



5 April 2024

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

**PROPOSED REVISION OF ANNUAL CAP FOR  
EXISTING CONTINUING CONNECTED TRANSACTIONS UNDER  
THE 2021 MUTUAL SUPPLY AGREEMENT**

**INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders for the revision of the annual cap for the year ending 31 December 2024 in respect of the continuing connected transactions contemplated under the 2021 Mutual Supply Agreement for the provision of the Company's Products by the Group to Xinjiang Non-ferrous Group, details of which are set out in the letter from the Board ("Letter from the Board") contained in the circular dated 5 April 2024 to the Shareholders (the "Circular"), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

As disclosed in the 2021 October Announcement and the 2021 Circular, on 29 October 2021, the Company and Xinjiang Non-ferrous entered into the 2021 Mutual Supply Agreement in respect of the continuing provisions of the Construction Services, the Supporting and Ancillary Services and the Company's Products, which constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The supply of the Company's Products under the 2021 Mutual Supply Agreement and the annual caps for the supply of the Company's Products under the 2021 Mutual Supply Agreement were approved at the extraordinary general meeting of the Company held on 28 December 2021.

Due to the contemplated adjustment in the Company's selling strategies for its sales of copper cathodes, which is expected to substantially increase the sales of the Company's Products to Xinjiang Non-ferrous Group, on 29 February 2024, the Board announced that the Company proposed to revise the Original 2024 Company's Products Annual Cap.

Pursuant to Rule 14A.54 of the Listing Rules, if the Company proposes to revise the annual caps for continuing connected transactions, the Company will have to re-comply with the relevant provisions of Chapter 14A of the Listing Rules concerning the relevant continuing connected transactions. Given that the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) of the Revised 2024 Company's Products Annual Cap exceeds 5%, the Revised 2024 Company's Products Annual Cap is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Xinjiang Non-ferrous, being a contracting party of the 2021 Mutual Supply Agreement and a controlling Shareholder interested in 885,204,000 domestic shares of the Company, representing approximately 40.06% of the entire issued share capital of the Company, and its Associates are required to, and will, abstain from voting in relation to the approval of the Revised 2024 Company's Products Annual Cap at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Hu Benyuan, Mr. Wang Qingming and Mr. Lee Tao Wai, has been established to advise the Independent Shareholders as to whether the Revised 2024 Company's Products Annual Cap is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and Shareholders as a whole. We, Crescendo Capital Limited, have been appointed to give an independent opinion to the Independent Board Committee and the Independent Shareholders in this regard and how to vote on the resolution to be proposed at the EGM.

We are not associated with the Group and its Associates and do not have any shareholding in any member of the Group or right (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, securities in any member of the Group. Save for acting as an independent financial adviser in this appointment, we have not acted as a financial adviser or an independent financial adviser to the Company and its Associates in the past two years. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we will receive any fee or benefit from the Group and its Associates. We are not aware of any relationship or interest between our firm and the Company or other parties that would be reasonably considered to affect our independence to act as an independent financial adviser to the Independent Board Committee and the Independent Shareholders and we are independent from the Company pursuant to the requirements under Rule 13.84 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, 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 misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the 2021 Mutual Supply Agreement. 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 this opinion.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Revised 2024 Company's Products Annual Cap, we have considered the following principal factors and reasons:

### 1. Background and reasons for the revision of the Original 2024 Company's Products Annual Cap

#### (a) *The 2021 Mutual Supply Agreement*

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

Xinjiang Non-ferrous, the controlling Shareholder, is principally engaged in, among other things, investment in the non-ferrous metal industry and the sales of non-ferrous metal products. As at the Latest Practicable Date, Xinjiang Non-ferrous was held as to 90.16% by the State-owned Asset Supervision and Administration Commission of Xinjiang Uygur Autonomous Region and 9.84% by the Department of Finance of Xinjiang Uygur Autonomous Region.

On 29 October 2021, the Company entered into the 2021 Mutual Supply Agreement with Xinjiang Non-ferrous in relation to, among others, the provision of the Company's Products by the Group to Xinjiang Non-ferrous Group. The entering into of the 2021 Mutual Supply Agreement and the Original 2024 Company's Products Annual Cap were approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 28 December 2021.

