邁時資本
MAXA CAPITAL

Unit 2602, 26/F, Golden Center
188 Des Voeux Road Central
Sheung Wan
Hong Kong

24 March 2025

To the Independent Board Committee and the Independent Shareholders

MAJOR TRANSACTION AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 24 March 2025 (the "**Circular**"), of which this letter forms parts. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 14 February 2025, Xinjiang Non-ferrous, the Company, and the Target Company entered into the Equity Transfer Agreement pursuant to which Xinjiang Non-ferrous conditionally agreed to transfer, and the Company conditionally agreed to acquire, the Subject Interest, representing 51% equity interest in the Target Company, at the Consideration of approximately RMB1,098.08 million in accordance with the terms and conditions of the Equity Transfer Agreement.

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and its financial information will be consolidated into the financial statements of the Company.

LISTING RULES IMPLICATIONS

As the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the Acquisition is more than 25% but less than 100%, the Acquisition constitutes a major transaction of the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, Xinjiang Non-ferrous was the controlling shareholder (as defined under the Listing Rules) of the Company and was beneficially interested in 885,204,000 domestic shares of the Company, representing approximately 40.06% of the entire issued share capital of the Company. Accordingly, Xinjiang Non-ferrous is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5%, the Acquisition is subject to the reporting, announcement, circular and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will convene the EGM as soon as practicable to consider, and if thought fit, approve the Equity Transfer Agreement and the transactions contemplated thereunder. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Xinjiang Non-ferrous and its close associates who are required to abstain from voting on the resolution to be proposed at the EGM, no other Shareholder or any of its close associates had any material interest in the Equity Transfer Agreement and the transactions contemplated thereunder, and no other Shareholder is required to abstain from voting on the resolution to be proposed at the EGM.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Hu Benyuan, Mr. Huang Yong and Mr. Lee Tao Wai, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders on the Equity Transfer Agreement and the transactions contemplated thereunder. We, Maxa Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company, its subsidiaries and any other parties that could reasonably be regarded as relevant to our independence in accordance with Rule 13.84 of the Listing Rules and accordingly, were qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Equity Transfer Agreement and the transactions contemplated thereunder. Save for this appointment, there was no other engagement between the Company and us in the past two years. Apart from normal advisory fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company.

BASIS OF OUR OPINION

In formulating our opinion and recommendation, we have reviewed, among other things: (i) the Equity Transfer Agreement; (ii) the annual report of the Company for the year ended 31 December 2023 (the "**2023 AR**"); (iii) the interim report of the Company for the six months ended 30 June 2024 (the "**2024 IR**"); (iv) the audit report on the Target Company for each of the three years ended 31 December 2023 and the ten months ended 31 October 2024 prepared by ShineWing Certified Public Accountants (LLP) (the "**Audit Report**"); (v) the Competent Person's Report; (vi) the Valuation Report; and (vii) the unaudited pro forma financial information on the Enlarged Group. We consider that we have reviewed sufficient and relevant information and documents, and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the statements, information, opinions and representations contained in the Circular and the information and representations provided to us by the Directors and the management of the Group (the "**Management**"). We have reviewed, inter alia, the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the Management. We have assumed that (i) all statements, information and representations provided by the Directors and the Management; and (ii) the information referred to in the Circular, for which they are solely responsible, were true and accurate at the time when they were provided and continued to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, intention and expectation 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 representations and opinions expressed by the Company, its advisers and/or the Directors. 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, conducted any independent verification of the information included in the Circular and provided to us by the Directors and the Management nor have we conducted any form of in-depth investigation into the business and affairs or the future prospects of the Group.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. Where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of us is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant stated sources and not be used out of context.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background information of the Group

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

Set out below is a summary of the consolidated financial information of the Group for the two years ended 31 December 2022 ("**FY2022**") and 31 December 2023 ("**FY2023**"), and for the six months ended 30 June 2023 ("**1H2023**") and 30 June 2024 ("**1H2024**") (collectively known as the "**Review Period**") as extracted from the 2023 AR and 2024 IR:

	For the year ended 31 December		**For the six months ended 30 June**	
	2022	**2023**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Revenue	**2,863,725**	**2,049,837**	**763,744**	**1,065,347**
– Nickel cathode	2,066,783	1,171,991	592,301	531,526
– Copper cathode	582,664	296,104	88,402	208,801
– Copper concentrate	97,753	93,862	43,919	64,174
– Other products	101,058	465,655	31,809	249,883
– Other operations	15,467	22,225	7,313	10,963
Operating profit	**844,122**	**206,057**	**211,282**	**176,791**
Net profit for the year/period	**743,236**	**162,343**	**170,303**	**133,978**

