach the full designed production capacity until the third quarter of 2024; phase II of the RKEF project was originally expected to begin construction in January 2023, but only received the necessary regulatory approvals in December 2023, with the first production line (accounting for approximately 8.3% of the total designed production capacity) now expected to enter into operation by early 2025 and the remaining production lines (accounting for approximately 91.7% of the total designed production capacity) by 2027.

b. Driven by declining market prices, the actual prices for nickel ore, nickel products and coal were considerably lower than initially expected. In particular, depending on the percentage of nickel content, the unit prices for nickel ore were approximately 6%-10% and 19%-24% lower than initially expected for the years ended 31 December 2022 and 2023, respectively; depending on the type of nickel product, the unit prices for nickel products were approximately 31%-72% and 31%-78% lower; and the unit prices for coal were approximately 66% and 62% lower than expected for the same years.

2.10 Basis of the proposed annual caps and our analysis

The proposed annual caps for the transactions contemplated under the 2025 Mutual Supply Framework Agreement are determined with reference to the following basis:

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
For the supply of nickel ore and coal to the Group	(i) the increase in production capacity of the Obi projects. As at the Latest Practicable Date, production lines under phases I and II of the HPAL project have reached the annual designed production capacity of 55,000 metal tons per annum and the utilization rate has steadily exceeded 100%, whereas production lines under phase I of the RKEF project have reached the annual designed production capacity of 95,000 metal tons per annum. These production lines have generated stable output in 2024 and are expected to maintain a utilization rate of over 100% in 2025 to 2027. Production lines under phase III of the HPAL project are expected to reach the annual designed production capacity of 65,000 metal tons per annum in 2025 and phase II of the RKEF project will gradually commence operations in 2025 and generate output. It is expected that all production lines under the Obi projects will be put into operation and reach the production capacity by 2027 and there will be an increase in production of nickel products that will result in an increase in demand for nickel ore and coal, and given that the quantity of nickel ore and coal to be purchased for the Obi projects (measured in metric tons) is directly correlated with the production capacity, the demand for nickel ore and coal is expected to grow annually;	We obtained from the Management the calculation basis of the proposed annual caps for the supply of nickel ore to the Group, and we note that the annual caps for each of the three years ended 31 December 2025, 2026 and 2027 are arrived at after considering, among others: (i) the amount of nickel ore demanded by each project; • the annual designed production capacity of each project; • the historical and expected utilization rate of the production capacity of each project; • the percentage of moisture content and nickel content in each type of nickel ore; • the recovery rate of raw nickel ore from the production process; and (ii) the current price of nickel ore in 2024 and the expected growth rate of Nickel ore price with reference to recent market trend and Indonesia inflation rate, agreed by internal industry expert Quantitatively speaking, we found that the proposed annual cap is arrived at based on the following calculation formula:– A × B/C/(1 – D)/E × F A: price of nickel ore (USD/ton)

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
	(ii) the anticipated prices of nickel ore (of varying nickel content) in 2025 to 2027 having regard to the forecasts of major international economic organizations on macroeconomics as well as the current trends in nickel ore prices and coal prices. In particular, the Company noted that (a) the average unit price of nickel, as quoted on the London Metal Exchange, had increased by approximately 10.9% in the second quarter of 2024 compared to the first quarter of the year; and (b) the annual inflation rate of Indonesia is projected to be approximately 2.5% for 2024 according to the World Economic Outlook published by the International Monetary Fund. In light of the above and taking into account a reasonable buffer for market volatility, the Company envisages that there will be a year-over-year increase in the price for nickel ore of approximately 15% for 2025 and approximately 5% for 2026 and 2027; and (iii) in determining the proposed annual caps for the supply of coal to the Group, the Company used the following calculation formula: coal consumption per ton of nickel processed × nickel production capacity × coal price.	B: production capacity (ton) C: percentage of nickel in nickel ore D: moisture content in nickel ore E: nickel ore recovery rate F: percentage of supply from HG Group (out of total supply from HG Group and Independent Third Parties) In estimating the price of nickel ore in 2025, we enquired the Management and understand that the Management obtained average transacted price of nickel ore actually purchased by the Group in the first half of 2024 from the business department to assume the nickel ore base price in 2024; then, the Management note that nickel price in the second quarter of 2024 increased by around 11% from first quarter of 2024, the estimated nickel ore price has been upwardly adjusted by 10%; lastly, in view of an inflation of approximately 2.5% in Indonesia, the Management also assigned 5% of inflation adjustment factor to allow some buffer for market volatility. The nickel ore price is also assumed to increase by 5% in each of 2026 and 2027. We have reviewed the historical transaction data provided by business department to the Management, the nickel price fluctuation trend obtained from London Metal Exchange and Shanghai Metals Market and Indonesia inflation rate available on the website of International Monetary Fund and do not find inconsistency against the figures adopted by the Management. The nickel ore price is also assumed to increase by 5% in each of 2026 and 2027.

