
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

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Immediately after the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED] or any options that may be granted under the Share Option Scheme) and the Capitalisation Issue, [REDACTED] of the issued share capital of our Company will be owned by Majestic Gold. In this regard, Majestic Gold is our Controlling Shareholder within the meaning of the Listing Rules.

Majestic Gold is a limited liability company organised and existing under the laws of British Columbia, Canada, the shares of which have been listed on TSX Venture Exchange (stock code: MJS.V). Prior to the [REDACTED], Majestic Gold has been principally involved in the acquisition, exploration and development of mineral properties in Canada and Australia, as well as in the PRC through our Group. Following completion of the [REDACTED], Majestic Gold will cease its operations in the PRC (other than by retaining a controlling interest in our Company), and principally be engaged in the acquisition, exploration and development of mineral properties in Canada and Australia (the “**Remaining Business**”).

Save as disclosed above, there is no other person who will, immediately following the completion of the [REDACTED] (without taking into account the allotment and issue of Shares upon the exercise of the [REDACTED] or any options to be granted under the Share Option Scheme) and the Capitalisation Issue, be directly or indirectly interested in 30% or more of the Shares then in issue or have a direct or indirect equity interest in any member of our Group representing 30% or more of the equity in such entity.

INDEPENDENCE FROM THE REMAINING GROUP

We are satisfied that we can operate independently from the Remaining Group, the ultimate holding company of which is our Controlling Shareholder and their respective close associates (other than the members of our Group), after the [REDACTED] for the following reasons.

Clear business delineation between the business of our Group and the Remaining Group

Following completion of the [REDACTED], the Remaining Group will principally be engaged in the Remaining Business whilst our Group will continue to be engaged in the gold exploration, mining and processing business in the PRC. The businesses of each of our Group and the Remaining Group will be clearly delineated based on their geographical locations. Our Group has been conducting its gold mining business through Yantai Zhongjia in Yantai, Shandong Province of the PRC, while the Remaining Group will be conducting the Remaining Business in Canada and Australia and will not conduct mining business in the PRC. There will not be any overlap between the locations of the mining projects of our Group and the existing and proposed projects of the Remaining Group following completion of the [REDACTED].

Save as disclosed in this section, our Controlling Shareholder and Directors confirmed that they do not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business and would require disclosure under Rule 8.10 of the

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Listing Rules. To ensure that competition will not exist in the future, our Controlling Shareholder has entered into the Deed of Non-competition with our Company to the effect that it will not, and will procure each of their respective close associates (other than members of our Group) not to, directly or indirectly, participate in, engage in, or conduct any business which may be in competition with the business of our Group. For details of the non-competition undertakings given by our Controlling Shareholder, please refer to the paragraph headed “Deed of non-competition” in this section.

Our business is independent of the Remaining Group

Independence of the members of our Board

Our Board comprises four executive Directors and three independent non-executive Directors. One of our executive Directors, Mr. Mackie James Thomas, will continue to serve as the chief financial officer of Majestic Gold. After the [REDACTED], given that our Company will continue to be a subsidiary of Majestic Gold and thus the need for Majestic Gold to consolidate the accounts of our Group with that of the Remaining Group. Mr. Mackie James Thomas will be supported by the finance team of the Remaining Group to handle Majestic Gold’s accounting and consolidation functions as its chief financial officer, and, with the assistance of our Group’s supporting staff, he is expected to devote half of his time in the day-to-day operation of our Group upon [REDACTED], mainly responsible for the legal, administration and human resources matters of our Group. As Mr. Mackie James Thomas has been appointed as the chief financial officer of Majestic Gold since 2013 and has since been responsible for financial management and corporate finance matters of Majestic Gold together with its subsidiaries, including Yantai Zhongjia, his knowledge of the Remaining Group and our Group’s operations, as well as his experience in accounts consolidation, benefit both the Remaining Group and our Group. Our Directors believe that Mr. Mackie James Thomas will be able to satisfactorily perform his respective roles in the Remaining Group and our Group with the assistance of the relevant supporting staff as described above. Save as Mr. Mackie James Thomas, none of our Directors hold any board or senior managerial position in the Remaining Group.

Our Company will also adopt corporate governance measures to manage potential conflicts of Directors’ interest after the [REDACTED] in accordance with the requirements of the Listing Rules. In addition, as part of the preparation for the [REDACTED], our Directors have received training on their responsibilities as directors of a Hong Kong listed company. Each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his/her personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and any of our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business operation of our Group independently from our Controlling Shareholder.

Based on the reasons above, our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholder and their respective close associates following the completion of the [REDACTED].

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Save as disclosed above, each of our Group and the Remaining Group will be managed and operated by their respective own management teams separately and independently and in the interests of their respective shareholders.

Independence of our senior management team

Our senior management team comprises three members. Our Company has our own management team and separate functional departments including accounting, administration, and human resources departments. All essential administration and daily operations of our Company are carried out by a team of staff employed by our Company independently of and without any support from the Remaining Group.

