



26 December 2024

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

Dear Sirs,

**(1) MAJOR AND CONNECTED TRANSACTIONS IN RELATION  
TO THE JV COMPANIES; AND  
(2) CONNECTED TRANSACTIONS IN RELATION TO PROVISION  
OF FINANCIAL ASSISTANCE TO A CONNECTED SUBSIDIARY  
AND RECEIPT OF FINANCIAL ASSISTANCE  
FROM A CONNECTED PERSON**

**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 JV Agreements, the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge, (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 26 December 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.

**Major and connected transactions**

On 28 October 2024, Ningbo Lygend IPM and TBP, both being existing shareholders of DCM, entered into the DCM Shareholders Agreement to replace the Old DCM Shareholders Agreement. Pursuant to the DCM Shareholders Agreement, the DCM Parties agreed to increase the capital commitment by an IDR equivalent of USD51,620,000 in total, which will be injected into DCM by Ningbo Lygend IPM and TBP in proportion to their respective shareholding in DCM, being 60% to be held by Ningbo Lygend IPM and 40% to be held by TBP. Accordingly, upon completion of the capital contribution, the shareholding ratios of Ningbo Lygend IPM and TBP in DCM shall remain unchanged.

On 28 October 2024, Lygend New Power, TBP and Li Yuen, all existing shareholders of ONC, entered into the ONC Amendment Agreement to vary the ONC Shareholders Agreement and increase the capital commitment by an IDR equivalent of USD466,000,000 in total, which will be injected into ONC by Lygend New Power, TBP and Li Yuen in proportion to their respective shareholding in ONC, being 60% to be held by Lygend New Power, 10% to be held by TBP and 30% to be held by Li Yuen.

On 28 October 2024, Baoxin Special Steel and HPL entered into the BBS Shareholders Agreement in relation to, among others, the establishment of a joint venture company, BBS.

### **Financial Assistance**

On 9 December 2024, KPS entered into the Facility Agreement, pursuant to which the lenders have agreed to make available a term loan facility of up to USD250,000,000 to KPS for the purpose of financing the development and construction of a large-scale ferronickel smelter project located at Obi Island of Indonesia by KPS as part of phase II of the RKEF project to increase the production capacity of the Group, subject to the terms and conditions set out in the Facility Agreement.

It is a condition precedent to the first utilisation under the Facility Agreement that, among other things, the Deed of Guarantee and the TBP Share Pledge be entered into by the relevant parties to secure the full and punctual payment and performance of the Secured Liabilities. In addition, it is a condition subsequent under the Facility Agreement that the NBSS Share Pledge will be entered into by relevant parties after getting necessary regulatory approvals to secure the full and punctual payment and performance of the Secured Liabilities.

### **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, Ningbo Lygend IPM, TBP, Lygend New Power, Li Yuen, Baoxin Special Steel, HPL, 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 as any financial adviser role to the Company but we have acted as an independent financial adviser to the independent board committee and the independent shareholders of the Company in connection with certain continuing connected transactions, the details of which are set out in the Company's circular dated 22 November 2024 (the "**Previous Appointment**"). Save for the current engagement as the Independent Financial Adviser and the Previous Appointment, 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) the Prospectus; (iv) other information provided by the Directors and/or the senior management of the Company (the "**Management**"); (v) the opinions expressed by and the representations of the Directors and the Management; and (vi) 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, Ningbo Lygend IPM, TBP, Lygend New Power, Li Yuen, Baoxin Special Steel, HPL, 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	31 December
	2024	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. Major and connected transactions**

### **2.1 Capital contribution to DCM**

Reference is made to the Prospectus in relation to, among others, the Old DCM Shareholders Agreement.

On 28 October 2024, Ningbo Lygend IPM and TBP, both being existing shareholders of DCM, entered into the DCM Shareholders Agreement to replace the Old DCM Shareholders Agreement. Pursuant to the DCM Shareholders Agreement, the DCM Parties agreed to increase the capital commitment by an IDR equivalent of USD51,620,000 in total, which will be injected into DCM by Ningbo Lygend IPM and TBP in proportion to their respective shareholding in DCM, being 60% to be held by Ningbo Lygend IPM and 40% to be held by TBP. Accordingly, upon completion of the capital contribution, the shareholding ratios of Ningbo Lygend IPM and TBP in DCM shall remain unchanged.

#### **2.1.1 Principal terms of the DCM Shareholders Agreement**

The principal terms of the DCM Shareholders Agreement are set out below:—

##### **Date**

28 October 2024

##### **Parties**

- (i) Ningbo Lygend IPM; and
- (ii) TBP (each a “**DCM Party**”, and collectively “**DCM Parties**”)

### Capital increase and shareholding structure

Prior to entering into the DCM Shareholders Agreement, DCM had an authorized capital of IDR10,100,000,000,000, of which IDR2,525,000,000, representing 25% of the authorized capital of DCM, had been paid up by the existing shareholders of DCM. Immediately prior to entering into the DCM Shareholders Agreement, DCM was held as to 60% by Ningbo Lygend IPM and 40% by TBP.