#### (b) *Provision of the Company's Products*

Pursuant to the 2021 Mutual Supply Agreement, the Company's Products to be supplied by the Group to Xinjiang Non-ferrous Group include nickel cathode, copper cathode, copper concentrates, self-produced precious metals, sulphuric acid, water, electricity and other ancillary materials. The Directors consider that sales of the Company's Products to Xinjiang Non-ferrous Group can help secure a stable sales channel and turnover for the Group.

Having considered (i) the recent unfavourable market conditions that have adversely impacted the sales of the Company's copper cathodes; and (ii) the viability of an alternative strategy for bulk sales of copper cathodes to Wuxin Copper (a member of Xinjiang Non-ferrous Group), the Company anticipates that the transaction amount for sales of the Company's Products to Xinjiang Non-ferrous Group will increase significantly with the additional sales amount of copper cathodes which were not budgeted in the Original 2024 Company's Products Annual Cap.

As disclosed in the Letter from the Board, copper cathodes are by-products of the production of nickel cathodes, the Company's main product. However, as compared with the high-purity copper cathodes sold in the market, the Company's copper cathodes are relatively lower in purity, resulting in the Company's relatively weak bargaining power in the market. Historically, the main customers of the Company for these by-products are small-and medium-sized independent enterprises that process copper rods in the Xinjiang region. As the output of these by-products is relatively low and they are not high-purity copper cathodes, the existing customers of the Company only use them as supplementary raw materials when there is a shortage of their copper raw material. As a result of the tightening of the domestic environmental protection measures, energy consumption control and other policy constraints, copper processing enterprises in the Xinjiang region continue to scale-up and consolidate, and small-and medium-sized copper processing enterprises are gradually squeezed out. Consequentially, the number of customers of the Company's copper cathodes has been declining year by year.

We noted that the PRC Government has implemented certain environmental protection measures since 2018 such as 《自治區嚴禁「三高」項目進新疆推動經濟高質量發展實施方案》(Implementation Plan for The Autonomous Region to Strictly Prohibit "Three High" Projects from Entering Xinjiang to Promote High-quality Economic Development), 《關於堅決遏制「兩高」項目盲目發展的實施方案》(Implementation Plan for Resolutely Curbing the Mindless Development of "Two High" Projects) and 《關於全面加強生態環境保護堅決打好污染防治攻堅戰實施方案》(Implementation Plan for Comprehensively Strengthening the Ecological and Environmental Protection and Resolutely Fighting Against Pollution). Such measures raised the challenges faced by the copper processing enterprises in Xinjiang, especially those small-and medium-sized enterprises, and increased their development uncertainty and compliance costs associated with environmental protection. We have also reviewed the Group's customer list of copper cathodes for the three years ended 31 December 2023 and noted that the number of customers purchasing copper cathodes from the Group has been declining since 2021.

According to the China Copper Industry Monthly Prosperity Index Report (January 2024) published by China Non-ferrous Metals Industry Association, a national non-profit organization approved and registered by The State Council of the People's Republic of China, the China Copper Industry Monthly Prosperity Index, which reflects the current prosperity level of the copper industry, dropped from 36.4 in January 2023 to 34.1 in January 2024.

Such market conditions, coupled with the Company's limited bargaining power for selling copper cathodes, may adversely affect the Company's sales prospects for copper cathodes in the Xinjiang region. Up to the Latest Practicable Date, the Company had not established a mature and comprehensive sales system or sales channels for its copper cathodes outside the Xinjiang region. If the Company is to build such a sales system or sales channels, marketing expenses and administrative costs would increase accordingly, leading to uncertainties in the profitability of the Company for the sales of copper cathodes.

Wuxin Copper is the largest copper smelting, processing and sales enterprise in the Xinjiang region, which produces high-purity copper cathode with a copper content of more than 99.99%. Not only does it have a relatively more comprehensive and well-developed sales system in China for copper products, Wuxin Copper also maintains a prominent position in the copper product market in the Xinjiang region. Leveraging on its market position and bargaining power, Wuxin Copper is in a better position to market and sell copper cathodes in the region.