FY2023 vs FY2022

As illustrated in the table above, the Group's revenue amounted to approximately RMB2,049.8 million for FY2023, representing a decrease of approximately 28.4% as compared to approximately RMB2,863.7 million for FY2022. The decrease in the Group's revenue was mainly due to the combined effects of (i) decrease in revenue derived from nickel cathode by approximately RMB894.8 million to approximately RMB1,172.0 million for FY2023, which was mainly attributable to the decrease in the selling price of nickel cathode and the decrease in the production and sales volume of nickel cathode under the impact of guidance from relevant departments to the work of mine safety in Xinjiang Uyghur Autonomous Region since February 2023 (the "**National Assistance Guidance on Production Safety**"), as well as the temporary suspension of production in Kalatongke Mining due to technical upgrade; (ii) decrease in revenue derived from copper cathode by approximately RMB286.6 million to approximately RMB296.1 million for FY2023, which was mainly due to the decrease in the production and sales volume of copper cathode under the impact of National Assistance Guidance on Production Safety, as well as the temporary suspension of production in Kalatongke Mining due to technical upgrade; and was partially offset by (iii) increase in revenue derived from other products by approximately RMB364.6 million to approximately RMB465.7 million for FY2023, which was mainly attributable to the revenue from the sales of precious metal materials and copper leaching tailings amounting to approximately RMB93.4 million RMB227.7 million in FY2023 respectively, as compared to the revenue from the sales of electrolytic cobalt amounting to approximately RMB41.3 million in FY2022, resulting in significant increase in the revenue from other products in FY2023.

The Group recorded net profit of approximately RMB162.3 million for FY2023, which decreased by approximately 78.2% as compared to the net profit of approximately RMB743.2 million for FY2022. The decrease in the Group's net profit for FY2023 as compared to FY2022 was primarily due to (i) the sales volume of nickel cathode decreased from 12,752 tonnes in FY2022 to 7,747 tonnes in FY2023, representing a decrease of approximately 39.2%; (ii) the sales volume of copper cathode decreased from 9,775 tonnes in FY2022 to approximately 4,908 tonnes in FY2023, representing a decrease of approximately 49.8%; (iii) the average selling price of nickel cathode (tax exclusive, including gains and losses from change in fair value) decreased from approximately RMB165,303 per tonne in FY2022 to approximately RMB142,601 per tonne in FY2023, representing a decrease of approximately 13.7%; (iv) the Group recorded an investment loss of approximately RMB32.9 million in FY2023 as compared to investment income of approximately RMB96.2 million in FY2022, mainly due to the share of net loss of a joint venture in FY2023 as compared to the share of net profit of joint venture in FY2022; and (v) the Group recorded fair value loss on derivative financial instruments in relation to metal trading contract of approximately RMB65.8 million in FY2023 whereas fair value gain of approximately RMB38.2 million on such derivative instruments was recognised in FY2022.

1H2024 vs 1H2023

The total revenue of the Group was approximately RMB1,065.3 million for 1H2024, representing an increase of approximately 39.5% as compared to approximately RMB763.7 million for 1H2023. Such increase in the revenue was primarily attributable to the combined effects of (i) increase in revenue derived from other products by approximately RMB218.1 million to approximately RMB249.9 million for 1H2024, which was mainly attributable to the revenue of approximately RMB204.7 million from the sales of copper leach tailings, approximately RMB26.7 million from other products (including sulphuric acid, gold and silver) and approximately RMB18.5 million from other residues during 1H2024; (ii) increase in revenue derived from the copper cathode by approximately RMB120.4 million to approximately RMB208.8 million for 1H2024, which was mainly attributable to the increase in market price and sales volume of copper cathodes as compared to 1H2023; and was partially offset by (iii) decrease in revenue derived from nickel cathode by approximately RMB60.8 million to approximately RMB531.5 million for 1H2024, which was mainly due to the lower selling price of nickel cathode during the period as compared to 1H2023.

The Group recorded net profit of approximately RMB134.0 million for 1H2024, which decreased by approximately 21.3% as compared to the net profit of approximately RMB170.3 million for 1H2023. The decrease in the Group's net profit for 1H2024 as compared to 1H2023 was primarily due to (i) decrease of overall gross profit from principal operation by approximately RMB25.9 million to approximately RMB323.3 million for 1H2024 mainly attributable to the decrease in the gross profit of nickel cathode by approximately RMB135.4 million to approximately RMB199.3 million for 1H2024 as a result of the decrease in the average selling price of nickel cathode in 1H2024 as compared to 1H2023; and (ii) an impairment loss on exploration rights of approximately RMB31.8 million was recognised in 1H2024.

	As at 31 December		**As at 30 June**
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*
Non-current assets	**5,606,853**	**5,673,560**	**5,561,626**
Current assets	2,222,608	2,164,018	2,201,763
Total assets	**7,829,460**	**7,837,578**	**7,763,389**
Non-current liabilities	1,123,488	1,132,100	982,727
Current liabilities	1,016,307	1,184,969	1,229,794
Total liabilities	**2,139,794**	**2,317,070**	**2,212,520**
Net current assets	1,206,301	979,049	971,970
Net assets	**5,689,666**	**5,520,508**	**5,550,869**

Total assets

The Group had total assets of approximately RMB7,837.6 million as at 31 December 2023, which mainly comprised of (i) fixed assets of approximately RMB3,566.7 million; (ii) inventories of approximately RMB1,284.6 million; (iii) intangible assets of approximately RMB1,124.1 million; and (iv) cash at bank and on hand of approximately RMB553.8 million, representing an increase of approximately RMB8.1 million or 0.1% as compared to approximately RMB7,829.5 million as at 31 December 2022.

