

7 November 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 three financial years ending 31 December 2025 in respect of the Yangxin Hongsheng Purchase Framework Agreement and the Parent Group 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 7 November 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 (i) non-exempt continuing connected transactions, details of which are set out in the circular of the Company dated 23 December 2022; and (ii) revision of annual caps for continuing connected transactions, details of which are set out in the circular of the Company dated 15 June 2023 (collectively, the “**Previous Appointments**”).

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 Appointments 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 Appointments. Accordingly, we consider that the Previous Appointments 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 12 September 2023; (ii) the revised Yangxin Hongsheng Purchase Framework Agreement; (iii) the Parent Group Sales Framework Agreement; and (iv) 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 Purchase Framework Agreement and the Parent Group 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 Purchase Framework Agreement, the Parent Group 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 Purchase Framework Agreement and the Parent Group 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 ON THE GROUP, YANGXIN HONGSHENG AND THE PARENT GROUP

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.

The Parent Group

The Parent Company is a state-owned conglomerate in the PRC. Its controlling shareholder is CNMC, a state-owned enterprise established in the PRC. The principal business of the Parent Group is copper mining and processing. The Parent Group has a fully integrated operation which enables it to undertake the different stages of copper production from mining, processing, smelting and plating, research and development, design to sales and trading.

2. MAJOR TERMS OF THE REVISED YANGXIN HONGSHENG PURCHASE FRAMEWORK AGREEMENT

| | |
|-----------------------------|--|
| Date: | 22 November 2022 (revised on 12 September 2023) |
| Parties | (1) the Company; and (2) Yangxin Hongsheng. |
| Nature of transactions: | Yangxin Hongsheng will supply certain products to the Group, including copper concentrate, anode scrap, anode plates, anode mud 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 mechanism: | Based on (i) the Market Price determined by the Company by way of a comprehensive evaluation method taking into account comparable quotes from at least two independent third parties obtained via public tender or price inquiry, or the price as negotiated by the parties if the relevant procurement does not require public tender or price inquiry procedure or (ii) a price |

determined by the internal documents of the Group developed with reference to the Market Price. If the prices and charges are determined based on or with reference to prices, exchange rates or tax rates stated in specific government documents, internal documents of the Group, exchanges or industry-related websites, the effective aforementioned documents, prices and rates at the time of the entry into of specific transaction agreements by the parties shall prevail.

Pricing policy

As of the Latest Practicable Date, prices for the supply of the relevant products by Yangxin Hongsheng will be determined by the parties on the following basis:

- | | |
|---------------------|---|
| Copper concentrate: | With reference to (as applicable): (i) the market price of copper as quoted on the London Metal Exchange; (ii) the market price of silver as quoted on the London Bullion Market Association; or (iii) the market price of gold as quoted on the London Bullion Market Association, adjusted with reference to the premium or discount quoted by Reuters, taking into account relevant smelting and processing costs. |
| Anode scrap: | With reference to (as applicable): (i) the daily weighted average price or instant trading price of copper as quoted on the Shanghai Futures Exchange for the current month or the following month, taking into account relevant processing costs of blister copper of the purchaser as agreed under contract for the same period; (ii) the market price of gold as quoted on the Shanghai Gold Exchange; or (iii) the market price of silver as quoted on the Shanghai Huatong Silver Exchange, and taking into account the corresponding grades of gold or silver respectively. |
| Anode plates: | With reference to (as applicable): (i) the daily weighted average price or instant trading price of copper as quoted on the Shanghai Futures Exchange for the current month or the following month, taking into account relevant processing costs of anode plates of the purchaser as agreed under contract for the same period; (ii) the market price of gold as quoted on the Shanghai Gold Exchange; or (iii) the market price of silver as quoted on the Shanghai Huatong Silver Exchange, and taking into account the corresponding grades of gold or silver respectively. |

Anode mud: With reference to (as applicable): (i) the market price of copper as quoted on the Shanghai Futures Exchange; (ii) the market price of silver as quoted on the Shanghai Huatong Silver Exchange; (iii) the market price of gold as quoted on the Shanghai Gold Exchange; (iv) the market price of selenium as quoted on Shanghai Metals Market (SMM); or (v) the market price of palladium as quoted on Shanghai Metals Market (SMM), and taking into account the corresponding grades of copper, silver, gold, selenium or palladium respectively.

