

15 June 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Revised Annual Caps for the two financial years ending 31 December 2024 in respect of the Yangxin Hongsheng Sales Framework Agreement.

Details of the Revised Annual Caps are set out in the letter from the Board contained in the circular of the Company dated 15 June 2023 (the “**Circular**”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company regarding non-exempt continuing connected transactions, details of which are set out in the circular of the Company dated 23 December 2022 (the “**Previous Appointment**”).

With regard 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 Previous Appointment as well as the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence; and (ii) we have maintained our independence from the Company during the Previous Appointment. Accordingly, we consider that the Previous Appointment would not affect our independence, and that we are independent from the Company pursuant to the Listing Rules.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on 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 of the Company (collectively, the “**Management**”). We have reviewed information on the Company, including but not limited to (i) the announcement of the Company dated 23 May 2023; (ii) the Yangxin Hongsheng Sales Framework Agreement; and (iii) other information contained in the Circular. We have assumed that all information and representations that have been provided by the Management, for which the Directors 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. 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 and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Yangxin Hongsheng Sales Framework Agreement. 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 the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular as a whole misleading. 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 provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the Yangxin Hongsheng Sales Framework Agreement or their respective subsidiaries or associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the Yangxin Hongsheng Sales Framework Agreement (including the Revised Annual Caps). We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be construed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, 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. We expressly disclaim any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion, we have taken into consideration the following principal factors and reasons.

1. BACKGROUND INFORMATION OF ON THE GROUP AND YANGXIN HONGSHENG

The Group

The Group is principally engaged in the exploitation of mineral resources, the mining and processing of mineral ores and the trading of metal products.

Yangxin Hongsheng

Yangxin Hongsheng is limited liability company established in the PRC and principally engaged in the manufacturing and sale of metal materials and chemicals, and the sale of nonferrous alloys and bullion products. It is a non-wholly owned subsidiary of the Company, owned by Daye Metal as to 52.00%, China No. 15 Metallurgical (a wholly-owned subsidiary of CNMC) as to 24%, Huangshi Xingang as to 16% and Huangshi State-owned Assets Management as to 8%, respectively. It owns the New Copper Cathode Production Plant and the operations of which commence since October 2022.

2. MAJOR TERMS OF THE YANGXIN HONGSHENG SALES FRAMEWORK AGREEMENT

Date:	22 November 2022
Parties	(1) the Company; and (2) Yangxin Hongsheng.
Nature of transactions:	The Group will supply certain products to Yangxin Hongsheng, including gold, silver, copper cathodes, copper concentrate, natural gas, residual heat power generation, water, electricity, raw materials, auxiliary equipment, supporting materials, spare part materials, production equipment, tools, sulfuric acid, dump truck, waste materials and such other products as agreed by the parties from time to time.
Term:	1 January 2023 to 31 December 2025.
Time and method of payment:	Based on market practice.

Pricing policy

The terms of the Yangxin Hongsheng Sales Framework Agreement have not been changed or modified in any way and the major terms (including the pricing policy) are set out in the section headed “– II. Major Transaction And Continuing Connected Transactions – 3. Yangxin Hongsheng Sales Framework Agreement” in the Letter from the Board in the circular of the Company dated 23 December 2022.

Internal control measures

The Company has established the connected transactions management committee, which is the discussion and decision-making body for the connected transactions management, and is led by the Board which directly and comprehensively manages the relevant matters of the connected transactions.

The Company has implemented stringent measures to monitor the pricing standards for the continuing connected transactions of the Group. The department heads of the relevant business departments are responsible for the initial price determination of the proposed connected transactions of the Group. Such initial price determination will be reported to and approved by the finance department of the Company. Then, these prices will be reported to the legal department of the Company, which is responsible for collating from the various business departments such information regarding the proposed connected transactions of the Group, and ensuring that the terms of any such proposed connected transactions are in compliance with applicable laws, rules and regulations. After all these review processes, the legal representative or authorised representative of the Company will execute such connected transactions on behalf of the Company.

