

12 January 2024

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the transactions contemplated under the Shiye Comprehensive Products Framework Agreement and Weiye Comprehensive Products Framework Agreement, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 12 January 2024 (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 otherwise requires.

On 14 December 2023 (after trading hours), the Company and Jiesi Shiye entered into the Shiye Comprehensive Products Framework Agreement in relation to (i) the purchase of gold concentrates and compound gold by the Group from the Jiesi Shiye Group; and (ii) the supply of copper and silver by the Group to the Jiesi Shiye Group from time to time for a period commencing from the effective date of the Shiye Comprehensive Products Framework Agreement and ending on 31 December 2026.

On 14 December 2023 (after trading hours), the Company and Jiesi Weiye entered into the Weiye Comprehensive Products Framework Agreement in relation to (i) the purchase of gold concentrates and compound gold by the Group from the Jiesi Weiye Group; and (ii) the supply of copper and silver by the Group to the Jiesi Weiye Group from time to time for a period commencing from the effective date of the Weiye Comprehensive Products Framework Agreement and ending on 31 December 2026.

An independent board committee comprising all of the independent non-executive Directors, namely Mr. Wang Guanghua, Mr. Wang Jiheng, Mr. Xu Rong and Mr. Tan Chong Huat, has been established to advise the Independent Shareholders as to (i) whether the terms of the Shiye Comprehensive Products Framework Agreement and Weiye Comprehensive Products Framework Agreement (including the Shiye Annual Caps and Weiye Annual Caps) are on normal commercial terms and fair and reasonable so far as the



Independent Shareholders are concerned; and (ii) whether the transactions contemplated thereunder are in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

We, Octal Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard. During the last two years, we were engaged as an independent financial adviser to the Company (the “**Previous Engagements**”) in respect of (i) the connected transaction in relation to the subscription and issuance of H shares of the Company under specific mandate, details of which were stated in the circular of the Company dated 31 December 2021; and (ii) the connected transaction in relation to the extension of validity period of the Shareholders’ resolution and grant of authorization to the designated Director(s) or company secretary(ies) of the Company to handle all matters relating to the subscription and issuance of H shares of the Company under specific mandate, details of which were stated in the circular of the Company dated 4 January 2023. Under the Previous Engagements, we were required to express our opinion on and give recommendation to the independent board committee and the independent shareholders of the Company in respect of the relevant transactions. Apart from normal professional fees payable to us by the Company in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Group, Jiesi Shiye, Jiesi Weiye or any of their respective subsidiaries or associates. We are not connected with the directors, chief executive and substantial shareholders of the Group or Jiesi Shiye or Jiesi Weiye or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date and therefore is considered suitable to give independent advice to the Independent Shareholders.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company respectively in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement; (ii) samples of reference documents referred by the Company in determining the Shiye Annual Caps and the Weiye Annual Caps; (iii) the annual report of the Company for the year ended 31 December 2022 (the “**2022 Annual Report**”) and the interim report of the Company for the six months ended 30 June 2023 (the “**2023 Interim Report**”); (iv) internal control policies governing the



continuing connected transactions of the Company; and (v) other information as set out in the Circular. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Jiesi Shiye, Jiesi Weiye and their respective associates, nor have we carried out any independent verification of the information supplied to us.

## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the transactions contemplated under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement (including the Shiye Annual Caps and the Weiye Annual Caps), we have considered the following principal factors and reasons:

### 1. Background Information of the Parties

#### *The Company and the Group*

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The Group is principally engaged in the businesses of mining, processing, smelting and sales of gold and other metallic products in the PRC.

The Group's mineral resources are scattered in the PRC regions of Henan, Xinjiang, Jiangxi, Inner Mongolia and Gansu, and Kyrgyz Republic with 35 mining and exploration rights in a total area of approximately 240.75 sq. km. The total gold reserves and resources as at 31 December 2022 were approximately 135.079 tonnes. The Company has two operating segments, namely mining segment and smelting segment. The mining segment of the Group mainly refers to the sales of gold concentrates and compound gold. Most of the gold concentrates and compound gold produced by the Group were used by the Group's smelting plant. During the year ended 31 December 2022, the Group produced approximately 4,582 kg of gold concentrates and approximately 839 kg of compound gold. The Group produced approximately 2,556 kg of gold concentrates and approximately 368 kg of compound gold during the six months ended 30 June 2023. The smelting segment of the Group refers to the operation of a melting plant situated in Henan Province for processing the gold concentrates and compound gold and sales of gold bullion, silver, copper products and sulphuric acid to the end customers.