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

The New Copper Cathode Production of Yangxin Hongsheng has commenced production since October 2022 and its production capacity is gradually increasing. Currently, the annual production capacity of copper cathodes (in terms of refining) of Yangxin Hongsheng is approximately 300,000 tonnes and is expected to reach 450,000 tonnes in 2024. As to the annual production capacity in terms of rough smelting, the current production capacity is approximately 400,000 tonnes. As disclosed in the Continuing Connected Transactions Circular, Yangxin Hongsheng's own smelting furnace for anode scrap was originally expected to be put into operation in June 2023. Due to the adjustments in production process, it would only reach its production capacity and standard in December 2023 as currently expected. As Yangxin Hongsheng does not have the ability to process anode scrap before its smelting furnace comes into operation, approximately an extra 7,000 tonnes of anode scrap per month for the period from June to December 2023 that was originally expected to be processed by Yangxin Hongsheng would be sold to the Group for processing.

Upon the completion of Yangxin Hongsheng's smelting furnace, the volume of intermediate products in the production process of copper cathodes, in particular anode plates, produced by Yangxin Hongsheng would increase. It is expected that there would be an excess of anode plates produced by Yangxin Hongsheng which was previously unforeseen due to an increase in the utilization rate of anode scrap. Provided that Yangxin Hongsheng's own needs for anode plates in electrolysis for production of copper cathodes are satisfied, the anode plates that are in excess would be sold to the Group.

The anode scrap and anode plates produced by Yangxin Hongsheng would be able to further fulfill the Group's demand for anode scrap and anode plates sourced externally, which are used as raw materials for the Group's production of copper cathodes. To further maximise the efficiency of production and utilization of inventory of both the Group and Yangxin Hongsheng, and to secure the cash flow necessary for production, the Group expects that the amount of anode scrap and anode plates to be purchased by the Group from Yangxin Hongsheng during the years ending December 31, 2023, 2024 and 2025 will increase.

We have discussed with the Management and understand that (i) Yangxin Hongsheng will be able to act as an intra-group supplier that provides a better and more efficient communication with the Group, and the Group may be able to negotiate more favourable terms with Yangxin Hongsheng, as compared with other suppliers, to obtain the copper concentrate, anode scrap, anode plate and anode mud which the Group requires for its production and operations; and (ii) given the intra-group relationship between the Group and Yangxin Hongsheng and the close geographical proximity of their respective operations, the Directors consider that the entering into of the Yangxin Hongsheng Purchase Framework Agreement will allow the Group to secure a cost effective, timely and stable source of supply of those products.

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 reviewed the revised Yangxin Hongsheng Purchase 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 Market Price. We note that the Group must obtain at least two quotes from other independent third parties as part of the assessment of the Market Price. Further, the terms offered by Yangxin Hongsheng to the Group must be equal to or more favourable than those offered to its other independent customers (if available). 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 Shanghai Futures Exchange, 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 Purchase 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 Purchase Framework Agreement are conducted on a non-exclusive basis; (ii) upon the signing of the Yangxin Hongsheng Purchase 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 Purchase 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 Purchase Framework Agreement and internal control manual. As such, we are of the view that the Company has a sound risk management system to safeguard the interest of the Independent Shareholders.

In conclusion, we are of the view that entering into the revised Yangxin Hongsheng Purchase Framework Agreement is in the interests of the Group and the Shareholders as a whole.

Revised Annual Caps under the Yangxin Hongsheng Purchase Framework Agreement

The table below sets out (i) the Existing Annual Caps; (ii) the historical amounts for the nine months ended 30 September 2023; and (iii) the Revised Annual Caps for each of the three years ending 31 December 2025 under the Yangxin Hongsheng Purchase Framework Agreement:

| | Historical amounts/annual caps for the period/year ending 31 December | | |
|----------------------|--|------------------|------------------|
| | 2023 | 2024 | 2025 |
| | <i>(RMB'000)</i> | <i>(RMB'000)</i> | <i>(RMB'000)</i> |
| Existing Annual Caps | 6,361,260 | 5,648,630 | 6,054,003 |
| Historical amounts | 6,219,210 | N/A | N/A |
| | <i>(Note)</i> | | |
| Revised Annual Caps | 11,287,354 | 10,672,780 | 10,927,565 |

Note: being the transaction amount under the Yangxin Hongsheng Purchase Framework Agreement for the nine months ended 30 September 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, among others, copper concentrates, anode mud, anode scrap and anode plates to be purchased from Yangxin Hongsheng; (ii) historical purchase orders placed by the Group with other suppliers for the relevant products; and (iii) average historical market price and the anticipated future market price for the relevant products.

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.