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
		Production capacity in each Obi projects are the objective setting of such production facilities and are not Management's subjective judgement. Figures of each of percentage of nickel in nickel ore, moisture content in nickel ore and nickel ore recovery rate are historical figures provided by business department to the Management based on the actual condition. We understand from the Management such figures depend on quality of nickel ore procured by the Group. We requested and obtained 2 certificates of assay issued by independent surveyors, and the percentages of moisture content in such 2 batches of nickel ore are not substantially different from the figure adopted by the Management in the calculation. Percentage of supply from HG Group (out of total supply from HG Group and Independent Third Parties) are historical figures provided by business department to the Management based on the actual condition. We obtained from the Management the calculation basis of the proposed annual caps for the supply of coal to the Group, and we note that the annual caps for each of the three years ended 31 December 2025, 2026 and 2027 are arrived at after considering, among others: (i) the amount of coal demanded by each project; • the annual designed production capacity of each project;

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
		• the historical amount of coal consumption per each ton of Nickel produced in each project; • around 2 months of extra coal reserve to be reserved on site in each year; and (ii) the current price of coal in Indonesia and the expected growth in coal price due to shortage of international supply Quantitative speaking, we found that the proposed annual cap is arrived at based on the following calculation formula:– coal consumption per ton of nickel (ton) × nickel production capacity (ton) × coal price (USD per ton) Coal consumption per ton of nickel is provided by business department to the Management based on actual condition on the Obi Island, which is objective historical figure and is not Management's subjective estimation. Production capacity in each Obi projects are the objective setting of such production facilities and are not Management's subjective judgement. Coal price estimation in 2025, 2026 and 2027 are based on the same logic as nickel ore as mentioned above. The 2024 base price of coal adopted by the Management is based on the average coal price in the first half of 2024 obtained from London Metal Exchange and Shanghai Metals Market, which are objective figures obtained from public domain.

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
For the supply of nickel products to the Group	(i) the increase and expected increase in production capacity of the Obi projects as detailed above in relation to the basis of determining the annual caps for the supply of nickel ore and coal to the Group; (ii) the expected demand for nickel products produced by the Obi projects, based on agreements entered into with downstream customers of the Group; (iii) the anticipated prices of various nickel products (including nickel hydroxide, cobalt hydroxide, nickel sulfate, cobalt sulfate, electric cobalt and ferronickel) from 2025 to 2027 based on the forecasts by the Company's sales team of the prices of nickel products, with reference to the current price trends of nickel products on industry websites such as Shanghai Metals Market (SMM) and the forecasts of major international economic organizations on macroeconomics, including an annual inflation rate of approximately 2.5% based on the International Monetary Fund's projection for 2024 and a reasonable buffer for market volatility; and (iv) in determining the proposed annual caps, the Company used the following calculation formula: price of the relevant nickel product × expected sales volume of the relevant nickel product.	We obtained from the Management the calculation basis of the proposed annual caps for the supply of nickel products to the Group, and we note that the annual caps for each of the three years ended 31 December 2025, 2026 and 2027 are arrived at after considering, among others: (i) the increase and expected increase in production capacity of each of the Obi projects; (ii) the amount of nickel products to be produced from each of the Obi projects and the expected demand for nickel products produced by the Obi projects, based on agreements already entered into with downstream customers of the Group; and (iii) the anticipated prices of various nickel products from 2025 to 2027 based on the forecasts by the Group's sales team of the prices of nickel products and with reference to the current price trends of nickel products on industry websites. Quantitative speaking, we found that the proposed annual cap is arrived at based on the following calculation formula:– Sum of: price of each nickel product (USD per ton) × expected sales volume of each nickel product (ton)