On the basis of the aforesaid, our Directors believe that we operate independently of the Remaining Group and in the interests of our Shareholders as a whole.

Independence of the administrative capability

All administrative functions of our Company are carried out independently without reliance on the Remaining Group. Our Company has its own administrative functions, which include accounting and finance, general administration, sales and marketing, procurement and human resources. Accordingly, upon completion of the [REDACTED], our Company will be administratively independent from Remaining Group.

In the event that any conflict of interest arises between the Remaining Group and our Group, our independent non-executive Directors will also provide checks and balances over the decisions of our Board on significant transactions, connected transactions and other transactions involving any actual or potential conflict of interests.

Save as disclosed above, none of our Directors or senior management holds any office in or is employed by the Remaining Group immediately upon [REDACTED]. On the basis of the current Board and senior management composition, it is believed that our Board and senior management will operate and manage our business independently of the Remaining Group. Our Group will therefore operate independently and in the interests of its shareholders as a whole.

Financial independence

Our Group has an independent accounting, financial and internal controls system, and will make financial decisions according to our own business needs. In addition, we also have our own independent treasury function.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, our amounts due to Majestic Gold related to non-trade activities amounted to approximately RMB23.3 million, RMB23.9 million, RMB0.4 million and RMB0.5 million, respectively, mainly represent shareholder’s advances provided by Majestic Gold to our Group. The balances due to Majestic Gold were unsecured, interest-free and repayable on demand. On 5 June 2020, our Group entered into a deed of waiver with Majestic Gold to waive an amount of debt amounted of CAD62.1 million (equivalent to approximately RMB322.8 million) (the

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“**Outstanding Amount**”) due to Majestic Gold conditional upon, among others, (i) the policies of the TSX Venture Exchange and applicable securities laws; (ii) the approval of the board of directors of each of our Company and Majestic Gold; and (iii) the written approval of shareholders of Majestic Gold holding, in aggregate, at least 50% of the issued shares of Majestic Gold. As at the Latest Practicable Date, the above conditions had been fulfilled. The waiver of the Outstanding Debt is credited as capital reserve from accounting perspective. For further details, please see Note 34 to the Accountants’ Report in Appendix I to this document. In July 2023, we have further settled the outstanding balance due to Majestic Gold as at 30 June 2023 of approximately RMB0.5 million. Going forward, it is expected that our Group is in a position to obtain financing independently without the financial assistance from Majestic Gold. As at the Latest Practicable Date, our Group did not have any outstanding borrowings secured by guarantee provided by our Controlling Shareholder. We had generated profits or positive cash flows from our operations during the Track Record Period. As at 30 June 2023, we had cash and cash equivalents of approximately RMB350.0 million for working capital purposes. Hence, our Directors accordingly believe that the our Group will be financially independent from the Controlling Shareholder upon [REDACTED].

DEED OF NON-COMPETITION

Our Controlling Shareholder has irrevocably and unconditionally undertaken to us in the Deed of Non-competition (for itself and as trustee for its subsidiaries) that, other than the Remaining Business, it will not, and will procure that none of its respective associates (other than members of our Group) will, during the Restricted Period (as defined below), directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the gold mining related operations, including geological exploration and mining of gold, gold processing, gold smelting and technical services, and production and sales of specialised equipment and supplies and construction materials for gold mines and/or any other new business that the Group may undertake from time to time after the [REDACTED] (collectively referred to as “**Restricted Business**”) and where they become aware of such engagement of the Restricted Business they shall notify the Company forthwith.

The above restriction does not apply to our Controlling Shareholder with respect to its interests in the shares of any member of our Group, or interests in the shares of a company (other than our Group) which are listed on a recognised stock exchange provided that (i) the total number of the shares held by the Controlling Shareholder and/or its associates (in aggregate) does not amount to more than 5% of the issued shares of such company; and (ii) the Controlling Shareholder and/or its associates are not entitled to appoint a majority of the directors of that company.

Further, our Controlling Shareholder has undertaken that if any new business investment/other business opportunity relating to the Restricted Businesses (the “**Competing Business Opportunity**”) is identified by or offered to it or any of its close associates (other than members of our Group), it shall, and shall procure that its close associates shall, refer such Competing Business Opportunity to our

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Company on a timely basis by giving written notice (the “**Offer Notice**”) containing all information reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity.