The Group had total assets of approximately RMB7,763.4 million as at 30 June 2024, which mainly comprised of (i) fixed assets of approximately RMB3,484.4 million; (ii) inventories of approximately RMB1,159.8 million; (iii) intangible assets of approximately RMB1,079.1 million; and (iv) cash at bank and on hand of approximately RMB660.1 million, representing a decrease of approximately RMB74.2 million or 0.9% as compared to approximately RMB7,837.6 million as at 31 December 2023.

Total liabilities

The Group had total liabilities of approximately RMB2,317.1 million as at 31 December 2023, which mainly comprised of (i) long-term borrowings of approximately RMB563.7 million; (ii) long-term payables of approximately RMB333.6 million; (iii) accounts payable of approximately RMB302.1 million; (iv) notes payable of approximately RMB224.1 million; and (v) other payables of approximately RMB212.2 million, representing an increase of approximately RMB177.3 million or 8.3% as compared to approximately RMB2,139.8 million as at 31 December 2022.

The Group had total liabilities of approximately RMB2,212.5 million as at 30 June 2024, which mainly comprised of (i) long-term borrowings of approximately RMB414.5 million; (ii) long-term payables of approximately RMB336.8 million; (iii) accounts payable of approximately RMB269.2 million; and (iv) other payables of approximately RMB313.3 million, representing a decrease of approximately RMB104.6 million or 4.5% as compared to approximately RMB2,317.1 million as at 31 December 2023.

Liquidity Position

The Group's current ratios were approximately 2.2 times, 1.8 times and 1.8 times as at each of 31 December 2022, 31 December 2023 and 30 June 2024, respectively. The Group's gearing ratios, which are calculated on the basis of the Group's net debts over total capital (net debts plus total equity), as at each of 31 December 2022 and 2023 and 30 June 2024 remained fairly stable at approximately 6.2%, 4.9% and 2.3%, respectively.

2. Background information of Xinjiang Non-ferrous

Xinjiang Non-ferrous is principally engaged in, among other things, investment in nonferrous metal industry and sale of non-ferrous metal products. As at the Latest Practicable Date, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, Xinjiang Non-ferrous is a wholly state-owned enterprise with limited liability and incorporated in the PRC, being one of the promoters and the controlling shareholder of the Company.

3. Background information of the Target Company and the Karchar Fluorspar Mine

3.1 The Target Company

The Target Company is a limited liability company incorporated in the PRC on 7 December 2007. As at the Latest Practicable Date, its registered share capital was RMB113.0 million, which has been fully paid. It is principally engaged in energy investment, mining investment, mineral resources exploration and investment, and sales of mineral products.

As at the Latest Practicable Date, the Target Company was owned as to 51% by Xinjiang Non-ferrous and 49% by Shanghai Xingqiang. To the Directors' knowledge, information and belief, and having made all reasonable enquiries, as at the Latest Practicable Date, Shanghai Xingqiang, an independent third party of the Company, was owned as to 94.75% by Mr. Wu and 5.25% by another individual, each an independent third party of the Company.

Upon Completion, the Target Company will be owned as to 51% by the Company and 49% by Shanghai Xingqiang.

The Company has engaged ShineWing Certified Public Accountants (LLP), an independent accountant to prepare the Audit Report. Set out below are the audited major financial information of the Target Company for the two years ended 31 December 2023 and the ten months ended 31 October 2024 as extracted from the Audit Report:

	For the year ended/As at 31 December		**For the ten months ended/As at 31 October**
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*
Revenue	–	2,307.7	7,265.7
Loss before tax	10,221.0	2,355.3	3,967.5
Loss after tax	10,221.0	2,355.3	3,965.9
Net assets	63,123.5	414,201.6	410,235.7

3.2 The Karchar Fluorspar Mine

The Karchar Fluorspar Mine is located approximately 73 km southeast of Ruoqiang Town, Ruoqiang County, Bayingolin Mongol Autonomous Prefecture in southeastern Xinjiang, the PRC, and approximately 196 km west of Huatugou Town, Mangya City, Qinghai, the PRC.

The Target Company commenced exploration in the Karchar Fluorspar Mine area in 2008, with an initial focus on copper and gold mineralization. In 2009, the exploration focus shifted with the discovery of fluorspar mineralization. A comprehensive exploration program was conducted from 2016 to 2019, and an infill drilling program was completed in 2024. In addition to the exploration activities within the mining license area, preliminary exploration was also carried out within the Exploration Licence II area from 2008 to 2024 and as at 31 October 2024, only 4 drill holes were completed and additional exploration work is required to determine whether a deposit exists.

The Karchar Fluorspar Mine is currently under construction and has not yet started operations. The proposed mining methods include underground (a) cut-and-fill method and (b) drift and fill method. The trial production and commercial production are currently expected to commence in the third quarter of 2025. The ore production of the Karchar Fluorspar Mine is expected to be approximately 155 kt in 2025, 797 kt in 2026, and 1,200 kt in 2027. The full production capacity of 1.2 Mtpa is expected to be achieved by 2027. The Karchar Fluorspar Mine has a LOM up to year 2047.

The total capital requirement for the development of the Karchar Fluorspar Mine project is estimated to be approximately RMB1,612.6 million, which is expected to be funded by the Target Company's existing share capital and external financing. As at the Latest Practicable Date, the Target Company has entered into loan agreement(s) with the relevant bank(s) with credit limit of approximately RMB1,260.0 million.