The Revised Annual Caps in FY2023, FY2024 and FY2025 are approximately RMB11.3 billion, RMB10.7 billion and RMB10.9 billion, respectively. We have interviewed with the Management and understand that the Revised Annual Caps were determined as follows:

- (i) the Revised Annual Caps in FY2023 is primarily made with reference to (a) the historical purchase amount between the Company and Yangxin Hongsheng for thenine months ended 30 September 2023 of approximately RMB6.2 billion; (b) Yangxin Hongsheng does not have the ability to process anode mud (which is an intermediate product). Therefore, it is intended for the anode mud as produced by Yangxin Hongsheng to be sold to other members of the Group for processing. Based on the estimation on the amount and price of anode mud and the production capacity of Yangxin Hongsheng, it is expected that the total purchase amount by the Group for the anode mud will amount to approximately RMB2.8 billion to RMB2.9 billion for each of the three years ending 31 December 2025; (c) as disclosed in the circular of the Company dated 23 December 2022, Yangxin Hongsheng’s own smelting furnace for, among others, the anode scrap (which is an intermediate product) was originally expected to be ready for operation around June 2023, and therefore (i) most of the anode scrap produced before June 2023 would be reserved for its own needs and be processed by itself once the smelting furnace is ready for operation; and (ii) the anode scrap produced during July to December 2023 would not have to be sold to members of the Group and be processed by itself once the smelting furnace is ready for operation. Based on such original expectation, Yangxin Hongsheng would only have to sell an amount of approximately RMB1.2 billion of excess anode scrap to members of the Group in FY2023. However, due to the adjustments in production process that have caused a delay, the smelting furnace is now expected to be ready for operation around December 2023. As a result, most of the anode scrap produced by Yangxin Hongsheng throughout the year 2023 (including the period from July to December 2023) will have to be sold to other members of the Group for processing. Based on the estimation on the amount and price of anode scrap and the production capacity of Yangxin Hongsheng, it is currently expected that the total purchase amount by the Group for the anode scrap produced by Yangxin Hongsheng will increase from approximately RMB1.2 billion under the original expectation to approximately RMB5.3 billion under the current expectation for FY2023. Once Yangxin Hongsheng’s own smelting furnace is ready for operation, the anode scrap produced by Yangxin Hongsheng will be processed by itself thereafter; (d) the inclusion of anode plates into the list of products to be provided by the Group to Yangxin Hongsheng under the revised Yangxin Hongsheng Purchase Framework Agreement, which it is expected that the total purchase amount by the Group for the excess anode plate produced by Yangxin Hongsheng will amount to approximately RMB0.8 billion in FY2023; and (e) the increase in procurement of raw materials such as copper concentrate following commencement of operation of the New Copper Cathode Production Plant in October 2022;

- (ii) the slight decreases in the Revised Annual Caps in FY2024 and FY2025 as compared with FY2023 are mainly due to (a) most of the anode scrap produced by Yangxin Hongsheng will be processed by itself and no longer required to be sold to other members of the Group for processing once Yangxin Hongsheng's own smelting furnace is ready for operation in December 2023. In FY2024 and FY2025, the Group is expected to purchase a small amount of anode scrap of approximately RMB0.3 billion and RMB0.2 billion, respectively, from Yangxin Hongsheng which were unable to be treated by Yangxin Hongsheng in the event of overhaul or equipment failure; (b) following operation of the Yangxin Hongsheng's own smelting furnace starting from 2024, the volume of intermediate products produced, in particular anode plates, during the relevant smelting processes will increase. It is expected that there would be an excess of anode plates produced by Yangxin Hongsheng which was previously unforeseen due to an increase in the utilization rate of anode scrap. After satisfying Yangxin Hongsheng's own needs for anode plates in electrolysis system used for production of copper cathodes, it is anticipated that there would be an excess of approximately 6,000 tonnes of anode plates per month produced by Yangxin Hongsheng. These excesses of anode plates produced by Yangxin Hongsheng would be sold to the Group and able to partially fulfill the Group's demand for anode plates, which are further processed to facilitate the production of the Group's copper cathodes. It is expected that the total purchase amount by the Group for these excess anode plates produced by Yangxin Hongsheng will be approximately RMB4.7 billion in each of FY2024 and FY2025, respectively; and (c) the gradual increase in level of operation of the New Copper Cathode Production Plant following its commencement of 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 Purchase Framework Agreement for each of the three years ending 31 December 2025. 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 under the Yangxin Hongsheng Purchase Framework Agreement are fair and reasonable.