The capital operation department, finance department and legal department of the Company are responsible for monitoring each of the connected transactions of the Group to ensure that they are conducted in accordance with its terms, including the relevant pricing mechanism and the periodic reporting of the relevant transaction amounts.

The enterprise development department and the finance department of the Company will monitor the continuing connected transactions and summarise the transaction amounts incurred under each of the connected transaction framework agreements regularly on a monthly basis, and reports will be submitted to the Board for its quarterly review. In the event the actual transaction amount reaches 80% of the relevant annual cap, a re-assessment will be conducted. If it is determined after such re-assessment that the annual cap may be exceeded, the enterprise development department of the Company would initiate the procedures for a board meeting and/or shareholders' meeting (as and when required) to increase the annual cap as soon as practicable.

Further, the transactions under the Yangxin Hongsheng Sales Framework Agreement is subject to the reporting requirements and the independent non-executive Directors will review the transactions annually to assess whether such transactions are conducted in accordance with the terms (including the pricing mechanism) as set out in the Yangxin Hongsheng Sales Framework Agreement.

We concur with the view of the Directors that the internal control system of the Group is adequate to ensure that the transactions will be on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Reasons for and benefits of the adoption of the Revised Annual Caps

The amount of copper concentrate to be supplied by the Group to Yangxin Hongsheng and the transaction amount under the Yangxin Hongsheng Sales Framework Agreement are expected to increase, and the Board envisages that the Existing Annual Caps will not be sufficient to fulfil the additional previously unforeseen transactions that may take place under the Yangxin Hongsheng Sales Framework Agreement for the financial years ending 31 December 2023 and 2024.

For the purpose of supporting the operation of the New Copper Cathode Production Plant, Yangxin Hongsheng would purchase copper concentrate mainly from independent third parties of the Group, and from the Group from time to time, for such supply of raw materials. The purchases from independent third parties of the Group would in general be supported by letters of credit to be issued by banks. Due to the stricter review and approval requirements of banking institutions in the PRC, certain banks would require the New Copper Cathode Production Plant reaching its production capacity and standard as a condition precedent for the issuance of letters of credit to Yangxin Hongsheng. As the New Copper Cathode Production Plant would only reach its production capacity and standard in 2024 as currently expected, progress of the application and the issuance of certain letters of credit from the banks for Yangxin Hongsheng (for the purpose of its procurement of copper concentrate from third party suppliers) have in turn been delayed. To facilitate and ensure the continued operation of the New Copper Cathode Production Plant, Yangxin Hongsheng expects to increase its purchase of copper concentrate from the Group as raw materials for the production under the New Copper Cathode Production Plant during the years ending 31 December 2023 and 2024 while pending the issuance of the letter of credit from the banks. The Group expects that Yangxin Hongsheng would be able to obtain the letters of credit for the purpose of its purchase of copper concentrate from independent third parties suppliers for the year ending 31 December 2025 upon the New Copper Cathode Production Plant reaching its production capacity and standard in 2024 as currently expected. The Group would meanwhile continue to purchase copper concentrate from independent third parties (with the letters of credit issued to the Group by the banks) to support the production of the Group, including for its supply to Yangxin Hongsheng as required. The Group is not required to provide guarantee(s) or pledge(s) to the banks for such issuance of the letters of credit.

Due to the aforementioned factors, the amount of copper concentrate to be supplied by the Group to Yangxin Hongsheng is expected to exceed the initial estimate for the years ending 31 December 2023 and 2024. The Board envisages that the Existing Annual Caps will not be sufficient to fulfil the additional unforeseen transactions that may take place under the Yangxin Hongsheng Sales Framework Agreement for the financial years ending 31 December 2023 and 2024 and therefore proposes to adopt the Revised Annual Caps.