The table below summarises the major items of the financial information of the Group for the two years ended 31 December 2021 and 2022 ("FY2021" and "FY2022", respectively) as extracted from the 2022 Annual Report and for the six months ended 30 June 2022 and 2023 ("1H2022" and "1H2023", respectively) as extracted from the 2023 Interim Report.



	FY2021	FY2022	1H2022	1H2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue from sales of				
— Gold bullion	4,913,037	9,565,030	3,771,773	5,546,828
— Silver	67,211	69,606	17,472	48,324
— Copper products	209,921	230,659	69,114	143,051
— Gold concentrates	130,227	232,145	10,421	91,883
— Sulphuric acid and others	<u>27,481</u>	<u>87,424</u>	<u>35,094</u>	<u>40,139</u>
	5,347,877	10,184,864	3,903,874	5,870,225
Less: Sales taxes and levies	<u>(17,266)</u>	<u>(58,406)</u>	<u>(21,071)</u>	<u>(31,642)</u>
Revenue	5,330,611	10,126,458	3,882,803	5,838,583
Gross profit	587,810	785,101	411,512	355,376
Profit for the year/ period attributable to equity shareholders of the Company	130,026	240,222	179,361	140,352

*Source: 2022 Annual Report and 2023 Interim Report*

#### *Comparison between FY2021 and FY2022*

The revenue before sales taxes and levies of the Group for FY2022 was mainly generated from the sales of gold bullion amounted to approximately RMB9,565 million, representing approximately 93.9% of the total revenue before sales taxes and levies. The total revenue of the Group increased from approximately RMB5,331 million for FY2021 to approximately RMB10,126 million for FY2022, representing an increase of approximately RMB4,795 million or approximately 90.0%. The increase in revenue was mainly attributable to the increase in sale of gold bullion from approximately 13,094 kg for FY2021 to approximately 24,499 kg for FY2022. The increase in sale of gold bullion was mainly due to (i) an increase in the production volume of gold bullion as a result of the Group's efforts to strengthen the production organization of mines, leading to further increase in the production in the mining segment; and (ii) an increase in the production volume of gold bullion (processed from compound gold purchased from external suppliers) in the smelting segment.

The gross profit of the Group increased from approximately RMB588 million for FY2021 to approximately RMB785 million for FY2022, representing an increase of approximately RMB197 million or approximately 33.5%, due to the overall increase of sales volume of gold bullion. The profit attributable to equity shareholders of the



Company increased from approximately RMB130 million for FY2021 to approximately RMB240 million for FY2022, representing an increase of approximately RMB110 million or 84.7%.

*Comparison between 1H2022 and 1H2023*

The revenue before sales taxes and levies of the Group for 1H2023 was mainly generated from the sales of gold bullion amounted to approximately RMB5,547 million, representing approximately 94.5% of the total revenue before sales taxes and levies. The total revenue of the Group increased from approximately RMB3,883 million for 1H2022 to approximately RMB5,839 million for 1H2023, representing an increase of approximately RMB1,956 million or approximately 50.4%. The increase in revenue was mainly attributable to the increase in sale of gold bullion from approximately 9,678 kg for 1H2022 to approximately 13,018 kg for 1H2023. The increase in sale of gold bullion was mainly due to the increase in the production volume of gold bullion (processed from compound gold purchased from external suppliers) from approximately 3,622 kg for 1H2022 to approximately 7,740 kg for 1H2023.

The gross profit of the Group decreased from approximately RMB412 million for 1H2022 to approximately RMB355 million for 1H2023, representing a decrease of approximately RMB57 million or approximately 13.8%. Such decrease was mainly due to (i) the write-down of inventories in gold mining and mineral ores processing operations in the Kyrgyz Republic segment; and (ii) the net loss of the smelting segment due to the fluctuation in gold prices of the compound gold purchased from external suppliers. The profit attributable to equity shareholders of the Company decreased from approximately RMB179 million for 1H2022 to approximately RMB140 million for 1H2023, representing a decrease of approximately RMB39 million or 21.8%. The decrease in profit attributable to equity shareholders of the Company was mainly due to the decline in gross profit and the increase in finance costs.