The Target Company intends to produce and sell its products directly to the fluorochemical companies located within the PRC initially. As at the Latest Practicable Date, the Target Company had not yet entered into any offtake agreement.

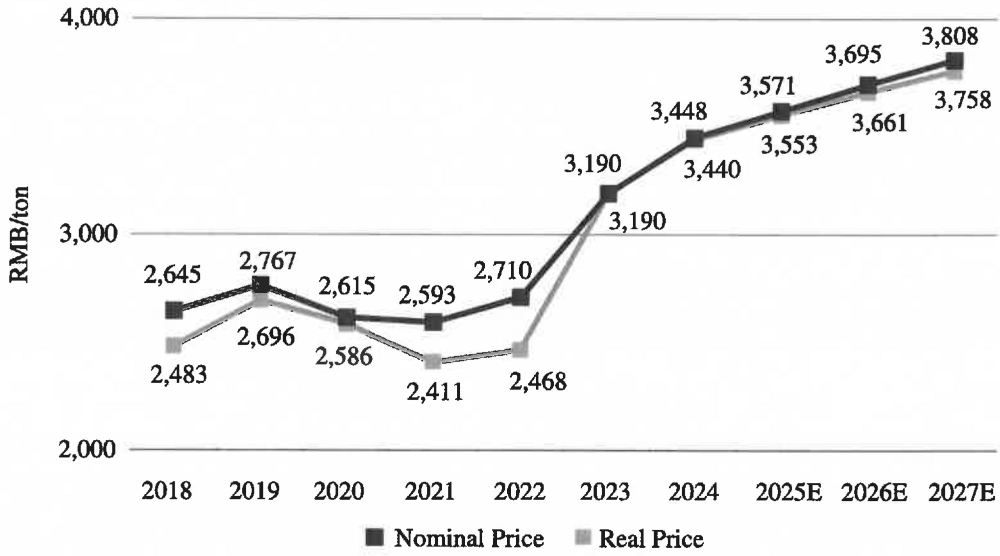
For further details of the Karchar Fluorspar Mine including but not limited to, (i) commodity type; (ii) exploration and mining licences; (iii) mineral resources and ore reserves; and (iv) other information regarding the Karchar Fluorspar Mine, please refer to the section headed "Mineral assets of the Target Company" of the Circular as well as the Competent Person's Report as set out in Appendix V to the Circular.

4. **Industry Overview**

To assess the prospect of the Karchar Fluorspar Mine, we have obtained the market study report on fluorspar (the "**Market Study Report**") prepared by Shanghai Metals Market (the "**SMM**"), a leading and independent integrated internet platform provider of nonferrous and ferrous metals in the PRC, with its extensive database covers over 20 years of historical data and receives over 400,000 page views per day. Its flagship portal (www.metal.com and www.smm.cn) engages the most customers in the nonferrous and ferrous metals industry and has the largest volume of unique daily visitors.

Fluorspar, also known as fluorite, is an essential non-metallic mineral resource used in various fields such as metallurgy, chemical and building materials industry. It is also used in the strategic emerging industries such as new energy and new materials. According to the Market Study Report, the primary demand for fluorspar is driven by the fluorochemical industry, which accounts for approximately 67% of total consumption in 2023. Other significant uses of fluorspar include aluminium fluoride production (15%), steelmaking (11%) and cement manufacturing (7%). Main products of fluorspar include but not limited to acid grade fluorspar fine powder, metallurgical grade fluorspar fine powder and high-grade fluorspar lump ore.

Historical and projected average price of fluorspar fine powder from 2018 to 2027E



Source: SMM

Notes:

1. Fluorspar fine powder with 97% CaF_2 and 10% moisture.

2. All prices are 13% tax inclusive.

3. Nominal price represents the price of fluorspar fine powder expressed in current monetary terms, without adjusting for inflation or deflation.

4. Real price represents the price of fluorspar fine powder adjusted for inflation or deflation.

As stated in the Market Study Report, the nominal price of fluorspar fine powder showed a fluctuating upward trend, increasing from RMB2,645 per ton in 2018 to RMB3,448 per ton in 2024, representing a compound annual growth rate (the "**CAGR**") of approximately 4.5%. The nominal price of fluorspar fine powder was traded at a record high of RMB3,750 per ton at the end of 2018, with prices traded within the range of RMB2,600 to RMB3,500 per ton in 2019, primarily benefiting from the increase in demand as a result of the expansion of production capacity in downstream refrigerant market, coupled with the decrease in supply following the implementation of environmental policy, safety regulation and ecological conservation red line policy. Price of fluorspar remained relatively stable between 2019 and 2022, with fluctuations in 2020 and 2021, primarily due to the declining demand from the downstream refrigerant export market during the pandemic. Since 2022, due to limited mine resources, tightened environmental policies, frequent extreme weather events and recurring epidemics, supply of fluorspar remained tight, while demand of fluorspar increased as a result of the expansion of production capacity in downstream fluorine chemicals industry, further contributing to the increase in price of fluorspar fine powder.

We noted from the Market Study Report that, driven by the demand from downstream industry and other strategic emerging industries such as new energy and new materials, China's fluorspar consumption is projected to grow from 6.91 Mt in 2024 to 7.74 Mt in 2027, with a CAGR of approximately 4.5%. Meanwhile, SMM forecasts that China's fluorspar production will increase from 5.90 Mt in 2024 to 6.22 Mt in 2027, with a CAGR of approximately 1.8%. In view of the robust demand from the downstream industry and the supply constraints mentioned above, SMM expects the price of fluorspar to continue to rise from 2025 to 2027, with an estimated CAGR of approximately 3.3%.