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
		Base price of each nickel product, namely nickel hydroxide, cobalt hydroxide nickel sulfate, cobalt sulfate, electric cobalt and ferronickel in 2024 adopted by the Management is based on the average price in the first half of 2024 obtained from London Metal Exchange and Shanghai Metals Market, which are objective figures obtained from public domain. Price estimation for each nickel product in 2025, 2026 and 2027 are based on the same logic as nickel ore as mentioned above. Expected sales volume of each nickel product is based on the actual production capacity on the Obi Island, which is objective historical figure and is not Management's subjective estimation.
For (i) the lease of Construction Equipment and (ii) the provision of administrative services to the Group	(i) the gradual increase in production capacity of the Obi projects from 2025 to 2027 as detailed above and the corresponding expansion in scope of and accordingly increase in demand for administrative services and Construction Equipment for the HPAL project and RKEF project: • with respect to the lease of Construction Equipment to the Group, the expected demand attributable to phase III of the HPAL project and phase II of the RKEF project was estimated considering factors such as expected maximum number of production lines, expected maximum production capacity and construction progress of these phases, as well as specific Construction Equipment needed;	We discussed with the Management and understand that the gradual increase in production capacity of the Obi projects from 2025 to 2027 will result in the corresponding expansion in scope of and accordingly increase in demand for administrative services and Construction Equipment for the Obi projects. We obtained from the Management the calculation basis of the proposed annual caps for the lease of Construction Equipment and the provision of administrative services to the Group, and we have discussed with the Management and we note and understand that the annual caps for each of the three years ended 31 December 2025, 2026 and 2027 are arrived at after considering, among others: <u>with respect to the lease of Construction Equipment to the Group</u> (i) the historical transaction amounts in the year ended 31 December 2023 and the nine months ended 30 September 2024;

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
	• with respect to the provision of administrative services to the Group, the expected demand attributable to phase III of the HPAL project and phase II of the RKEF project was estimated considering factors such as: (a) the expected maximum number of production lines, expected maximum production capacity and construction progress of these phases; (b) the increase in number of vessels to be leased to accommodate the operations of the Obi projects; (c) expected area of land needed in connection with the development of each of these phases; and (d) the expected consumption of electricity by the Group in connection with the development of these phases as well as the costs for procuring electricity as authorized by the Indonesian government (namely the Indonesian Ministry of Energy and Mineral Resources and the People's Assembly of the region where the power generation is located);	(ii) the expected maximum number of production lines, expected maximum production capacity and construction progress of the Obi projects, in particular, phase III of the HPAL project operated by ONC and phase II of the RKEF project operated by KPS, and the type of specific Construction Equipment needed by each project; (iii) the number of production lines and maximum production capacity of phases I and II of the RKEF project operated by HPL, and the type of specific Construction Equipment needed by such project; Quantitative speaking, we found that the proposed annual cap is arrived at after considering (a) the historical transaction amounts in the year ended 31 December 2023, the six months ended 30 June 2024 and the three months ended 30 September 2024; (b) the fact that (i) phases I and II of the HPAL project operated by HPL has already been in full operation; (ii) phase III of the HPAL project operated by ONC started full operation in mid-2024; and (iii) phase II of the RKEF project operated by KPS will start full operation in early 2025; and (c) annual growth rate of 5%. <u>with respect to the provision of administrative services to the Group</u> (i) the historical transaction amounts in the year ended 31 December 2023 and the nine months ended 30 September 2024;