Given that (i) Wuxin Copper is in a better position to market and sell copper cathodes and in turn is expected to provide the Company with a stable demand for copper cathodes at a fair price, which shall be determined with reference to the market price where there is neither a State-prescribed price nor a State-guidance price, and on terms not less favourable to the Company than terms available from independent third parties in accordance with the 2021 Mutual Supply Agreement; and (ii) the bulk sales of the Company's copper cathodes to Wuxin Copper can save the marketing expenses and administrative costs for sales of the Company's copper cathodes and avoid incurring the expenses for developing markets outside the Xinjiang region, the Company intends to sell all of the copper cathodes produced as by-products to Wuxin Copper starting from 2024. Accordingly, the Company proposed to revise the Original 2024 Company's Products Annual Cap.

The Original 2024 Company's Products Annual Cap was not set out in the 2021 Mutual Supply Agreement. Therefore, the revision to the Original 2024 Company's Products Annual Cap does not entail a revision to the 2021 Mutual Supply Agreement. The terms of the 2021 Mutual Supply Agreement as disclosed in the 2021 October Announcement and the 2021 Circular shall remain unchanged. Please refer to the Letter from the Board for a summary of the principal terms of the 2021 Mutual Supply Agreement.

Having considered that (i) the copper cathodes sold by the Group are by-products of the Group and they have relatively lower purity, which lowered the bargaining power of the Group in the market, and the number of customers of the Company's copper cathodes has been declining during the recent years which adversely affected the sales performance of the Company's copper cathodes; (ii) Xinjiang Non-ferrous Group is a major player in the non-ferrous metal industry in the Xinjiang region; (iii) the Group has established a long-term business relationship with Xinjiang Non-ferrous Group; and (iv) the sales of the Company's Products is carried out in the ordinary and usual course of business of the Group and provides additional turnover to the Group, we are of the opinion that the provision of the Company's Products under the 2021 Mutual Supply Agreement by the Group to Xinjiang Non-ferrous Group are commercial transactions conducted in the ordinary and usual course of business of the Group and they are in the interests of the Company and Shareholders as a whole.

We also considered that the revision of the Original 2024 Company's Products Annual Cap is fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole, having taken into account that the Original 2024 Company's Products Annual Cap does not cover the possible transaction amount of the sales of the Company's copper cathodes to Xinjiang Non-ferrous Group arising from the contemplated adjustment in the Company's selling strategy for its sales of copper cathodes.

## 2. The Revised 2024 Company's Products Annual Cap

The historical transaction amounts of the provision of the Company's Products, the Original 2024 Company's Products Annual Cap and the Revised 2024 Company's Products Annual Cap are summarized as follows:

	Historical transaction amounts		Original 2024	Revised 2024
			Company's	Company's
			Products	Products
			Annual Cap	Annual Cap
			For the year	For the year
			ending	ending
			31 December	31 December
	2021	2022	2024	2024
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(unaudited)	
Provision of the Company's Products	86,480	101,650	224,730	797,739

The breakdown of the Original 2024 Company's Products Annual Cap and the Revised 2024 Company's Products Annual Cap are summarized as follows:

	<b>Original 2024 Company's Products Annual Cap RMB'000</b>	<b>Revised 2024 Company's Products Annual Cap RMB'000</b>
Sales of copper concentrates	119,111	119,111
Sales of copper cathode	33,186	<b>606,195</b>
Sales of other Company's Products	<u>72,433</u>	<u>72,433</u>
<b>Annual caps</b>	<b><u>224,730</u></b>	<b><u>797,739</u></b>

We have discussed with the management of the Company, and reviewed, the calculation of the Revised 2024 Company's Products Annual Cap. It was noted that save for the expected increase in sales of copper cathodes to Xinjiang Non-ferrous Group, there would be no changes in the original budgeted amounts for other Company's Products, details of which are set out in the 2021 Circular. Therefore, our analysis focuses only on the sales of copper cathodes.