5. Reasons for and benefits of the Acquisition

As disclosed in the Letter from the Board, through the Acquisition, the Company can obtain quality mineral resources, fully leverage its access to its capital, technology, talent and other professional and marketing resources as well as integrated management advantages as a listed company to achieve the objective of realising the economic value of the high-quality mineral resources and enhance the Company's market influences and competitiveness, which is in line with the Company's development strategies. The Acquisition is expected to improve the Company's high-quality mineral resource reserves, increase its asset scale, achieve diversified mineral development, mitigate market fluctuation risks and enhance market risks resistance.

The Acquisition is also expected to help improve the Company's sustainable profitability. With the continuous development of the downstream fluorochemical industry, the future demand for fluorspar will continue to increase. Hydrofluoric acid plays a key role in refrigerants, new energy, new materials, national defense, and aerospace. As an important raw material for fluoropolymers, fluorine-containing intermediates, and electronic-grade hydrofluoric acid, hydrofluoric acid is of significant strategic importance. With the continuous release of China's fluorochemical production capacity, especially in the new energy field, the demand for fluorspar resources in fluorine-containing lithium battery materials, semiconductors, and photovoltaic panels is expected to continue to grow rapidly. Upon Completion, it is expected that the Target Company will provide the Company with a new drive of profit growth, improve the Company's revenue structure and level, and promote sustainable and healthy development of the Company. Based on our review of the financial projection adopted in the Valuation Report, details of which are set out in the section headed "7. Assessment of the Consideration" below, we note that the mining asset of the Target Company is expected to generate positive net income in the year of 2025, with a substantial increase in the subsequent two years, driven by the expansion of production capacity of the Karchar Fluorspar Mine.

As disclosed in the 2024 IR, for the six months ended 30 June 2024, the Group's revenue was mainly driven by the sales of nickel cathode and copper cathode, which accounted for approximately 50.4% and 19.8%, respectively, of the revenue generated from principal businesses. Based on our review of the historical financial performance of the Group, details of which are set out in the section headed "1. Background information of the Group" above, we note that the revenue contribution of the sales of nickel cathode and copper cathode fluctuated substantially during the Review Period, primarily due to the fluctuation of the selling price as well as the production and sales volume of nickel cathode and copper cathode. As advised by the Management, the Company conducted various studies, including geological surveys, economic feasibility studies, market analyses, and others, on multiple mineral assets prior to confirming the Acquisition. Based on the results of these studies, the Company selected the Karchar Fluorspar Mine, as it provides the Company with considerable financial return under reasonable transaction terms. In view of the above and taking into account the market demand of fluorspar, we concur with the Company that the Acquisition can help enhance the product mix of the Company, mitigate the impact of market volatility on its profitability, and further enhance its competitiveness and market influences in the mining industry.

Having considered that (i) the principal business of the Target Company is in line with the principal business of the Group; (ii) the Acquisition will diversify the Company's product portfolio, thereby mitigate the market fluctuation risk and strengthen its market competitiveness; (iii) the market demand of fluorspar is considerable due to its wide-ranging application in various industries as mentioned above; and (iv) the financial performance of the Group is expected to be improved following the increase in production capacity of the Karchar Fluorspar Mine, we are of the view that the Acquisition is in the interests of the Company and the Shareholders as a whole.

6. Principal terms of the Equity Transfer Agreement

Date:	14 February 2025
Parties:	(i) Xinjiang Non-ferrous (as the vendor); (ii) the Company (as the purchaser); and (iii) the Target Company.
Assets to be acquired:	Pursuant to the Equity Transfer Agreement, Xinjiang Non-ferrous conditionally agreed to transfer, and the Company conditionally agreed to acquire, the Subject Interest, representing 51% equity interest in the Target Company.
Consideration and payment of Consideration:	Pursuant to the Equity Transfer Agreement, the Consideration will be approximately RMB1,098.08 million. The Consideration shall be payable in cash within five working days upon the Equity Transfer Agreement taking effect. The Consideration of approximately RMB1,098.08 million is currently expected to be financed by the Company's (i) internal resources, i.e. cash in the amount of approximately RMB448.08 million and (ii) external financing, i.e. the bank loan in the amount of approximately RMB650.00 million. In the meantime, depending on its actual operational needs and financial conditions, the Company would apply for working capital loan to meet its daily working capital requirements. As at 30 June 2024, the Company's gearing ratio is approximately 2.3%, which has been maintained at a low level. Taking into account the present internal resources and the available credit facilities of the Enlarged Group, and considering the effect of the Acquisition, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirements. Each of Xinjiang Non-ferrous and the Company shall bear its own relevant taxes and fees arising in the course of the transfer of the Subject Interest in accordance with applicable laws and regulations.

For further details of the terms of the Equity Transfer Agreement, such as effective date, transitional arrangement, amendments and termination, please refer to the section headed "THE EQUITY TRANSFER AGREEMENT" in the Letter from the Board.