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
	(ii) with respect to the Group's lease of Construction Equipment, the Group envisages that there will be a sizeable increase in the costs of lease compared to previous years, primarily due to a newly-entered lease of cargo cranes starting from 2024. Other than that, the demand for Construction Equipment and the costs of leasing such Construction Equipment are expected to remain steady for the years 2025 to 2027. As such, the incremental year-over-year increase in the proposed annual caps for 2025 to 2027 is primarily attributable to an upward adjustment due to macro-economic factors.	(ii) the expected maximum number of production lines, expected maximum production capacity and construction progress of the Obi projects, in particular, phase III of the HPAL project operated by ONC and phase II of the RKEF project operated by KPS; (iii) the number of production lines and maximum production capacity of phases I and II of the RKEF project operated by HPL; (iv) the expected number and expected increase in number of vessels to be leased to accommodate the operations of the Obi projects; (v) the expected area of land needed in connection with the development of each of these phases; and (vi) the expected consumption of electricity by the Group in connection with the development of these phases as well as the costs for procuring electricity. Quantitative speaking, we found that the proposed annual cap is arrived at after considering (a) the historical transaction amounts in the year ended 31 December 2023, the six months ended 30 June 2024 and the three months ended 30 September 2024; (b) the fact that (i) phases I and II of the HPAL project operated by HPL has already been in full operation; (ii) phase III of the HPAL project operated by ONC started full operation in mid-2024; and (iii) phase II of the RKEF project operated by KPS will start full operation in early 2025; and (c) annual growth rate in unit price of 5%.

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
For the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group	(i) the expected amount of production equipment and supplies, repair materials and raw and auxiliary materials required by the HG Group, the Indonesian Entities and by other associates of HG, which correspond to the status of construction of the HPAL project production facilities and the RKEF project production facilities on the Obi Island in 2025, 2026 and 2027; • due to certain delays in the construction of phase III of the HPAL project and phase II of the RKEF project in 2023 as detailed above, it is expected that all production lines under construction will commence operation and reach production capacity by 2027, and as a result the procurement of supplies will be adjusted accordingly to reflect the actual progress of the construction and it is expected that the demand for the supply of production equipment and supplies, repair materials and raw and auxiliary materials will reach its peak in 2027;	We obtained from the Management the calculation basis of the proposed annual caps for the supply of production equipment and supplies, repair materials and raw and auxiliary materials by the Group, and we have discussed with the Management and we note and understand that the annual caps for each of the three years ended 31 December 2025, 2026 and 2027 are arrived at after considering, among others: (i) the delay in construction progress of phase II of the RKEF project and phase III of the HPAL project as discussed in section 2.2 above; (ii) The Group's procurement team in Indonesia has become more mature in second half of 2023, and the anticipated increase in proportion of production equipment and related supplies to be purchased by HPL, ONC, HJF and KPS from the Group (excluding the Indonesian Entities) as opposed to purchasing directly from different third party suppliers, as discussed in section 2.2 above; and (iii) the expected increase in prices of various materials required from year 2025 onwards.

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
	(ii) the anticipated increase in the proportion and variety of production equipment and related supplies, and raw and auxiliary materials (particularly, sulfur and liquid alkali), to be purchased by HPL, ONC, HJF and KPS from the Group (excluding the Indonesian Entities). Purchases from the Group (excluding the Indonesian Entities) is expected to account for almost all of their respective total demands for such equipment and materials in connection with the construction and operations of the Obi projects. This is due to a strategic shift in business model to increase their proportion of such purchases through the Group (excluding the Indonesian Entities) as opposed to purchasing directly from different third party suppliers, allowing the Obi projects to benefit from a more streamlined and reliable supply and improved cost-control due to the increased volume of purchase and/or decreased transportation costs; (iii) the anticipated prevailing market prices of the same or comparable equipment and materials (such as semi-coke, sulfur and liquid alkali) supplied by the Group in the ordinary and usual course of business.	Quantitative speaking, we found that the proposed annual cap is arrived at after considering (a) the historical transaction amounts in the year ended 31 December 2023, the six months ended 30 June 2024 and the three months ended 30 September 2024; (b) the fact that (i) phases I and II of the HPAL project operated by HPL has already been in full operation; (ii) phase III of the HPAL project operated by ONC started full operation in mid-2024; and (iii) phase II of the RKEF project operated by KPS will start full operation in early 2025; (c) the shift of procurement from independent third party suppliers to procurement by the Group's procurement team as discussed in section 2.2 above; and (d) annual growth rate in unit price of 5%.