Pursuant to the DCM Shareholders Agreement, the DCM Parties agreed to increase the capital commitment by an IDR equivalent of USD51,620,000 in total. As set out in the section headed “Reasons for and Benefits of the DCM Shareholders Agreement” in section 2.1.2 below, the reason for the increase in the capital commitment is to allow DCM to construct and operate additional facilities. Of the increase in capital commitment, (i) USD18,067,000, representing 35% of the total capital commitment, will be injected by the DCM Parties in proportion to their respective shareholding upon the approval of the Independent Shareholders; and (ii) USD33,553,000, representing 65% of the total capital commitment, will be injected by the DCM Parties in proportion to the DCM Parties’ respective shareholding in compliance with the applicable laws (including obtaining the relevant PRC ODI approvals), and as and when DCM’s funding needs arise in its construction and operation of the additional facilities, including as and when funding needs arise when DCM begins undertaking preparatory work on the construction of the additional facilities (including hiring the relevant additional personnel, acquiring additional plant and equipment). It is currently expected that the entire amount of the capital injection under the DCM Shareholders Agreement will be completed before or around the end of 2026.

The proposed capital commitment does not involve the use of any proceeds from the IPO. The capital injection will be carried out in stages before or around the end of 2026 and will be financed through the cash flow generated through the business of the Group. If additional financial resources are required, the Company will also consider carrying out equity fund raising transaction.

As Ningbo Lygend IPM will continue to be able to exercise 60% of the voting rights in DCM, DCM remains a subsidiary of the Group and the financial results of DCM will continue to be consolidated into the consolidated statements of the Group.

The amount of capital increase and the amount of total capital commitment were determined by the DCM Parties after arm’s length negotiation with reference to, among other things, the funding requirements of DCM and DCM Parties’ respective interests in DCM. The capital contribution by Ningbo Lygend IPM will be funded by the internal resources of the Group.



### **Future Funding**

If DCM needs additional capital to maintain or expand its business, the DCM Parties agree that DCM shall raise future funding based on the following order of priority:

- (a) firstly, from DCM's borrowings from financial institutions, and in this case the DCM Shareholders agree to provide any required corporate guarantee in line with the requirements from the financial institutions to secure DCM's borrowings;
- (b) next, from borrowings from the DCM Shareholders pro rata to their respective shareholding percentage in DCM; and
- (c) lastly, from additional equity injection from DCM Shareholders, and in this matter DCM shall issue new shares of DCM and the DCM Parties must subscribe such new shares pro rata in respect of its share proportion in DCM. For the avoidance of doubt, the aforementioned additional equity injection and new shares of DCM refer to equity injections and new shares in addition to any capital commitments made under any non-paid-up capital in DCM.
- (d) If a DCM Shareholder cannot or is not willing to contribute in any future funding ("**DCM Non-Participant**"), the other DCM Shareholder ("**DCM Participant**") shall have the pro-rata right, but is not obligated, to make additional contribution funding in the amount of the Non-Participant's portion. If the DCM Non-Participant agrees DCM Participant to make such additional contribution funding, the DCM Non-Participant (together with the DCM Participant) shall procure DCM to issue such number of new shares that is equal to the additional contribution funding amount, to be subscribed by the DCM Participant, as well as to conduct all actions as required by Indonesian Law, including but not limited, to recording the issuance of new shares in the DCM's shareholders' register and Online Single Submission (OSS) System in Indonesia.

### **DCM Board of Directors**

The DCM Board of Directors shall consist of five members of whom one shall be the President Director. Ningbo Lygend IPM shall have the right to nominate a total of three directors, including the Vice President Director whereas TBP shall have the right to nominate a total of two directors, including the President Director, to the DCM Board of Directors. The President Director will not have any special powers, such as veto rights, on the DCM Board of Directors.

### **DCM Board of Commissioners**

The DCM Board of Commissioners shall consist of three members of whom one shall be the President Commissioner. Ningbo Lygend IPM shall have the right to nominate a total of two commissioners, including the President Commissioner, whereas TBP shall have the right to nominate one commissioner to the DCM Board of Commissioners.

Please refer to the Board Letter for other principal terms of the DCM Shareholders Agreement.

#### *2.1.2 Reasons for and benefits of the DCM Shareholders Agreement*

As disclosed in the Board Letter, DCM is responsible for the operation of the industrial park in Obi Island. Given the continuous development of the Obi projects which will result in an increase in deployment of human capital, the Group envisages a need for additional facilities to support the staff who are involved in the Obi projects. Accordingly, the capital injected into DCM will be used for the construction and operation of supporting public auxiliary facilities, such as staff dormitories and canteens, in the industrial park on the Obi Island, which will help to further reduce the operating costs of the Group, increase the profitability and operational efficiency of the Group, and enhance the comprehensive risk resistance ability of the Group.

The Company and TBP, the Indonesian Partner, have collaborated on various projects, such as setting up joint ventures involved in the Obi projects. The Company is of the view that strengthening the relationship with the Indonesian Partner is beneficial to the Group as a whole. The entering into of the DCM Shareholders Agreement and increased capital commitment represents the continued collaboration with the Indonesian Partner, and supports the Company's strategy for the development of its nickel product production projects in the Obi Island, where the Group can continue to leverage on the knowledge and experience of the Indonesian Partner within the Indonesian nickel ore mining business sector, and can pave the way for further business developments and relationships. The increased capital commitment is anticipated to enhance the operational efficiency of DCM and support DCM's purpose of building and running the supporting public auxiliary facilities of the industrial park in Obi Island, generating returns to the Company and bringing synergy effect to the Company and TBP.