3. MAJOR TERMS OF THE PARENT GROUP SALES FRAMEWORK AGREEMENT

| | |
|-----------------------------|--|
| Date: | 22 November 2022 |
| Parties | (3) the Company; and (4) the Parent Company |
| Nature of transactions: | The Group will supply certain products to the Parent Group, 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, scrap steel, scrap stainless steel, scrap copper cathodes mold, spare part materials, platinum, spongy palladium, crude selenium, tellurium ingot 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 Parent Group 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 – 2. Parent Group Sales Framework Agreement” in the Letter from the Board in the Continuing Connected Transactions Circular.

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

In 2023, Huangshi Shengxiang experienced a significant increase in its sales of copper rods in the East China. The increase is mainly due to the (i) reduction of transportation costs and increase of areas of sales by improvement in packaging and shipping of goods via waterways; (ii) setting up of sales outlet in East China and arranging of personnel to find downstream manufacturers to expand its market; and (iii) improvement in the quality of copper rods produced. As of the end of July 2023, the annual production volume of copper rods of Huangshi Shengxiang reached 109,000 tonnes, and it is expected to reach 200,000 tonnes by the end of 2023. With the continuing growth in the business of Huangshi Shengxiang, it is expected that the annual production volume of copper rods will be reaching approximately 250,000 tonnes and 300,000 tonnes for the two years ending December 31,

2024 and 2025 respectively.

As the production of copper rods by Huangshi Shengxiang requires raw materials of high quality, the Parent Group has to purchase copper cathodes to satisfy its production needs. Given the long-term business relationship of the Parent Group and the Group and the close geographical proximity of their respective operations, the administrative costs, transportation costs and time costs involved for such sales could be minimised. With the expected increasing annual production volume of copper rods of Huangshi Shengxiang and as a result of the foregoing, the Parent Group will be purchasing more copper cathodes from the Group for production of copper rods for the three years ending December 31, 2023, 2024 and 2025 with the expected increasing production volume of copper rods of Huangshi Shengxiang and the amount of copper cathodes to be supplied by the Group to the Parent Group are expected to exceed the initial estimates for the years ending December 31, 2023, 2024 and 2025.

The Board is of the view that the revised annual caps of the Parent Group Sales Framework Agreement will (i) allow the Group to continue to serve as a reliable back-up source of supply of the relevant products, including but not limited to copper concentrates to the Parent Group, catering for any unforeseen surge of demands or other contingencies on the part of the Parent Group; and (ii) broaden the revenue base of the Group and allow it to leverage on the sales network of the Parent Group in places including the PRC.

We have discussed with the Management and understand that entering into the Parent Group Sales Framework Agreement will broaden the revenue base of the Group and allow it to leverage on the sales network of the Parent Group in the PRC and Hong Kong.

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 Parent Group 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 Shanghai Futures 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 Parent Group 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 the Parent Group. The relevant arrangements include: (i) the continuing connected transactions contemplated under the Parent Group Sales Framework Agreement are conducted on a non-exclusive basis; (ii) upon the signing of the Parent Group 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 Parent Group 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 Parent Group 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.

Moreover, we are given to understand that the business model of the Group and the Parent Group are distinct and there should not be any significant direct competition among the businesses of the Group and the Parent Group given that (i) the core copper-related business of the Parent Group has already been transferred to the Group; (ii) the Parent Group is mainly engaged in the midstream to downstream business (e.g. processing of coarse copper into anode plates, production and sales of copper rods and copper tubes), while the Group is mainly engaged in the upstream to midstream business (e.g. exploration, mining and processing of copper ore, smelting of copper concentrates and sales of copper cathodes); and (iii) the trading business, which is a core business of the Parent Group, will not be a core business of the Group.

In conclusion, we are of the view that entering into the Parent Group Sales Framework Agreement is in the interests of the Group and the Shareholders as a whole.

Revised Annual Caps under the Parent Group Sales Framework Agreement

The table below sets out (i) the Existing Annual Caps; (ii) the historical amounts for the nine months ended 30 September 2023; and (iii) the Revised Annual Caps for each of the three years ending 31 December 2025 under the Parent Group Sales Framework Agreement:

| | Historical amounts/annual caps for the period/year ending 31 December | | |
|----------------------|--|-------------------|-------------------|
| | 2023 | 2024 | 2025 |
| | <i>(RMB '000)</i> | <i>(RMB '000)</i> | <i>(RMB '000)</i> |
| Existing Annual Caps | 14,849,212 | 22,793,246 | 23,515,155 |
| Historical amounts | 10,287,480 <i>(Note)</i> | N/A | N/A |
| Revised Annual Caps | 17,995,212 | 31,586,706 | 33,624,255 |

Note: being the transaction amount under the Parent Group Sales Framework Agreement for the nine months ended 30 September 2023.