*Background of Jiesi Shiye*

Jiesi Shiye is a joint stock company incorporated in the PRC with limited liability in 2023. As at the Latest Practicable Date, Jiesi Shiye is indirectly wholly-owned by Mr. Wang Guanran. Jiesi Shiye is principally engaged in resource recycling technology, energy storage technology services, energy recovery system research and development, battery spare parts sales, battery manufacturing and sales, photovoltaic equipment and component sales, electrical equipment repair and sales, information consulting services, network and information security software development, sales and manufacturing of intelligent instruments and meters, sales and manufacturing of electrical accessories, sales of high-performance nonferrous metals and alloy materials, sales and manufacturing of nonferrous metal alloys, sales of metal ores, smelting of commonly used nonferrous metals, sales and manufacturing of metal chains and other metal products, and smelting of precious metals, sales of gold and silver products, supply chain management services, corporate headquarters management, corporate management consulting, domestic trade agency, socioeconomic consulting services,



import and export of goods, production of electromagnetic spare parts, import and export of gold and its products, import and export of silver, metal scrap and chip processing, etc.

#### *Background of Jiesi Weiye*

Jiesi Weiye is a joint stock company incorporated in the PRC with limited liability in 2015. As at the Latest Practicable Date, Jiesi Weiye is owned as to (i) approximately 65.68% by Mr. Wang Guanran; (ii) approximately 4.91% by two limited liability partnerships whose general partner is Mr. Wang Guanran, respectively; and (iii) approximately 29.41% by Nanning Ningxin Lithium Battery Advanced Materials Industry Fund Partnership (Limited Partnership)\* (南寧市寧鑫鋰電先進材料產業基金合夥企業(有限合夥)), a limited partnership company established in the PRC, whose partnership interest is held as to 20%, 20%, 20%, 20%, 10%, 9.96% and 0.04% by Nanning Green Environmental Protection High Quality Fund\* (南寧綠色環保高質量基金), Nanning Mixed High Quality Fund\* (南寧交融高質量基金), Nanning Urban Development Fund\* (南寧城市發展基金), Nanning Rail High Quality Fund\* (南寧軌道高質量基金), Nanning Industrial Investment Company\* (南寧產投車投公司), Nanning Industrial Fund of Funds\* (南寧產業母基金) and Hechuang Private Equity Fund\* (合創私募基金), respectively. To the best knowledge of the Directors, the ultimate beneficial owners of the aforementioned limited partnerships are Independent Third Parties. Jiesi Weiye is principally engaged in investment activities and the provision of advisory services in relation to corporate management and information technology, sales of gold and silver products; and import and export of gold and silver products.

## **2. Reasons for and Benefits of Entering into the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement**

With the increasingly intense market competition for high-quality raw materials for processing and smelting of gold (i.e. gold concentrates and compound gold) (the “Raw Materials”) and the production capacity of the gold mines of the Group, the Group has been experiencing greater pressure in procuring sufficient supply of Raw Materials in high quality and on a timely basis to meet the increasing demand of its customers. According to the information published by the China Gold Association, the domestic gold production in the PRC amounted to approximately 179 tonnes in the first half of 2023, representing an increase of approximately 2.2% as compared to the same period in 2022. However, the domestic gold consumption reached approximately 555 tonnes in the first half of 2023, representing a growth of approximately 16.4% as compared to the same period in 2022. The substantial increase in gold consumption has far exceeded the growth in gold production, resulting in intensifying competition in Raw Materials procurement market. With demand outpacing supply, the Group has facing heightened pressure to secure sufficient Raw Materials to meet the rising market demand. As disclosed in the 2022 Annual Report, the Group’s mining segment self-produced approximately 5,421 kg of Raw Materials for FY2022, representing an increase of approximately 25.0% as compared to that for FY2021, while the Group’s smelting segment produced approximately 24,353 kg of gold bullion, representing an increase of approximately 83.8% as compared to FY2021. Based on the