The Directors are of the view that the terms of the DCM Shareholders 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.



### 2.1.3 Our analysis

For due diligence purpose, we enquired and obtained from the Management DCM's capital expenditure budgeting (which is included in the Ningbo Lygend IPM Report (as defined below)) and we understand that capital injected into DCM will be used for the construction and operation of supporting public auxiliary facilities, including, among other things, (i) staff dormitories and canteens; (ii) sewage plant, water purification plant and water pipes; (iii) road pavement; (iv) electricity supply; and (v) concrete mixing station, in the industrial park on the Obi Island, and the construction works are expected to complete by the end of the year 2026. These public auxiliary facilities are essential to support the development on the Obi Projects. We further enquired the Management the basis of choosing suppliers, and noted from an internal report prepared by Ningbo Lygend IPM (the "Ningbo Lygend IPM Report") that DCM will procure all the main equipment and materials by way of public tender to ensure fairness and reasonableness of the price of equipment and materials. For general and common equipment and materials, DCM will obtain quotations from suppliers. For rare, unique or specific equipment and materials, DCM will directly negotiate with the suppliers. In any event, the qualification of the suppliers and quality of all the equipment and materials will be strictly safeguarded by, among others, procurement managers, procurement engineers and examination engineers.

Having reviewed the terms of the DCM Shareholders Agreement, discussed with the Management and reviewed the Ningbo Lygend IPM Report provided by the Management, we note that:

- (i) the capital injected into DCM will be used for the construction and operation of supporting public auxiliary facilities, such as staff dormitories and canteens, in the industrial park on the Obi Island. As the Obi project is and will continue to progress, funding is necessary for the operator of the industrial park in Obi Island, i.e. DCM, to support the staff who are and will be involved in the Obi projects. As discussed immediately above, the new public auxiliary facilities to be constructed by DCM is essential to support the development on the Obi projects, and DCM's equipment and materials procurements procedures are considered fair and reasonable to control expense and safeguard the quality of the equipment and materials to be procured;
- (ii) the capital injected by the DCM Parties is in proportion to their respective shareholding upon the approval of the Independent Shareholders, and Ningbo Lygend IPM is currently and will continue to be able to exercise 60% of the voting rights in DCM;

- (iii) If DCM needs additional capital to maintain or expand its business, the future funding mechanism as stipulated in the DCM Shareholders Agreement ensures that the DCM Parties will inject capital by way of borrowings or equity contribution in proportion to their pro rata shareholding in DCM, and, in the event any DCM Party cannot or is not willing to contribute in any future funding, the other DCM Party is able to, but not obliged to, increase their proportion of shareholding in DCM by making additional fundings in exchange for new shares of DCM. The aforementioned arrangement is considered on normal commercial terms and is fair and reasonable;
- (iv) Despite that TBP shall have the right to nominate the President Director, the President Director will not have any special powers, such as veto rights, on the DCM Board of Directors. Accordingly, Ningbo Lygend IPM, who shall have the right to nominate a total of three directors out of five members in the DCM Board of Directors, could control majority of votes casted in the DCM Board of Directors; and
- (v) Ningbo Lygend IPM shall have the right to nominate a total of two commissioners, including the President Commissioner, out of three members in the DCM Board of Commissioners, which means that Ningbo Lygend IPM could have stronger influence in supervising management policies of DCM and the course of management in general regarding DCM's business carried out by the DCM Board of Directors.

Having considered the above, we are of the opinion that (i) the entering into of the DCM Shareholders Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the DCM Shareholders Agreement are on normal commercial terms and are fair and reasonableness so far as the Company and the Shareholders as a whole.

## **2.2 Capital contribution to ONC**

Reference is made to the Prospectus in relation to, among others, the ONC Shareholders Agreement entered into by Lygend New Power, TBP and Li Yuen. Please refer to the Prospectus for details on the board of directors and senior management of ONC and the ONC Shareholders Agreement.

On 28 October 2024, Lygend New Power, TBP and Li Yuen, all existing shareholders of ONC, entered into the ONC Amendment Agreement to vary the ONC Shareholders Agreement and increase the capital commitment by an IDR equivalent of USD466,000,000 in total, which will be injected into ONC by Lygend New Power, TBP and Li Yuen in proportion to their respective shareholding in ONC, being 60% to be held by Lygend New Power, 10% to be held by TBP and 30% to be held by Li Yuen.



### *2.2.1 Principal terms of the ONC Amendment Agreement*

The principal terms of the ONC Amendment Agreement are set out below:-

#### **Date**

28 October 2024

#### **Parties**

- (i) Lygend New Power;
- (ii) TBP; and
- (iii) Li Yuen (each a “ONC Party”, and collectively “ONC Parties”)

#### **Capital Increase and Shareholding Structure**

Prior to entering into the ONC Amendment Agreement, ONC had an authorized capital of IDR6,618,093,678,000, of which the entire authorized share capital amount had been paid up by the existing shareholders of ONC, Lygend New Power, Li Yuen and TBP. ONC is held as to 60%, 30% and 10% by Lygend New Power, Li Yuen and TBP respectively.

Pursuant to the ONC Amendment Agreement, the ONC Parties agree to increase the capital commitment by a total of USD466,000,000. It is intended that prior to the increase in capital commitment, ONC will undertake an increase in authorised share capital in accordance with Indonesian law, to an amount of approximately IDR13,961,026,187,400.