Type of transaction	Basis for the proposed annual caps	Our work done and analysis
For all transactions under the 2025 Mutual Supply Framework Agreement	(i) the historical transaction amounts of the transactions under the Existing Mutual Supply Framework Agreement; (ii) any upward adjustment due to macro-economic factors, including inflation of approximately 2.5% in Indonesia according to public sources such as the World Economic Outlook published by the International Monetary Fund in 2024; and (iii) a reasonable buffer for volatility in the market for the relevant goods and services.	We reviewed the aforesaid calculation basis and discussed with the Management, and we note and understand that, when determining the respective annual caps for the year ending 31 December 2025, among others, the historical transaction amounts for each transaction under the Existing Mutual Supply Framework Agreement have been considered. The Management has also made reference to the inflation rate of 2.5% in Indonesia in any upward adjustment due to macro-economics factors when forecasting the annual caps for the years ending 31 December 2025, 2026 and 2027. We looked into the website of International Monetary Fund and found the inflation rate of 2.5% in Indonesia in 2024. As mentioned above, price trend of different materials/products is expected to have an annual growth rate of 5% to allow buffer for market volatility, taking into account the inflation rate of 2.5% in Indonesia.

2.11 Internal control measures

As stated in the Board Letter, to safeguard the interests of the Company and its Shareholders as a whole, particularly the minority Shareholders, the Company has adopted internal approval and monitoring procedures to ensure that terms under the continuing connected transactions of the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement are fair and reasonable or no less favorable than terms available to or from Independent Third Parties and are carried out under normal commercial terms:

(1) each transaction to be conducted in respect of the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement shall comply with the relevant policies of the Company;

(2) the independent non-executive Directors will review the continuing connected transactions under the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement every year including the pricing policy thereunder and confirm in the annual report whether the transactions have been entered into in the ordinary and usual course of business, on normal commercial terms or better, and the terms of the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement are fair and reasonable and in the interests of the Shareholders as a whole;

(3) the finance department of the Company will closely monitor the transaction updates under the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement, including reviewing and assessing whether the transactions in relation to the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement have been conducted in accordance with the terms of the relevant agreements;

(4) the Company's auditors will report on the continuing connected transactions under the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement every year and provide a letter to the Board, confirming, among others, whether the pricing policies have been adhered to and whether the relevant annual caps have been exceeded;

(5) the Group has risk management and internal control system as well as an independent accounting and financial management system and various departments (such as finance department, audit department and risk management and legal department) to predict, evaluate and control all kinds of risks in business operations;

(6) when considering any renewal of or revisions to the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement, the interested Directors and Shareholders (if applicable) would abstain from voting on the resolutions to approve such transactions at board meetings or shareholders'

general meetings (as the case may be), and the independent non-executive Directors and the Independent Shareholders (as the case may be) would have the right to consider whether the terms of the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of the Company and Shareholders as a whole. If the independent non-executive Directors' approval or the Independent Shareholders' approval (if applicable) cannot be obtained, the Company will not continue the transactions under the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement.