7. Assessment of the Consideration

As disclosed in the Letter from the Board, the Consideration of approximately RMB1,098.08 million was agreed upon after arm's length negotiations between Xinjiang Non-ferrous and the Company based on the equity value of the Subject Interest of approximately RMB1,098.08 million as at 31 October 2024 as appraised by JLL in the Valuation Report, and taking into account various factors including the production, operation and financial condition of the Target Company as well as the future development plan of the Target Company and the Karchar Fluorspar Mine.

To assess the fairness and reasonableness of the Consideration, we have obtained the Valuation Report prepared by JLL (the "**Valuer**") in accordance with the requirements under Chapter 18 of the Listing Rules and noted that (i) the Chapter 18 Value of the Karchar Fluorspar Mine as at 31 October 2024 (the "**Valuation Date**") was in the range of RMB1,455 million to RMB2,321 million with the preferred value being RMB1,991 million (the "**Valuation**"); and (ii) the equity value of the Subject Interest amounted to approximately RMB1,098.08 million, details of which are set out in Appendix VI to the Circular.

As part of our due diligence, we have enquired the Valuer with particular attention to (i) Valuer's engagement letter with the Company; (ii) Valuer's qualification and experience; and (iii) the steps and due diligence measures taken by the Valuer in preparing the Valuation Report. Based on our review of the engagement letter entered into between the Company and the Valuer, we are satisfied that the terms and scope of the engagement between the Company and the Valuer are appropriate to the opinion the Valuer is required to give. The Valuer confirmed that it is independent from the Company and its connected parties. Based on our research, we understand that the Valuer is a long-established professional valuation firm since 2008 with possession of relevant professional qualifications and experience required to perform the Valuation. We note that each team member possesses the necessary professional valuation credentials and has prior experience in assessing mining projects. We also understand from the Valuer that it has carried out on-site inspections and made relevant enquiries and searches for preparing the Valuation Report and no irregularities were noted. Based on the above, we consider that the Valuer is qualified and possesses relevant experience in conducting the Valuation.

We noted from the Valuation Report that such report is conducted in accordance with the guidelines set by the Australian Code for public reporting of Technical Assessments and Valuations of Mineral Assets 2015 Edition (the "**VALMIN Code**"), prepared by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists with the participation of the Australian Securities and Investment Commission (ASIC), the Australian Securities Exchange (ASX), or of other relevant securities exchanges. The Valuer has considered three generally accepted approaches, namely, market approach, cost approach and income approach. The Valuer considered that the cost approach is inappropriate as it does not capture the economic benefit contributed by the mineral assets of the Target Company. Given the comparable market transactions may be influenced by various factors, thereby introducing a significant element of subjectivity, the market approach is not the most appropriate valuation approach to rely on in determining the Chapter 18 Value of the Karchar Fluorspar Mine. The Valuer considered that the discounted cash flow (the "**DCF**") method of the income approach as the most appropriate method to rely on in determining the Chapter 18 Value of the Karchar Fluorspar Mine because (i) DCF model is common approach used to value mining projects which exploration has advanced to a degree where there is a reserve definition and a feasible development plan; and (ii) the reserves, mining and processing recoveries, and capital and operating costs are available and well defined in the Competent Person's Report. In light of the above, we concur with the Valuer that the adoption of income approach and DCF method is appropriate for the Valuation.

Based on our review of the Valuation Report and discussion with the Valuer, we note that the financial projection of Karchar Fluorspar Mine is based on (i) the production schedule and capital expenditure as suggested in the Competent Person's Report; (ii) the sales price as suggested in the Market Study Report; and (iii) the operating costs as suggested by the Preliminary Design (Substitute Feasibility Study) of the Karchar Fluorspar Mine in Ruoqiang County, Xinjiang (the "**2024 ENFI Preliminary Design**"), prepared by China ENFI Engineering Technology Co., Ltd ("**China ENFI**") in April 2024. As part of our due diligence, we have:

(i) obtained the Competent Person's Report and note that (a) such report is prepared in accordance to the JORC Code (2012) and the VALMIN Code and in complied with Chapter 18 of the Listing Rules; (b) the production schedules were formulated mainly based on the probable ore reserves reported in accordance with the JORC Code (2012) of approximately 24,787 kt as at 31 October 2024 and the production plan of reaching full capacity by 2027; and (c) the capital expenditure was mainly estimated with reference to the 2024 ENFI Preliminary Design and the actual engineering, procurement and construction contracts as provided and updated by the Target Company. In respect the background of the Competent Person, we have reviewed the independence, qualification and experience of SRK and consider that the responsible competent person meets the requirements of a Competent Person as defined by Chapter 18 of the Listing Rules and the relevant project team members are capable in preparing the Competent Person's Report. In addition, we have discussed with the Valuer and noted from the Valuation Report that the Valuer considers the Competent Person's Report to be thorough and complete. It is also understood that the Valuer finds the mine and operational plans to be reasonable and comprehensive, based on their own observations of the mine fields, review of the relevant documentation, and discussions with the staff;

(ii) obtained the Market Study Report and understand the basis of the projected real unit prices of 97% fluorite wet powder, details of which are set out in the section headed "4. Industry Overview" above. We have also performed independent research regarding the reliability of SMM and note that SMM is (a) a well-known integrated platform in the field of nonferrous and ferrous metals in the PRC, with services ranging from benchmark prices, analysis, news, consulting, and conferences of the metals, mining and renewable energies; and (b) a common data source referenced by companies listed on the Stock Exchange and engaged in the mining industry; and

(iii) obtained the 2024 ENFI Preliminary Design and understand the basis of determining the operating costs, including the mining operating costs and processing operating costs. In respect the reliability of China ENFI, we performed independent research and note that China ENFI (a) possesses a comprehensive Grade A qualification in engineering design and an engineering consulting unit Grade A credit certificate; and (b) engaged in more than 12,000 engineering projects in more than 30 countries and regions in the past 70 years, with the provision of full life-cycle services such as general contracting, project management, engineering consultancy, design, cost consultancy, supervision, environmental assessment, etc.