As set out in the section headed “Reasons for and Benefits of the ONC Amendment Agreement” in section 2.2.2 below, the reason for the increase in the capital commitment is to allow ONC to expand its product mix. The ONC parties will inject the additional capital commitment in proportion to their respective shareholding in compliance with the applicable laws (including obtaining the relevant PRC ODI approvals), and as and when ONC’s funding needs arise in its expansion of its product mix, including as and when funding needs arise when ONC begins undertaking preparatory work on the expansion of its product mix (including hiring the relevant additional personnel, acquiring additional plant and equipment). It is currently expected that the entire amount of the capital injection under the ONC Amendment Agreement will, subject to the timing of obtaining the ODI approval and the construction progress, be completed before or around the end of 2027.

The proposed capital commitment does not involve the use of any proceeds from the IPO. The capital injection will be carried out in stages before or around the end of 2027 and will be financed through the cash flow generated through the business of the Group. If additional financial resources are required, the Company will also consider carrying out equity fund raising transaction.

As Lygend New Power will be able to exercise 60% of the voting rights in ONC, ONC is a subsidiary of the Group and the financial results of ONC will continue to be consolidated into the consolidated statements of the Group.

The amount of capital increase and the amount of total capital commitment were determined by the ONC Parties after arm's length negotiation with reference to, among other things, the funding requirements of ONC and ONC Parties' respective interests in ONC. The capital contribution by Lygend New Power will be funded by the internal resources of the Group.

#### *2.2.2 Reasons for and benefits of the ONC Amendment Agreement*

As stated in the Board Letter, ONC is the project company of phase III of the HPAL project. To enable the Group to adapt to diversified market demands, the Group is considering modifying its product mix to include nickel products which have gone through the purification process. Accordingly, the increase in capital commitment will provide capital for ONC to carry out additional processes to purify the nickel products of the Group and thereby diversifying the Group's product matrix. The diversification of the Group's product mix is expected to result in long-term sustainable growth based on achieving economies of scale, reduction of the Group's dependence of the rare metal industry in foreign countries, and safeguarding of the development of the national nickel industry.

Further, similar to the DCM Shareholders Agreement, the entering into of the ONC Amendment Agreement to increase the capital commitment represents the continued collaboration with the Indonesian Partner and the Board considers this to support the Company's strategy for the development of its nickel product production projects in the Obi Island and is beneficial to the Group's development.

The Directors are of the view that the terms of the ONC Amendment 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.



### 2.2.3 *Our analysis*

For due diligence purpose, we enquired and obtained from the Management ONC's capital expenditure budgeting and we note that the capital injection will be used for initial working capital, construction and engineering, equipment acquisition and installation fee and other engineering construction costs in the MHP nickel refining project, which is expected to have a construction period of around 28 months. Full production capacity is expected to achieve two years after completion of the construction period, and the annual production amounts to 50,000 metal tons of nickel cathode and 5,000 metal tons of cobalt cathode. We enquired and the Management advised that ONC will procure major equipment and facilities through public tender to control investment costs, and for the other common and general equipment and facilities, ONC will procure through quotation from and comparison among various independent third party suppliers.

Having reviewed the Prospectus, the terms of the ONC Amendment Agreement, discussed with the Management and reviewed ONC's capital expenditure budgeting provided by the Management, we note that:

- (i) MHP plays an important role for producing nickel and cobalt-rich batter cathodes, which are essential for lithium-ion batteries used in electric vehicles. As discussed in the Industry Overview section of the Prospectus, the new energy vehicle sales volume in China is expected to increase from 3.3 million units in the year 2021 to 10.2 million units in the year 2026, and the power battery installed volume in China is expected to increase from 154.5 GWh in 2021 to 611.9 GWh in the year 2026;
- (ii) as discussed above, ONC's equipment and materials procurements procedures are considered fair and reasonable to control expense and safeguard the quality of the equipment and materials to be procured;
- (iii) increase in capital commitment to ONC, the project company of phase III of the HPAL project, will be used to (i) construct factory buildings on existing land resources; and (ii) purchase major equipment and construct an MHP nickel refining project. Expected annual production upon full production capacity amounts to 50,000 metal tons of nickel cathode and 5,000 metal tons of cobalt cathode, which will create a new revenue stream to the Group and enhance the Group's profitability; and
- (iv) the capital injected by the ONC Parties is in proportion to their respective shareholding upon the approval of the Independent Shareholders, and Lygend New Power is currently and will continue to be able to exercise 60% of the voting rights in ONC.

Having considered the above, we are of the opinion that (i) the entering into of the ONC Amendment Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the ONC Amendment Agreement are on normal commercial terms and are fair and reasonableness so far as the Company and the Shareholders as a whole.

### **2.3 Establishment of BBS**

On 28 October 2024, Baoxin Special Steel and HPL entered into the BBS Shareholders Agreement in relation to, among others, the establishment of a joint venture company, BBS. Pursuant to the BBS Shareholders Agreement, the initial investment amount of BBS is an IDR equivalent of USD505,000,000, which the BBS Parties will inject in proportion to their respective shareholding in BBS, being 5.76% to be held by Baoxin Special Steel and 94.24% to be held by HPL.