We discussed in detail with the Management about the internal control measures above, in particular, paragraphs (3) and (5) of the internal control measures above, and understand that the following practices and procedures will be adopted:

(1) prior to entering into each definitive agreement under the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement, the relevant department of the Group is responsible for negotiation of the contractual terms with reference to the pricing policies as discussed in section 2.8 above, and the Group will only enter into definitive agreements with the counterparty only if (i) the products/services to be offered to the Group would be on normal commercial terms and no less favourable to the Group than that available from independent third party suppliers; and (ii) the equipment/products to be offered by the Group would be on normal commercial terms and no less favourable to the Group than that available from independent third party purchasers;

(2) the general manager of the Company is held responsible for the final approval of the terms of each definitive agreement under the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement;

(3) any deviation from the contractual terms in the definitive agreement identified by the financial department, audit department and risk management and legal department of the Company will be reported to the Management for further actions; and

(4) the Management will perform spot checks on implementation of the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement to ensure compliance with the contractual terms as and when necessary.

We have also reviewed the Group's internal control manual provided by the Management and note that, among other things, the following guidelines are well written in the internal control manual ("**Manual**") for all employees' reference and adherence:

(1) the Manual provides a list of prominent and common connected persons and definition of connected persons for general reference;

(2) the Manual provides a list of common transactions falling into "continuing connected transactions" for general reference;

(3) the Manual requires that whenever a purchase, sale or service agreement is to be entered into, and the counterparty is a connected person or suspected to be a connected person, the employee should notify the department head, and the department head should notify the securities department immediately. The department head and the securities department will, among others, (i) check the identity of the counterparty and conclude whether it is a connected person; (ii) see if the existing framework agreement approved by the Shareholders could cover such transaction;

(4) to ensure of necessity and fairness of transactions with connected persons, the relevant business department has to (i) explain the necessity and reason of such transactions to the securities department and the finance department; (ii) transaction terms, in particular, the transaction price with connected persons should be no less favorable than those offered by Independent Third Parties. The Manual suggests the business department could obtain comparable pricing from tender or Independent Third Parties;

(5) the Manual strictly prohibits improper transfer of interest to connected persons that harms the interest of the Company or its minority Shareholders; and

(6) finance department will prepare a quarterly report at the end of each quarter presenting the utilization of annual caps for securities department's reference.

We consider the aforementioned internal control measures in place are effective to ensure that terms under the continuing connected transactions of the Existing Mutual Supply Framework Agreement and the 2025 Mutual Supply Framework Agreement are fair and reasonable or no less favorable than terms available to or from Independent Third Parties and are carried out under normal commercial terms.

3. Information of the Group and the parties involved under the Connected Agreements

Please refer to the Board Letter.

4. Conclusion

Having review and analyzed the revision the annual cap for the year ending 31 December 2024 under the Existing Mutual Supply Framework Agreement as stated in section 2.4 above, we are of the view that the basis for determining the revised annual cap is fair and reasonable so far as the Independent Shareholders are concerned.

Having review and analyzed the Group's pricing policies as stated in section 2.8 above, we are of the view that the terms of the 2025 Mutual Supply Framework Agreement and the transactions contemplated thereunder are on normal commercial terms and not prejudicial to the interests of the Company and the Independent Shareholders and are fair and reasonable.

Having review and analyzed the transactions contemplated under the 2025 Mutual Supply Framework Agreement as stated in section 2.10 above, we are of the view that the basis for determining each of the annual caps is fair and reasonable so far as the Independent Shareholders are concerned.

In respect of internal control effectiveness, based on our understanding illustrated in section 2.11 above, we do not doubt the effectiveness of the implementation of the internal control procedures as mentioned above.

OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that the Connected Agreements and the transactions contemplated thereunder (including the proposed annual cap thereof) are in the ordinary and usual course of business, are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Therefore, we would recommend (i) the Independent Board Committee to advise the Independent Shareholders; and (ii) the Independent Shareholders, to vote in favor of the ordinary resolution(s) to approve the Connected Agreements and the transactions contemplated thereunder (including the proposed annual cap thereof) at the EGM.

Yours faithfully,
For and on behalf of
Grand Moore Capital Limited

Florence Ng
Associate Director

Note:

Ms. Florence Ng is a licensed person under the SFO to undertake type 6 regulated activity (advising on corporate finance) and is a responsible officer in respect of Grand Moore Capital Limited's type 6 regulated activity (advising on corporate finance). Ms. Ng has over 10 years of experience in the corporate finance industry in Hong Kong.