In view of the above and having considered that the abovementioned reports as referenced by the financial projection adopted in the Valuation Report have been reviewed and approved by the internal experts of the Group, we have no doubt on the aforesaid basis of the financial projection.

In applying the DCF method, we understand that it is necessary to determine an appropriate discount rate to calculate the net present value of the appraised asset. Therefore, we have reviewed the parameters adopted in the calculation of the discount rate (i.e. weighted average cost of capital) and performed the following works in assessing the fairness and reasonableness of the discount rate:

(i) we note that the Valuer has adopted the build-up model in determining the cost of equity, an additive model commonly used for calculating the cost of equity capital. As discussed with the Valuer, we understand such model is adopted given (a) the absence of sufficient numbers of listed companies which primarily engaged in the fluorspar mining and sales operation and share similar profit model; and (b) it is widely accepted in the investment and financial analysis communities. As part of our due diligence work, we have searched through the internet and note that the adoption of build-up model in calculating the required rate of return on equity is not uncommon;

(ii) in arriving at the cost of equity, we note that the Valuer has adopted (a) the risk-free rate of 2.14%, which is determined with reference to the 10-year China government bond yield as at the Valuation Date; (b) the long-term equity risk premium of 4.98%, which is determined with reference to the long term equity risk premium for China quoted on Damodaran Online[1]; (c) the industry premium of 1.36%, which is determined with reference to the premium of metal and mining industry as quoted on the "Kroll Cost of Capital Navigator[2]"; (d) the size premium of 2.91%, which is determined with reference to the premium for micro-cap of the "Kroll Cost of Capital Navigator"; and (e) the company-specific risk premium of 3%, which is determined by the Valuer with reference to the market practice to reflect the risk of uncertainty regarding the target asset's operations and financial projections. As part of our due diligence, we have (a) independently researched the valuation reports published on the website of Stock Exchange and note that abovementioned source of reference is commonly referred to by the market; (b) independently researched the source of reference for the risk-free rate and long-term equity risk premium and compared against with the relevant parameters; (c) verified the parameters quoted from the "Kroll Cost of Capital Navigator" with the supporting documents provided by the Valuer, given such information is not publicly available; and (d) discussed with the Valuer regarding the basis and assumptions of the major factors considered in deriving the discount rate, which is in line with industry practice;

(iii) in arriving at the cost of debt, we note that the Valuer has adopted 3.6% as the cost of debt, which is determined with reference to the latest 5-year or above loan prime rate of China as of the Valuation Date. As part of our due diligence, we have independently research on the website of the People's Bank of China and note that the cost of debt is correctly adopted. As the operation of the Karchar Fluorspar Mine is more than five years, we therefore consider the adoption of cost of debt by referencing to the 5-year or above loan prime rate is justifiable; and

(iv) in arriving at the weight of equity and weight of debt, the Valuer has adopted a debt-to-equity ratio of 14.50%, which is determined with reference to the latest leverage ratio of the gold and mining industry as suggested by Kroll as of the Valuation Date. As advised by the Valuer, due to the insufficient number of comparable companies as mentioned above, the Valuer has considered to derive the debt-to-equity ratio with reference to the industry composite, which is in line with the market practice.

[1] Damodaran is an online database published by Aswath Damodaran, a finance professor at New York University.

[2] Based on the website of Kroll, a leading independent provider of risk and financial advisory solutions, it is noted that the "Kroll Cost of Capital Navigator" is a global cost of capital tool and data delivery platform and is one of the most authoritative sources of equity risk premia, size premia and other critical data used in computing cost of capital.

In view of the above, we consider the discount rate adopted by the Valuer is fair and reasonable.

We note that the Valuer has made various assumptions for the Valuation, details of which are set out in the sub-sections headed "M. Assumptions" and "N. Project Valuation Assumption" of the Valuation Report contained in the Appendix VI to the Circular. As part of our due diligence work, we have (i) discussed with the Valuer and noted that the adoption of such assumptions is in line with the market practice; (ii) discussed with the Management and understand such assumptions have been reviewed and agreed by the Company. In view of the above and having considered the qualification and experience of the Valuer, we have no doubt on the fairness and reasonableness of the assumptions adopted in the Valuation Report.