#### **2.3.1 Principal terms of the BBS Shareholders Agreement**

The principal terms of the BBS Shareholders Agreement are set out below:-

##### **Date**

28 October 2024

##### **Parties**

- (i) Baoxin Special Steel; and
- (ii) HPL (each a “BBS Party”, and collectively “BBS Parties”)

##### **Shareholding Structure**

Pursuant to the BBS Shareholders Agreement, the BBS Parties agreed that the initial authorized capital of BBS upon its incorporation shall be IDR89,244,000,000 (equivalent to USD5,669,886). It is intended that prior to the investment of the initial investment amount, BBS will undertake an increase in authorized share capital, to an amount of approximately IDR7,948,699,495,000.

As set out in the section headed “Reasons for and Benefits of the BBS Shareholders Agreement” in section 2.3.2 below, the reason for the establishment of BBS and the injection of the initial investment amount is to build and run a HPAL smelting slag treatment plant in Obi Island. Of the initial authorised share capital amount, IDR22,311,000,000 (equivalent to USD1,417,472), representing 25% of the authorized capital of BBS shall be paid up by the BBS Parties. The remaining non-paid-up authorized capital will be subscribed, and the initial investment amount will be injected thereafter, in proportion to the BBS Parties’ respective shareholding



in compliance with the applicable laws (including obtaining the relevant PRC ODI approvals), and as and when BBS' funding needs arise in its building and operation of the HPAL smelting slag treatment plant, including as and when funding needs arise when BBS begins undertaking preparatory work on the building of the plant (including hiring the relevant additional personnel, acquiring additional plant and equipment). It is currently expected that the entire amount of the capital injection under the BBS Shareholders Agreement will, subject to the actual construction process, be completed before or around the end of 2027.

The proposed capital commitment does not involve the use of any proceeds from the IPO. The capital injection will be carried out in stages before or around the end of 2027 and will be financed through the cash flow generated through the business of the Group. If additional financial resources are required, the Company will also consider carrying out equity fund raising transaction.

Pursuant to the BBS Shareholders Agreement, the initial investment amount is an IDR equivalent of USD505,000,000 and the total investment amount shall be determined after the completion of site investigation and feasibility study.

As HPL will be able to exercise 94.24% of the voting rights in BBS, BBS is a subsidiary of the Group and the financial results of BBS will continue to be consolidated into the consolidated statements of the Group.

The total amount of capital contribution was determined by the BBS Parties after arm's length negotiation with reference to, among other things, the funding requirements of BBS and the BBS Parties' respective interests in BBS. The capital contributions by Baoxin Special Steel and HPL are expected to be funded by the internal resources of the Group.

#### **BBS Board of Directors**

The BBS Board of Directors shall consist of one member of whom shall be the President Director nominated by HPL.

#### **BBS Board of Commissioners**

The BBS Board of Commissioners shall consist of one member of whom shall be the commissioner nominated by the Company.

Please refer to the Board Letter for other principal terms of the BBS Shareholders Agreement.

### Future Funding

If BBS needs additional capital to maintain or expand its business, the BBS Parties agree that BBS shall raise future funding based on the following order of priority:

- (a) first, from BBS' borrowings from financial institutions, and in this case the BBS Shareholders agree to provide any required corporate guarantee in line with the requirements from the financial institutions to secure BBS' borrowings;
- (b) next, from BBS' borrowings from the BBS Shareholders pro rata to their respective shareholding percentage in BBS; or
- (c) lastly, from additional equity injection from BBS Shareholders, and in this matter BBS shall issue new shares of BBS and the BBS Parties must subscribe such new shares pro rata in respect of its share proportion in BBS.
- (d) If a BBS Shareholder cannot or is not willing to contribute in any future funding ("**BBS Non-Participant**"), the other BBS Shareholder ("**BBS Participant**") shall have the pro-rata right, but is not obligated, to make additional contribution funding in the amount of the BBS Non-Participant's portion. If the BBS Non-Participant agrees BBS Participant to make such additional contribution funding, the BBS Non-Participant (together with the BBS Participant) shall procure BBS to issue such number of new shares that is equal to the additional contribution funding amount, to be subscribed by the BBS Participant, as well as to conduct all actions as required by Indonesian Law, including but not limited, to recording the issuance of new shares in BBS' shareholders' register and Online Single Submission (OSS) System in Indonesia.

#### *2.3.2 Reasons for and benefits of the BBS Shareholders Agreement*

As stated in the Board Letter, the BBS Parties intend to establish BBS with the aim to build and run a HPAL smelting slag treatment plant in Obi Island with an annual treatment of 1,340,000 metric tons of HPAL smelting slags together with a slag warehouse and other ancillary facilities. The establishment of BBS will enable the Group to, in line with the principle of environmental protection, reduce wastage and effectively utilise resources. Further, given that the budget for infrastructure in Indonesia is constantly increasing and demand for HPAL smelting slag treatment is expected to correspondingly increase, the business of BBS will create new sources of income and enhance the Group's profitability.



The Directors are of the view that the terms of the BBS Shareholders 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.

### *2.3.3 Our analysis*

For our due diligence purpose, we enquired and obtained BBS's capital expenditure budgeting, and note that the construction project of the HPAL smelting slag treatment plant is expected to last for around 18 months. We note from BBS's capital expenditure budgeting that the initial investment amount of USD505 million will be used for initial working capital, construction and engineering, equipment acquisition and installation fee and other engineering construction costs. Production is expected to commence one year after completion of the construction project, and production will reach full capacity commencing three years after completion of the construction project, and the expected annual production amounts to 700 thousand tons of steel. We enquired and the Management advised that BBS will procure major equipment and facilities through public tender to control investment costs, and for the other common and general equipment and facilities, BBS will procure through quotation from and comparison among various independent third party suppliers.