Upon receiving the Offer Notice, our Company shall seek opinions and decisions from a Board committee who do not have an interest in the Competing Business Opportunity (the “**Independent Board**”) as to whether to pursue or decline the Competing Business Opportunity. The Controlling Shareholder shall be entitled to pursue such Competing Business Opportunity only if (i) it has received a written notice from the Company declining the New Opportunity and confirming that the New Opportunity would not constitute competition with the Restricted Business, or (ii) it has not received the notice from our Company within ten (10) Business Days from the receipt of the Offer Notice by our Company. If there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by the Controlling Shareholder, it shall refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

In the event that the Controlling Shareholder and/or its associates (other than the Group) wish to dispose of their business investment or interest in any entity relating to the Remaining Business and/or the Restricted Business they have acquired, the Controlling Shareholder and/or its associates (other than the Group) shall provide our Group with pre-emptive right (“**Pre-emptive Right**”) to acquire any such interest in the Remaining Business and/or Restricted Business under the same circumstances. Where the relevant committee of the Board of Directors decides to waive the Pre-emptive Right by way of written notice, the Controlling Shareholder and/or its associates (other than the Group) may offer to sell such business investment or interest in the Remaining Business and/or Restricted Business to other third parties on such terms which are no more favourable than those made available to our Group. In deciding whether to exercise the above Pre-emptive Right, our Directors will consider various factors including the purchase price and their values and benefits, as well as the benefit that they will bring to our Group.

Our Controlling Shareholder has further undertaken to us that it will provide and procure its close associates to provide on best endeavour basis, all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-competition. They will make a written confirmation in our annual report on the compliance with the Deed of Non-competition.

Controlling Shareholder acknowledges and agrees that the Directors who have no material interest in the matters discussed will/may, based on the information available to them, including information and confirmation provided by or obtained from the Controlling Shareholder and/or its associates (other than members of the Group) as described above, review on an annual basis (a) the compliance with the non-competition undertakings; and (b) all the decisions taken in relation to whether to exercise the option under the Deed of Non-competition and whether to pursue any Competing Business Opportunity or other business opportunities which may be referred or offered to our Company by any of the Controlling Shareholder and/or its associates (other than members of the Group) under the Deed of Non-competition. Findings of such review will be disclosed in the Company’s annual report after the [REDACTED].

The obligation of our Controlling Shareholder under the Deed of Non-competition shall continue during the period (the “**Restricted Period**”) which: (i) the Shares remain [REDACTED] on the Stock Exchange; and (ii) our Controlling Shareholder and/or its close associates (other than members of our

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Group), individually or jointly, are entitled to exercise, or control the exercise of, not less than the 30% of the voting power at general meetings of our Company, or control the composition of a majority of the Board; or (iii) close associates of our Controlling Shareholder remain as a director of any member of our Group.

FURTHER UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDER

Our Controlling Shareholder has also given undertakings in respect of the Shares to our Company and the Stock Exchange as required by Rule 10.07 of the Listing Rules, see section headed “[REDACTED] — [REDACTED] arrangements and expenses — [REDACTED] — Undertakings to the Stock Exchange pursuant to the Listing Rules — Undertakings by our Controlling Shareholder” in this document for details.

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTERESTS

Our Directors believe that there are adequate corporate governance measures in place to manage any potential conflicts of interest and ensure compliance with the Deed of Non-competition. In addition, our Company has adopted the following corporate governance measures to further strengthen protection of the interests of our Shareholders as a whole:

- (i) we are committed to ensuring that the Board has a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment. The independent non-executive Directors, details of whom are set out in the section headed “Directors and senior management” in this document, together possess the requisite industry knowledge and experience for their views to carry weight. Two of our independent non-executive Directors have experience as directors of listed companies and will be able to provide impartial and professional advice to protect the interests of our minority Shareholders;
- (ii) any Director with material interest in any matter in respect of which a conflict or potential conflict of interest with our Group may arise must make full disclosure in respect of such matter to the Board, and any conflicted Director (including any Director who holds a position in the Remaining Group), will abstain from participation in any Board meeting when matters relating to any rights granted in favour of our Company under the Deed of Non-competition are discussed, unless his attendance is requested by a majority of the independent non-executive Directors. Notwithstanding his attendance, he shall not vote or be counted towards the quorum in respect of such matters;
- (iii) the independent Board committee comprising independent non-executive Directors who are independent of the Remaining Group will be responsible for reviewing, considering and deciding whether to pursue or decline any Competing Business Opportunity referred to by our Controlling Shareholder pursuant to the Deed of Non-competition, and an independent financial adviser or other professional advisers may be appointed or engaged as the independent Board committee considers necessary to advise them on the terms of such Competing Business Opportunity;

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- (iv) the independent Board committee comprising independent non-executive Directors who are independent of the Remaining Group will decide whether or not to pursue the Competing Business Opportunity/exercise the Pre-emptive Right. Such independent Board committee may appoint or engage an independent financial adviser or other professional advisers to advise it. The Remaining Group shall provide all information reasonably required by such independent Board committee to assist them in their assessment of the exercise or non-exercise of the Competing Business Opportunity and/or Pre-emptive Right;
- (v) as required by the Listing Rules, the independent non-executive Directors will review any continuing connected transactions annually and confirm in the Company’s annual report that such transactions have been entered into in our Group’s ordinary and usual course of business, are either on normal commercial terms or on terms no less favourable to our Group than those available to or from Independent Third Parties and are on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and
- (vi) we have appointed Innovax Capital, with effect upon the [REDACTED], as our compliance adviser who will provide it with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws including various requirements relating to directors’ duties and corporate governance.