historical procurement record of Raw Materials of the Group, the self-produced Raw Materials accounted for approximately 30% of the total procurement volume of Raw Materials of the Group. Therefore, the volume of the self-produced Raw Materials was insufficient to support the Group's production of gold bullion to meet the customers' demand. The Group procured Raw Materials mostly from Henan, Xinjiang and Inner Mongolia. The mining industry in the PRC is subject to more strict regulations in particular in the environmental protection and pollution regulation. The State Council Information Office released a white paper on "China's Green Development in the New Era" (《新時代的中國綠色發展》白皮書) on 19 January 2023 which mentioned the PRC government aims to strive for carbon peak by 2030 and make efforts to achieve carbon neutrality by 2060. On 13 June 2022, the Henan government published "Notice of the Henan Provincial Department of Natural Resources, Henan Provincial Department of Ecology and Environment, and Henan Provincial Department of Emergency Management on Strengthening the Management of Open-pit Mines" (《河南省自然資源廳、河南省生態環境廳、河南省應急管理廳關於加強露天礦山管理工作的通知》) and such notice emphasized that the local authority needs to strengthen the management and supervision of open-pit mining operations, as well as enhance ecological and environmental protection and safety measures. In view of the growing concern of the government in relation to the environmental issues, the Directors have been foreseeing that the environmental protection and safety policies will become more stringent, leading to a gradual increase in the mining costs of the Company. Thus, the Company considers to diversify the procurement strategies by exploring procurement channels in the overseas markets in order to mitigate the risks, stabilise the costs and adapt to the changing business landscape while remaining committed to environmental sustainability. The Jiesi Shiye Group and the Jiesi Weiye Group have multiple offices located in the PRC and overseas, such as Hong Kong and Singapore which could procure Raw Materials from suppliers located in the PRC and overseas. As advised by the management of the Company, the Group's Raw Materials are mainly purchased from the suppliers in the PRC and the management of the Company have business network and connections with the local mine owners and mine operators. However, the Group has limited overseas procurement network of Raw Materials and has been lack of professional staff with experience to discuss and negotiate with overseas suppliers. The Group is not familiar with the mining operation and the mineral procurement practice in the overseas market. Entering into the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement not only broader the supply channels of Raw Materials, but also provide an opportunity for the Group to establish the procurement network with the overseas suppliers.



Moreover, the management team of the Jiesi Shiye Group and the Jiesi Weiye Group has substantial industry experience in the commodities sourcing business with experienced and professional talents who are specialised in the gold smelting business and procurement of commodities in the PRC and overseas countries. As advised by the management of the Company, the Jiesi Shiye Group and the Jiesi Weiye Group have a procurement team with around 19 people based in Shanghai, Shenzhen, Hong Kong and Singapore who are responsible for local and international procurement of Raw Materials and market research in relation to the global commodity market. The Company expects to leverage on the expertise of the management team of the Jiesi Shiye Group and the Jiesi Weiye Group to expand its procurement network in the PRC and overseas market.

On the other hand, the Group sells the by-products of the smelting segment such as silver and copper. By entering into the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement, the Jiesi Shiye Group and the Jiesi Weiye Group serve as additional sales channels for these by-products. The Group could expand its sales coverage to the overseas market through the sales network of the Jiesi Shiye Group and the Jiesi Weiye Group.

Having considered the above, we concur with the Directors that entering into the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement are in the ordinary and usual course of business of the Group and is commercially reasonable.

### **3. Principal Terms of the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement**

The principal terms of the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement are summarised below:

***Date:***

14 December 2023

***Parties of the Shiye Comprehensive Products Framework Agreement:***

- (a) The Company (for itself and on behalf of its subsidiaries); and
- (b) Jiesi Shiye (for itself and on behalf of its subsidiaries)

***Parties of the Weiye Comprehensive Products Framework Agreement:***

- (a) The Company (for itself and on behalf of its subsidiaries); and
- (b) Jiesi Weiye (for itself and on behalf of its subsidiaries, but excluding the members of the Group)



*Subject matter of the Shiye Comprehensive Products Framework Agreement:*

Pursuant to the Shiye Comprehensive Products Framework Agreement, (i) the Jiesi Shiye Group (as supplier) shall supply gold concentrates and compound gold to the Group (as purchaser); and (ii) the Group (as supplier) shall supply copper and silver to the Jiesi Shiye Group (as purchaser) (collectively, the “**Shiye Mutual Supply Transactions**”).

The Company and Jiesi Shiye may enter into separate agreements or place purchase orders to set out specific terms and conditions (e.g. price, quantity, date of delivery and payment terms) in relation to the supply of products in accordance with the terms and conditions of the Shiye Comprehensive Products Framework Agreement.

*Subject matter of the Weiye Comprehensive Products Framework Agreement:*

Pursuant to the Weiye Comprehensive Products Framework Agreement, (i) the Jiesi Weiye Group (as supplier) shall supply gold concentrates and compound gold to the Group (as purchaser); and (ii) the Group (as supplier) shall supply copper and silver to the Jiesi Weiye Group (as purchaser) (collectively, the “**Weiye Mutual Supply Transactions**”).

The Company and Jiesi Weiye may enter into separate agreements or place purchase orders to set out specific terms and conditions (e.g. price, quantity, date of delivery and payment terms) in relation to the supply of products in accordance with the terms and conditions of the Weiye Comprehensive Products Framework Agreement.

*Term:*

The Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement shall become effective upon obtaining Independent Shareholders’ approval at the EGM and end on 31 December 2026.