Having reviewed the terms of the BBS Shareholders Agreement, discussed with the Management and reviewed BBS's capital expenditure budgeting provided by the Management, we note that:

- (i) the establishment of BBS is to build and run a HPAL smelting slag treatment plant in Obi Island with an annual treatment of 1,340,000 metric tons of HPAL smelting slags together with a slag warehouse and other ancillary facilities. Expected annual production upon full production capacity amounts to 700 thousand tons of steel. Accordingly, the slag treatment business of BBS will on one hand be socially and environmentally responsible, while commercially create new revenue stream to the Group through sale of steel and enhance the Group's profitability;
- (ii) as discussed above, BBS's equipment and materials procurements procedures are considered fair and reasonable to control expense and safeguard the quality of the equipment and materials to be procured;
- (iii) the capital injected by the BBS Parties is in proportion to their respective shareholding upon the approval of the Independent Shareholders, and HPL will be able to exercise 94.24% of the voting rights in BBS, BBS will be a subsidiary of the Group and the financial results of BBS will be consolidated into the consolidated statements of the Group;

- (iv) If BBS needs additional capital to maintain or expand its business, the future funding mechanism as stipulated in the BBS Shareholders Agreement ensures that the BBS Parties will inject capital by way of borrowings or equity contribution in proportion to their pro rata shareholding in BBS, and, in the event any BBS Party cannot or is not willing to contribute in any future funding, the other BBS Party is able to, but not obliged to, increase their proportion of shareholding in BBS by making additional fundings in exchange for new shares of BBS. The aforementioned arrangement is considered on normal commercial terms and is fair and reasonable;
- (v) HPL shall have the right to nominate the only member in the BBS Board of Directors, which means that HPL could control BBS Board of Directors; and
- (vi) the Company shall have the right to nominate the only commissioner in the BBS Board of Commissioners, which means that HPL could have sole influence in supervising management policies of BBS and the course of management in general regarding BBS's business carried out by the BBS Board of Directors.

Having considered the above, we are of the opinion that (i) the entering into of the BBS Shareholders Agreement is in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the BBS Shareholders Agreement are on normal commercial terms and are fair and reasonableness so far as the Company and the Shareholders as a whole.

### **3. Financial Assistance**

As stated in the Board Letter, on 9 December 2024, KPS entered into the Facility Agreement, pursuant to which the lenders have agreed to make available a term loan facility of up to USD250,000,000 to KPS for the purpose of financing the development and construction of a large-scale ferronickel smelter project located at Obi Island of Indonesia by KPS as part of phase II of the RKEF project to increase the production capacity of the Group, subject to the terms and conditions set out in the Facility Agreement.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the lenders is an Independent Third Party of the Group.

It is a condition precedent to the first utilisation under the Facility Agreement that, among other things, the Deed of Guarantee, and the TBP Share Pledge be entered into by the relevant parties to secure the full and punctual payment and performance of the Secured Liabilities. In addition, it is a condition subsequent under the Facility Agreement that the NBSS Share Pledge will be entered into by relevant parties after getting necessary regulatory approvals to secure the full and punctual payment and performance of the Secured Liabilities.



## **Facility Agreement**

### **Date**

9 December 2024

### **Parties**

- (i) KPS;
- (ii) The Bank, as the facility agent and
- (iii) Oversea-Chinese Banking Corporation Limited, as coordinating bank.

### **Facility**

The lenders have made available a term loan facility of up to USD250,000,000 to KPS for the purpose of financing the development and construction of a large-scale ferronickel smelter project located at Obi Island of Indonesia.

### **Term of Facility**

Subject to the terms of the Facility Agreement, for an initial term of 12 months from the date of the Facility Agreement

### **Interest**

An interest rate determined with reference to the short term interest rate target set by the US Federal Open Market Committee as published by the Federal Reserve Bank of New York plus a 1.75 per cent per annum

## **3.1 Provision of Financial Assistance by the Group to KPS**

### **3.1.1 Deed of Guarantee**

On 10 December 2024, HPL and the Bank entered into the Deed of Guarantee, in relation to, among other things, the provision of a guarantee by HPL in favour of the Banks in respect of the Secured Liabilities.

The principal terms of the Deed of Guarantee are set out below:

### **Date**

10 December 2024

**Parties**

- (i) HPL, as guarantor; and
- (ii) the Bank, as security agent.

**Guarantee and undertaking:**

HPL has absolutely, irrevocably and unconditionally agreed to provide guarantees to the Bank for the due and punctual performance of the Secured Liabilities by KPS under the Finance Documents.

HPL has also undertaken undertakes to the Bank (for and on behalf of the Secured Parties) that each time KPS does not make payment of any amount of the Secured Liabilities when due under or in connection with any Finance Document, HPL must immediately upon receiving written demand by the Bank (for and on behalf of the Secured Parties) pay that amount as if it was the principal obligor.