Having considered the projected increase in sales volume of copper cathodes to Xinjiang Non-ferrous Group for the year ending 31 December 2024 of approximately 9,500 tonnes resulting from the contemplated adjustment in the Company's selling strategy in relation to its sales of copper cathodes with effect from 2024, subject to the approval of the Revised 2024 Company's Products Annual Cap by the Independent Shareholders at the EGM, the Company anticipated that the transaction amount of sales of copper cathodes to Xinjiang Non-ferrous Group for the year ending 31 December 2024 would increase from approximately RMB33.19 million to approximately RMB606.20 million.

As disclosed in the section headed "1. Background and reasons for the revision of the Original 2024 Company's Products Annual Cap" above, the Group intends to adjust its selling strategy in respect of sales of copper cathodes by selling all copper cathodes to Xinjiang Non-ferrous Group instead of selling majority of the copper cathodes to independent third-party customers, with effect from 2024, subject to the approval of the Revised 2024 Company's Products Annual Cap by the Independent Shareholders at the EGM. Therefore, the sales volume of copper cathodes to Xinjiang Non-ferrous Group for the year ending 31 December 2024 is expected to increase significantly by approximately 9,500 tonnes, from the original sales volume of 500 tonnes to the revised sales volume of 10,000 tonnes.



With reference to the annual report and interim report of the Company, the Group's sales volume of copper cathodes was 11,051 tonnes and 9,775 tonnes for the years ended 31 December 2021 and 31 December 2022 respectively and reduced sharply to 1,452 tonnes for the six months ended 30 June 2023. In order to enhance production safety and to improve the level of safety at the mines in Xinjiang Uygur Autonomous Region, upon the approval of the Work Safety Committee of the State Council, the Office of the Work Safety Committee of the State Council dispatched a National Mine Safety Assistance and Guidance Working Group to provide assistance and guidance on mine safety in Xinjiang Uygur Autonomous Region. Since February 2023, the Ministry of Emergency Management and the State Administration of Mine Safety have organized the relevant departments, scientific research institutes and production safety experts from mining enterprises to provide assistance and guidance on production safety at the mines in Xinjiang Uygur Autonomous Region (the “**National Assistance Guidance on Production Safety**”), during such time the normal production of the Group had been affected and resulted in a reduction in production volume of copper cathodes of the Group. As such, the sales volume of copper cathodes for the six months ended 30 June 2023 decreased significantly. The National Assistance Guidance on Production Safety has been completed and the Group's production has resumed to a normal level.

Based on the discussions between the Group and Xinjiang Non-ferrous Group and having considered the volume of copper cathodes available for sales by the Group, it is expected that the volume of copper cathodes for sales to Xinjiang Non-ferrous Group would be 10,000 tonnes in 2024, which is similar to the Group's sales volume of copper cathodes for the year ended 31 December 2022 of approximately 9,775 tonnes. We have reviewed the memorandum of understanding entered into between the Group and Xinjiang Non-ferrous Group regarding the projected sales volume of copper cathodes in 2024 between the parties and noted that the tentative purchase volume of copper cathodes agreed by both parties is in line with the projected sales volumes adopted by the Group in budgeting the sales of copper cathodes.

As disclosed in the Letter from the Board, the prices of copper cathodes sold by the Company to Xinjiang Non-ferrous Group under the 2021 Mutual Supply Agreement are determined based upon the spot prices of the product from Shanghai Yangtze River Nonferrous Metals Spot Market and the relevant future prices quoted on Shanghai Futures Exchange. Management of the Company confirmed that such pricing policy remains unchanged. Based on the information from the website of Shanghai Yangtze River Non-ferrous Metals Spot Market, we noted that the price of copper had been fluctuating during the period from 1 January 2021 to the Latest Practicable Date. The average spot price (including tax) of copper cathode in Shanghai Yangtze River Non-ferrous Metals Spot Market was RMB68,602 per tonne, RMB67,645 per tonne and RMB68,077 per tonne in the year of 2021 and 2022 and the first half of 2023 respectively while the Group's average selling price of copper cathode (tax exclusive) was RMB61,041 per tonne for the year ended 31 December 2021, RMB59,605 per tonne for the year ended 31 December 2022 and RMB60,872 per tonne for the six months ended 30 June 2023.