We understand that the Revised Annual Caps have been determined with reference to (i) existing purchase orders placed by the Parent Group; (ii) projected future orders based on the expected increase in the products to be sold to the Parent Group as a result of the expected growth in the business of the Parent Group, including Huangshi Shengxiang; and (iii) the average historical market price and the anticipated future market price for the relevant products, including but not limited to copper cathodes.

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 note that the major product expected to be sold by the Group to the Parent Group under the Parent Group Sales Framework Agreement is the copper cathode. As advised by the Management, the Group's current production capacity of copper cathodes is approximately 850,000 tonnes per year.

As advised by the Management, the New Copper Cathode Production Plant has commenced its operation since October 2022. The New Copper Cathode Production Plant has increased and will gradually further increase the Group's total production capacity of copper cathode, and also the demand for relevant raw materials such as copper concentrate and scrap copper for production purpose.

We have enquired with the Management and set out below the expected production amount by the Group and sales volume of copper cathode by the Group to the Parent Group in FY2023, FY2024 and FY2025:

| | FY2023 <i>approx. tonnes</i> | FY2024 <i>approx. tonnes</i> | FY2025 <i>approx. tonnes</i> |
|--|--|--|--|
| Total expected production of copper cathode by the Group | 700,000 | 950,000 | 1,000,000 |
| Expected sales volume of copper cathode by the Group to the Parent Group | 260,000 | 440,000 | 470,000 |

As advised by the Management, it is expected that the Group will conduct certain maintenance and repairing works for its production plants in FY2023 and thus will affect its total expected production of copper cathode in FY2023 as compared with its existing total production capacity. Further, we note that the estimated sales volume of copper cathode by the Group to the Parent Group during the three years ending 31 December 2025 ranges from approximately 37.1% to 47.0% of the Group's total expected production of copper cathode, and it is within the Group's production capacity.

The Revised Annual Caps in FY2023, FY2024 and FY2025 are approximately RMB16.2 billion, RMB28.9 billion and RMB30.7 billion, 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 growth trend in the historical sales amount between the Company and the Parent Group during the past two to three years. The historical sales amount for the three years ended 31 December 2022 had been increasing from approximately RMB2.9 billion to RMB5.0 billion and further to RMB6.4 billion, respectively; (b) the historical sales amount between the Company and the Parent Group during the eight months ended 30 September 2023 has reached approximately RMB10.3 billion; (c) in late 2022, it was originally expected to sell an amount of approximately RMB9.4 billion of copper cathode by the Group to Huangshi Shengxiang (being a member of the Parent Group). Huangshi Shengxiang has successfully penetrated markets in the East China during 2023, resulting in increased sales in its copper rods. Consequently, such increase in copper rod sales also leads to an increased demand for copper cathodes by Huangshi Shengxiang, which serve as one of its raw materials for production. As a result, the sales amount of copper cathode by the Group to Huangshi Shengxiang is expected to increase from approximately RMB9.4 billion under the original expectation to approximately RMB12.6 billion in FY2023 under the current expectation;

- (ii) the increases in the Revised Annual Caps in FY2024 and FY2025 as compared with FY2023 are mainly due to (a) the increasing production capacity of the New Copper Cathode Production Plant and the anticipated corresponding additional sales of copper cathode; and (b) the increase in estimated sales volume of copper cathode by the Group to the Parent Group, including but not limited to the expected further increase in sales of copper cathode by the Group to Huangshi Shengxiang given the anticipated increased sales in its copper rods during the two years ending 31 December 2024 and 2025. The sales amount of copper cathode by the Group to Huangshi Shengxiang is expected to increase from approximately RMB10.1 billion for each of FY2024 and FY2025 under the original expectation to approximately RMB18.9 billion for FY2024 and RMB20.2 billion for FY2025 under the current expectation; and
- (iii) the Company has entered into letter of intents with members of the Parent Group, which have explicitly set out the target sales volume of certain products under the Parent Group Sales Framework Agreement for each of the three years ending 31 December 2025. 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.

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 under the Parent Group Sales Framework Agreement are fair and reasonable.

4. 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 Purchase Framework Agreement and the Parent Group Sales Framework Agreement are 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 Purchase Framework Agreement and the Parent Group 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.

RECOMMENDATION

Having considered the principal factors and reasons above, we are of the view that the Yangxin Hongsheng Purchase Framework Agreement and the Parent Group Sales Framework Agreement (including the Revised Annual Caps) are (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 'K Chan', with a stylized flourish at the end.

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.