**Indemnity:**

As a separate, additional, continuing and primary obligation, HPL has unconditionally and irrevocably undertaken in favour of the Bank (for and on behalf of the Secured Parties) that, should the Secured Liabilities not be recoverable from HPL under the guarantee described above for any reason then, notwithstanding that it may have been known to the Bank, HPL shall immediately upon written demand by the Bank, make payment of the Secured Liabilities in the manner provided for in the Finance Documents, and HPL shall indemnify the Bank against all losses, claims, demands, penalties, actions, suits, damages, costs, charges and expenses and including legal costs on a full indemnity basis and liabilities whatsoever incurred or suffered by the Bank in relation to (a) the Facility Agreement, the Deed of Guarantee and/or the other Finance Documents and (b) by reason of any provision of the Finance Documents being or becoming void, unenforceable or otherwise invalid under any applicable law.

**Effective period:**

From the Effective Time to the date on which (i) no Obligor has any further actual or contingent obligation to make any payments to any of the Secured Parties under or pursuant to the terms of any of the Finance Documents and (ii) no Secured Party has any actual or contingent obligation or liability under or pursuant to the Finance Documents, or any of them, which will give rise to such an actual or contingent obligation of any Obligor.



### *3.1.2 NBSS Share Pledge*

Pursuant to the Facility Agreement, and subject to obtaining the necessary regulatory approvals, Baoxin Special Steel, the Bank and KPS are expected to enter into the NBSS Share Pledge, in relation to, among other things, the pledging of its shares in KPS by Baoxin Special Steel in favour of the Bank in respect of the Secured Liabilities of the Obligors under the Finance Documents.

The principal terms of the NBSS Share Pledge are set out below:

#### **Date**

Subject to obtaining the necessary regulatory approvals, it is expected to be entered into by no later than six months after the date of Facility Agreement.

#### **Parties**

- (i) Baoxin Special Steel, as pledgor;
- (ii) the Bank, as pledgee; and
- (iii) KPS

#### **Pledge:**

In order to secure the full and punctual payment and performance of the Secured Liabilities by the Obligors, Baoxin Special Steel is expected to establish in favour of the Bank (for and on behalf of the Secured Parties) a first right of pledge on the shares (including any future shares) held by it in KPS. As at the Latest Practicable Date, Baoxin Special Steel holds 65% of the shareholding interest in KPS.

#### **Effective period:**

Subject to obtaining the necessary regulatory approvals, from the Effective Time, the NBSS Share Pledge is a continuing right and security for payment in full to the Bank of all the Secured Liabilities and the NBSS Share Pledge shall not be terminated, and the security created shall not be regarded as discharged or satisfied, until the Secured Liabilities have been irrevocably and unconditionally paid and discharged in full.

### **3.2 Receipt of Financial Assistance by the Group from TBP**

#### **3.2.1 TBP Share Pledge**

On 10 December 2024, TBP, the Bank and KPS entered into the TBP Share Pledge, in relation to, among other things, the pledging of its shares in KPS by TBP in favour of the Bank in respect of the Secured Liabilities of the Obligors (including KPS) under the Finance Documents.

The principal terms of the TBP Share Pledge are set out below:

##### **Date**

10 December 2024

##### **Parties**

- (i) TBP, as pledgor;
- (ii) the Bank, as pledgee; and
- (iii) KPS

##### **Pledge:**

In order to secure the full and punctual payment and performance of the Secured Liabilities by the Obligors, TBP has agreed to establish in favour of the Bank (for and on behalf of the Secured Parties) a first right of pledge on the shares (including any future shares) held by it in KPS. As at the Latest Practicable Date, TBP holds 35% of the shareholding interest in KPS.

##### **Effective period:**

From the Effective Time, the TBP Share Pledge is a continuing right and security for payment in full to the Bank of all the Secured Liabilities and the TBP Share Pledge shall not be terminated, and the security created thereunder shall not be regarded as discharged or satisfied, until the Secured Liabilities have been irrevocably and unconditionally paid and discharged in full.



### 3.3 Reasons for and Benefits of the Financial Assistance

KPS is a non-wholly owned subsidiary of the Company and is principally engaged in phase II of the RKEF project. The provision of guarantee and security pursuant to the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge will help KPS raise funds to support its daily business operations and project development and further improve its production capability and profitability, contributing to the overall strategy layout of the Group.

The Board, having taken into account that (i) KPS has a net book value of approximately USD2.47 million as of 31 December 2023 which is insufficient to cover the total indebtedness (including the principal amount and interests to be accrued) which may be incurred under the Facility Agreement; (ii) the typical securities package provided in favour of banks for similar lending transactions in Indonesia; (iii) KPS is operating a newly developed greenfield project which has yet to record profits in the past two financial years; and (iv) all shareholders of KPS are required to pledge its shares pursuant to the Facility Agreement, the Board consider it is fair and reasonable for the provision of the Deed of Guarantee, the TBP Share Pledge and the NBSS Share Pledge in order to secure term loan facility under the Facility Agreement.

In view of the above, the Board is of the view that the terms of the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge 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.