Difference between the Consideration and the Original Purchase Price

As disclosed in the Letter from the Board, Xinjiang Non-ferrous obtained the Subject Interest under the Original Acquisition in August 2023 at the Original Purchase Price. We note that the Consideration represents a premium of approximately 24.0% over the Original Purchase Price, being the consideration paid by Xinjiang Non-ferrous for the Subject Interests under the Original Acquisition. As advised by the Management, the Original Acquisition is an independent transaction from the Acquisition where parties thereto negotiated the price under separate circumstances and considerations. Based on our discussion with the Management, we understand the Original Purchase Price is determined, among other factors, with reference to a valuation report (the "**2023 Valuation Report**") conducted by an independent valuer. As part of our due diligence, we have reviewed the 2023 Valuation Report and note that the primary factor leading to the abovementioned difference is the unit price of fluorite fine powder adopted in the calculation of the projected revenue. Based on our review of the price movement of fluorite fine powder in the Market Study Report, we note that its price has demonstrated a general upward trend since 2022, driven by increasing demand for fluorspar amid limited supply. As such, we consider the premium of the Consideration over the Original Purchase Price to be justifiable.

Conclusion

Having considered (i) the reasons and benefits of the Acquisitions as set out in the section headed "5. Reasons for and benefits of the Acquisition" above; (ii) the Chapter 18 Value is fair and reasonable taking into account the due diligence work performed by us in respect of the Valuation; (iii) the Consideration is determined, amongst others, based on the equity value of the Subject Interest of approximately RMB1,098.08 million as at 31 October 2024 as appraised by the Valuer in the Valuation Report; and (iv) the premium of the Consideration over the Original Purchase Price is justifiable due to reasons as mentioned above, we are of the view that the Consideration is fair and reasonable as far as the Independent Shareholders are concerned.

8. Assessment of the other transaction documents contemplated under the Equity Transfer Agreement

With reference to the Letter from the Board, given Xinjiang Non-ferrous would no longer hold the Subject Interest upon Completion, all rights attached to the Subject Interest would be passed from Xinjiang Non-ferrous to the Company, which include the rights of Xinjiang Non-ferrous under the Profit Compensation Agreement. It is understood that the such rights were granted to Xinjiang Non-ferrous under the Original Acquisition by Shanghai Xingqiang upon their negotiations at that time and are attached to the Subject Interest. Having considered that (i) Xinjiang Non-ferrous will transfer all its interest in the Target Company to the Company and cease to hold any interest in the Target Company upon Completion; (ii) the entering into of the Amended Profit Compensation Agreement, though not negotiated between the Company and Shanghai Xingqiang, can still serve as an additional measure to help safeguard the interest of the Company; and (iii) the Consideration is determined based on the equity value of the Subject Interest as appraised by the Valuer in the Valuation Report, and the financial forecasts and assumptions thereunder in relation to the Target Company are reasonably justified and are not based on the Guaranteed Profit, we concur with the Company that the terms and conditions of the transactions contemplated under the Equity Transfer Agreement are fair and reasonable.

9. Financial effects of the Acquisition on the Group

Upon Completion, the Target Company will become a non-wholly owned subsidiary of the Company and its financial information will be consolidated into the financial statements of the Company.

The analysis below is based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular (the "**Pro Forma Financial Information**"). It should be noted that such analysis is for illustrative purposes only and does not purport to represent how the financial position of the Enlarged Group will be upon Completion.

9.1 Effects on net assets

As at 30 June 2024, the Group had net assets of approximately RMB5,550.9 million. Based on the Pro Forma Financial Information, the net assets of the Enlarged Group would increase to approximately RMB6,088.4 million as at 30 June 2024, representing an increase of approximately 9.7% as compared to the net assets of the Group as at 30 June 2024.

9.2 Effects on liabilities

As at 30 June 2024, the Group had total liabilities of approximately RMB2,212.5 million. Based on the Pro Forma Financial Information, the total liabilities of the Enlarged Group would be approximately RMB3,569.8 million as at 30 June 2024, representing an increase of approximately 61.3% as compared to the total liabilities of the Group as at 30 June 2024, which was mainly due to the recognition of payable of the Consideration upon Completion.

9.3 Effects on cash and working capital

As at 30 June 2024, the Group had unrestricted cash and cash equivalent of approximately RMB635.3 million. Since the Company will satisfy the Consideration partly in cash by internal resources, the Enlarged Group's working capital would be reduced due to the Acquisition. As stated in the section headed "SUFFICIENCY OF WORKING CAPITAL" of Appendix I to the Circular, taking into account the present internal resources and the available credit facilities of the Enlarged Group, and considering the effect of the Acquisition, the Directors, after due and careful enquiry, are of the opinion that the Enlarged Group will have sufficient working capital to satisfy its present requirements, for the next 12 months from the date of the Circular.

9.4 Effects on earnings

As the Karchar Fluorspar Mine is still under construction and not expected to reach its designed production capacity shortly after Completion. Accordingly, the Acquisition would not immediately contribute material revenue or profit to the Enlarged Group upon Completion. It is expected that upon completion of the construction of the Karchar Fluorspar Mine, the Enlarged Group's profit will be enhanced as the Karchar Fluorspar Mine gradually enters the stable production period.

RECOMMENDATION

Taking into account of the above factors and reasons, we are of the view that (i) the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the transactions contemplated under the Equity Transfer Agreement, though not in the ordinary and usual course of business of the Group, are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Maxa Capital Limited

Sammy Leung
Managing Director

Mr. Sammy Leung is a licensed person registered with the Securities and Futures Commission of Hong Kong and a responsible officer of Maxa Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has over 12 years of experience in the corporate finance industry.