The Board is of the view that the Revised Annual Caps will continue to allow the Group to serve as a reliable back-up source of supply of copper concentrate to Yangxin Hongsheng to facilitate the continued operation of the New Copper Cathode Production Plant, which will in turn increase the production capacity of copper cathode of the Group, maximize the utilization of the

inventory of the Group to facilitate production and minimize the administrative costs and time costs involved for such sales considering its intra-group relationship with the Company.

We have obtained from the Company and reviewed the Group's relevant internal control manual. We note that when considering the terms of the relevant products, the Company shall primarily refer to the government-prescribed price. If such government-prescribed price is not available, the Group shall refer to the Market Price and/or quotes from other independent third parties.

We have also reviewed the Yangxin Hongsheng Sales Framework Agreement and note that the basis of determining the prices for the products are clearly stated thereunder, which is primarily made with reference to the relevant government-prescribed price, or the Market Price if there is no applicable government-prescribed price. In addition, we have obtained from the Company and reviewed samples of existing contracts for the relevant products. We note that the prices of the relevant products were primarily determined with reference to the Market Price, such as the market price as quoted on the London Bullion Market Association and the London Metal Exchange. We consider that the Company has complied with its internal control procedures and the contract prices under the samples are in line with the Company's pricing policy as described above.

In view of the aforementioned factors, we are of the view that the pricing mechanism of the products under the Yangxin Hongsheng Sales Framework Agreement is fair and reasonable.

Further, we have interviewed with the Management and understand that the directors and senior management of the Company will monitor closely and review regularly the continuing connected transactions of the Company. The Company will adopt a series of risk management arrangements, and endeavour to maintain, in relation to the continuing connected transactions, the independence of the Company; the fairness of the price of the transactions; the fairness of the terms of the transactions; and the right of the Company to conduct transactions with independent third parties other than Yangxin Hongsheng. The relevant arrangements include: (i) the continuing connected transactions contemplated under the Yangxin Hongsheng Sales Framework Agreement are conducted on a non-exclusive basis; (ii) upon the signing of the Yangxin Hongsheng Sales Framework Agreement and its approval by the Independent Shareholders, the relevant business department of the Company will be responsible for the implementation of the Yangxin Hongsheng Sales Framework Agreement; and (iii) before the signing of each individual agreement, the finance department of the Company will evaluate the terms, including the fairness of the price, of the agreement as well as monitor the Company's existing continuing connected transactions, and review whether the Company's transactions are fair and reasonable in accordance with the terms of the Yangxin Hongsheng Sales Framework Agreement and internal control manual. As such, we are of the view that the Group has a sound risk management system to safeguard the interest of the Company.

In conclusion, we are of the view that the terms of the Yangxin Hongsheng Sales Framework Agreement is fair and reasonable.

Revised Annual Caps under the Yangxin Hongsheng Sales Framework Agreement

The table below sets out (i) the Existing Annual Caps; (ii) the historical amounts for the four months ended 30 April 2023; and (iii) the Revised Annual Caps for each of the two years ending 31 December 2024 under the Yangxin Hongsheng Sales Framework Agreement:

	Historical amounts/annual caps for the period/year ending 31 December	
	2023	2024
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Existing Annual Caps	2,336,213	2,704,629
Historical amounts	1,669,130 <i>(Note)</i>	N/A
Revised Annual Caps	7,203,324	7,905,839

Note: being the transaction amount under the Yangxin Hongsheng Sales Framework Agreement for the four months ended 30 April 2023.

We understand that the Revised Annual Caps have been determined with reference to (i) the projected increase of future orders based on the expected amount of copper concentrates to be supplied to Yangxin Hongsheng; (ii) the historical transaction amount paid by Yangxin Hongsheng to the Group; (iii) existing purchase orders placed by other purchasers with the Group for copper concentrates; and (iv) the average historical market price and the anticipated future market price for copper concentrates.

In order to assess the fairness and reasonableness of the Revised Annual Caps, we have obtained from the Management and reviewed the relevant calculations of the Revised Annual Caps.