### 3.4 Financial Information of KPS

Set out below is a summary of the audited financial information of the KPS for the two financial years ended 31 December 2022 and 31 December 2023, respectively:

	For the financial year ended 31 December 2022 (USD)	For the financial year ended 31 December 2023 (USD)
Revenue	/	/
Net profit (loss) after tax	(1,054,302)	(7,533,048)
	As at 31 December 2022 (USD)	As at 31 December 2023 (USD)
Total assets	58,619,378	366,383,954
Net assets	55,662,938	48,145,344

### 3.5 *Our Analysis*

#### 3.5.1 *Our view on the reasonableness of Financial Assistance*

The Group produces ferronickel using the Rotary Kiln-Electric Furnace process, the mainstream process for nickel pyrometallurgy. HJF is the project company of phase I of the RKEF project, while KPS is the project company of phase II of the RKEF project.

As disclosed in the 2024 Interim Report, revenue from ferronickel trading and ferronickel production amounted to approximately RMB4.8 billion and RMB572.6 million respectively, representing approximately 44.3% and 5.3% respectively. We also note from the 2024 Interim Report that phase I of the RKEF project operated by HJF reached full capacity during first half of 2024, leading to growth in revenue, gross profit and net profit in first half of 2024 as compared to first half of 2023. The Management also advised that, phase II of the RKEF project operated by KPS will start operation by early 2025.

KPS is an 65% non-wholly owned subsidiary of the Company. Accordingly, we are of the view that the RKEF project is an important project of the Group, and the development and operation of KPS is important to the Group's overall profitability.

The purpose of entering into the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge is solely to support KPS to obtain term loan facility of up to USD250,000,000 pursuant to the Facility Agreement, which will be applied to, among other things, financing the construction, commissioning and completion of, phase II of the RKEF project operated by KPS.

For due diligence purpose, we enquired the Management and reviewed the expected capital expenditure of KPS in the year 2025, and understand that, one production line of phase II of the RKEF project operated by KPS will start operation by early 2025, while other production lines are still under construction. The capital expenditure of KPS for equipment procurement and construction of production lines will still be significant in the year 2025, and the expected monetary amount demanded for capital expenditure of KPS in the year 2025 exceeds the amount of USD250 million under the Facility Agreement.

Given the importance of the RKEF project to the Group's operation and profitability, we consider that the entering into of the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge to facilitate the Facility Agreement is conducted in the ordinary and usual course of the business of the Group, and is in the interest of the Company and the Shareholders as a whole.



*3.5.2 Our view on the terms of the principal terms of the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge*

In order to secure the full and punctual payment and performance of the Secured Liabilities by the Obligors, NBSS is expected to establish, and TBP has agreed to establish, in favour of the Bank (for and on behalf of the Secured Parties) a first right of pledge on the shares (including any future shares) held by each of NBSS and TBP in KPS. Accordingly, all KPS shareholders will pledge/has pledged their respective shares in KPS to the Bank. We enquired the Management the reason for entering into the NBSS Share Pledge and the TBP Share Pledge in addition to the Deed of Guarantee (which has already provided absolute guarantees to the Bank for the due and punctual performance of the Secured Liabilities) and were advised that it is a common practice of banks in Indonesia to request share pledge from borrowers' shareholders and it is understood and accepted by the Management. We have enquired and obtained the latest unaudited cash balance and current assets balance of HPL as at 30 November 2024, and note that both figures exceed the amount of USD250 million under the Facility Agreement (i.e. the exposure of HPL pursuant to the Deed of Guarantee). On the other hand, one production line of phase II of the RKEF project operated by KPS will start operation by early 2025, and KPS itself will start to have revenue and cash inflow since then. Accordingly, we are in the opinion that HPL's financial position is sufficient to discharge the obligation under the Secured Liabilities in the event of late payment/default, and the risk of transferring the equity interest of KPS to the Bank pursuant to the NBSS Share Pledge and TBP Share Pledge is believed to be remote.

We discussed with the Management and understand that after arms' length negotiation with the Bank, absolute guarantee provided by HPL, being a fellow subsidiary of KPS (but not the shareholder of KPS), is acceptable to the Bank. Pursuant to the Deed of Guarantee, HPL will provide absolute guarantee for the loan to KPS under the Facility Agreement. As HPL is indirectly owned as to 54.9% by the Company and 45.1% by TBP, while the KPS (being the subject borrower) is indirectly owned as to 65% by the Company and 35% by TBP, the absolute guarantee to be provided by HPL creates comparatively less exposure to the Group in the event of default of the Secured Liabilities, which is beneficial to the Group.

Given the above, we consider the terms of the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge to be fair and reasonable.

**4. Information of the Group and the parties involved under the Connected JV Agreements, the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge**

Please refer to the Board Letter.

## 5. Conclusion

### 5.1 Major and connected transactions

Having considered the analysis in sections 2.1.3, 2.2.3 and 2.3.3 above, we are of the opinion that (i) the entering into of the DCM Shareholders Agreement, the ONC Amendment Agreement and the BBS Shareholders Agreement is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the DCM Shareholders Agreement, the ONC Amendment Agreement and the BBS Shareholders Agreement are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders as a whole.

### 5.2 Financial Assistance

Having considered the analysis in sections 3.5.1 and 3.5.2 above, we are of the opinion that (i) the entering into of the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge is on normal commercial terms and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders as a whole.

## OPINION AND RECOMMENDATION

Having considered the principal factors and reasons discussed above, we are of the view that (i) the Connected JV Agreements 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; and (ii) the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge and the transactions contemplated thereunder 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 JV Agreements, the Deed of Guarantee, the NBSS Share Pledge and the TBP Share Pledge and the transactions contemplated thereunder 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.*