According to “Commodity Price Forecast” released in October 2023 by The World Bank, an international financial institution that provides loans and grants to governments of developing countries, copper prices are expected to be US\$8,200 (approximately RMB58,466) per tonne in 2023 and fall to US\$7,800 (approximately RMB55,614) per tonne in 2024 with a rebound to US\$8,500 (approximately RMB60,605) per tonne in 2025. On the other hand, the management of the Company expected that the price of copper cathodes in the PRC in 2024 would remain more or less the same as that in 2023. In view of the Group’s average selling prices of copper cathode in the past years and the Group’s expectation on the price of copper cathode in the PRC in 2024, the current selling price of copper cathode of approximately RMB60,619 per tonne was adopted by the Company for calculating the Revised 2024 Company’s Product Annual Cap.

Having considered that the price fluctuation in copper cathodes in the PRC may persist in 2024 and the budgeted transaction amounts represent only the maximum amounts that can be transacted between the Group and Xinjiang Non-ferrous Group during the relevant period and the actual selling price of copper cathodes to be charged by the Group depends on the prevailing market price at the time of the transactions, we consider that a small buffer for price fluctuations is justifiable and the projected selling price of copper cathode adopted by the Group for estimating the Revised 2024 Company’s Product Annual Cap for the year ending 31 December 2024 is reasonable although an approximately 5% decrease in copper prices in 2024, as compared to 2023, was expected by The World Bank.

Having considered the substantial increase in sales volume of copper cathodes to Xinjiang Non-ferrous Group in 2024, we consider that the Revised 2024 Company’s Products Annual Cap proposed by the Directors is fair and reasonable.

### 3. Internal control measures

The Company shall comply with the requirements of Rules 14A.53 to 14A.59 of the Listing Rules, pursuant to which (i) the Company must set an annual cap for the continuing connected transactions; (ii) the Company must re-comply with the announcement and shareholders' approval requirements before the annual cap is exceeded or the Company proposes to renew the agreement or to effect a material change to its terms; (iii) the Company's independent non-executive Directors must review the continuing connected transactions every year and confirm in the annual report whether the transactions have been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; (iv) the Company must engage its auditors to report on the continuing connected transactions every year and the auditors must provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions (a) have not been approved by the Board; (b) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; (c) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; or (d) have exceeded the annual caps; and (v) the Company must notify the Stock Exchange and publish an announcement if the independent non-executive Directors and/or auditors cannot confirm the matters as required.

For the purpose of evaluating the effectiveness of the internal control measures for monitoring the usage of the Original 2024 Company's Products Annual Cap, and ensuring that the annual caps would not be exceeded, we have reviewed the 2021 and 2022 annual reports of the Company and noted that the Company had complied with the annual caps requirement under the Listing Rules as the independent non-executive Directors had made the required confirmation and the Company's auditors had confirmed in writing to the Board that the continuing connected transactions (i) had been approved by the Board; (ii) were in accordance with the pricing policies of the Company if the transactions involved provision of goods or services by the Company; (iii) had been entered into and conducted in accordance with the relevant agreements governing the transaction; and (iv) had not exceeded the annual caps disclosed in the relevant announcements of the continuing connected transactions.

Given the above-stipulated requirements for the continuing connected transactions pursuant to the Listing Rules, we are of the view that appropriate measures were/would be in place to monitor the continuing connected transactions and thus the interest of the Independent Shareholders would be safeguarded.

## RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that the Revised 2024 Company's Products Annual Cap is on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and Shareholders as a whole. We, therefore, recommend the Independent Board Committee to advise the Independent Shareholders, and we also recommend the Independent Shareholders, to vote in favour of the resolution to approve the Revised 2024 Company's Products Annual Cap at the upcoming EGM.

Yours faithfully,  
For and on behalf of  
**Crescendo Capital Limited**



**Amilia Tsang**  
*Managing Director*



**Helen Fan**  
*Director*

### *Notes:*

- (i) *Ms. Amilia Tsang is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has over 20 years of experience in corporate finance.*
- (ii) *Ms. Helen Fan is a licensed person under the SFO permitted to engage in Type 6 (advising on corporate finance) regulated activity and has approximately 16 years of experience in corporate finance.*