We understand from the Management that under stricter review and approval requirements of banking institutions in the PRC, the progress and amount of letters of credit to be issued from the banks to Yangxin Hongsheng is dependent on factors including but not limited to the production capacity and standard of the New Copper Cathode Production Plant. Given that currently the New Copper Cathode Production Plant (i) has only a short operation track record following commencement of its operation since October 2022; and (ii) has not yet reached its production capacity and standard, the progress and amount of letters of credit issued from the banks to Yangxin Hongsheng during the past few months have been delayed and less than expected. Nevertheless, the Group expects that Yangxin Hongsheng would be able to obtain the necessary letters of credit from the banks for the purpose of its purchase of copper concentrate from independent third parties suppliers for the year ending 31 December 2025 upon the New Copper Cathode Production Plant

reaching its production capacity and standard in 2024 as currently expected.

The Revised Annual Caps in FY2023 and FY2024 are approximately RMB7,203 million and RMB7,906 million, respectively. We have interviewed with the Management and understand that the Revised Annual Caps were determined with reference to, among others:

- (i) the Revised Annual Caps in FY2023 is primarily made with reference to (a) the historical sales amount between the Company and Yangxin Hongsheng for the four months ended 30 April 2023 of approximately RMB1,669 million; (b) as at the Latest Practicable Date, the Group had entered into 18 trade agreements with Yangxin Hongsheng, in which 13 of them have been completed. The other 5 outstanding trade agreements amounted to an aggregate of approximately RMB800 million, and are expected to complete during the second quarter of 2023; and (c) it is estimated that there will be a total of 37 and 38 trade agreements to be entered into between the Group and Yangxin Hongsheng under the Yangxin Hongsheng Sales Framework Agreement for the two years ending 31 December 2023 and 2024 respectively;
- (ii) the increase in the Revised Annual Caps in FY2024 as compared with FY2023 is mainly due to the gradual increase in level of operation of the New Copper Cathode Production Plant following commencement of its operation in October 2022; and
- (iii) the Company has entered into letter of intents with Yangxin Hongsheng which have explicitly set out the target sales volume of certain products under the Yangxin Hongsheng Sales Framework Agreement for each of the two years ending 31 December 2024. We have obtained from the Management and reviewed the letter of intents, and understood that both parties have reached consensus on the target sales volume as stated thereunder. There will be no consequence or penalty on the Company for not reaching the target volume.

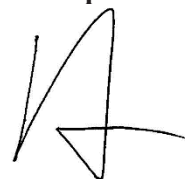
Further, we have conducted analysis on the copper price and reviewed the “World Economic Outlook Database” published by the International Monetary Fund in April 2023 (www.imf.org). According to the database, it is noted that the copper price per ton has increased from US\$6,174 in 2020 to US\$8,828 in 2022, and forecasted to amount to US\$8,653 in 2023, US\$8,568 in 2024 and US\$8,553 in 2025. We note that the copper prices are expected to remain relatively higher for the upcoming few years as compared with the price in 2020, and it is in line with the unit price adopted by the Company to determine the Revised Annual Caps.

Taking into account the above factors as a whole, we are of the view that the Revised Annual Caps are fair and reasonable.

RECOMMENDATION

Having considered the principal factors and reasons above, we are of the view that the Yangxin Hongsheng Sales Framework Agreement (including the Revised Annual Caps) is (i) entered into in the ordinary and usual course of business of the Group; (ii) on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned; and (iii) 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(s) in relation to the adoption of the Revised Annual Caps to be proposed at the SGM.

Yours faithfully,
For and on behalf of
Amasse Capital Limited

A handwritten signature in black ink, appearing to be 'Keith Chan', written over a faint, stylized graphic element that resembles a large letter 'A' or a similar shape.

Keith Chan
Associate Director

Mr. Keith Chan is a licensed person registered with the Securities and Future Commission of Hong Kong and regards as a responsible officer of Amasse Capital Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO and has over 7 years of experience in corporate finance industry.

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