*Pricing policy:*

As a general principle, the price of products under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement will be negotiated on an arm’s length basis with reference to the prevailing market price and determined in the ordinary course of business on normal commercial terms which are no less favourable to the Company than those offered to, or quoted by, Independent Third Parties.



The specific pricing methodologies for various products are set out as follows:

*Gold concentrates*

The price of gold concentrates shall be determined according to the pricing methodology as follows:

- (a) the settlement amount of gold concentrates is calculated based on the spot price as quoted on the Shanghai Gold Exchange (上海黄金交易所) on the delivery date multiplied by the quantity and the corresponding recovery rate and further deducting relevant processing fees and other fees (if any); and
- (b) alternatively, the supplier may choose to fix the price of gold concentrates within 30 days after the delivery date based on the spot price as quoted on the Shanghai Gold Exchange during such period. A price fixing agreement shall be entered into on the delivery date. If the supplier does not fix the price within the prescribed period, settlement price will be fixed, and settlement will be made, on the last trading day of the price fixing period.

*Compound gold*

The price of compound gold shall be determined according to the pricing methodology as follows:

- (a) the estimated settlement amount of compound gold is calculated for the purpose of making upfront payment based on the spot price of "Au(T+D)" as quoted on the Shanghai Gold Exchange on the delivery date, on-site gross weight and approximate fineness estimated by the Group. If the Shanghai Gold Exchange is closed on the delivery date, the estimated settlement amount will be calculated based on the closing price of "Au(T+D)" on the previous trading day; and
- (b) the supplier may choose to fix the price of compound gold within three trading days (including the delivery date) after the delivery date based on the spot price of "Au(T+D)" as quoted on the Shanghai Gold Exchange during such period. If the supplier does not fix the price within the prescribed period, the purchaser shall settle according to the average price of "Au(T+D)" as quoted on the Shanghai Gold Exchange on the first trading day immediately after the price fixing period.



*Copper*

The settlement amount of copper is calculated based on the average price of copper as quoted on the website of Shanghai Metals Market (上海有色網) on the delivery date multiplied by the quantity and the corresponding recovery rate and further deducting relevant processing fees and other fees (if any).

*Silver*

The settlement amount of silver is calculated based on the spot price of silver as quoted on the Shanghai Huatong Silver Exchange (上海華通鉑銀交易市場) on the delivery date multiplied by the quantity and the corresponding recovery rate and further deducting relevant processing fees and other fees (if any).

For further details of the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement, please refer to the Letter from the Board.

We have obtained and reviewed the procurement contracts with the top 3 gold concentrates suppliers, compound gold suppliers and the sales contracts with top 3 copper customers and silver customers entered into during the year ended 31 December 2023. We noted that the Group has adopted a similar pricing mechanism with its suppliers and customers as outlined in the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement. Thus, we considered that the pricing policy under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement is fair and reasonable to govern the transactions between the Group and the Jiesi Shiye Group and the Jiesi Weiye Group.

**4. Shiye Annual Caps and the Weiye Annual Caps**

As disclosed in the Letter from the Board, for three years ending 31 December 2026 (the “Review Period”), the Shiye Annual Caps are comprised of the purchase amount of gold concentrates and compound gold by the Group from the Jiesi Shiye Group and the supply amount of copper and silver by the Group to the Jiesi Shiye Group; and the Weiye Annual Caps are comprised of the purchase amount of gold concentrates and compound gold by the Group from the Jiesi Weiye Group and the supply amount of copper and silver by the Group to the Jiesi Weiye Group.



The following table summarizes the purchase amount of gold concentrates and compound gold by the Group from the Jiesi Shiye Group and the Jiesi Weiye Group (the “Raw Material Purchase Caps”) and the supply amount of copper and silver by the Group to the Jiesi Shiye Group and the Jiesi Weiye Group (the “Metal Supply Caps”) are as follow:

	Years ending 31 December		
	2024	2025	2026
	RMB	RMB	RMB
<b>Gold concentrates to be purchased by the Group from</b>			
— Jiesi Shiye Group	250,000,000	500,000,000	500,000,000
— Jiesi Weiye Group	<u>250,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>
<b>Sub-total</b>	<b><u>500,000,000</u></b>	<b><u>1,000,000,000</u></b>	<b><u>1,000,000,000</u></b>
<b>Compound gold to be purchased by the Group from</b>			
— Jiesi Shiye Group	250,000,000	500,000,000	500,000,000
— Jiesi Weiye Group	<u>250,000,000</u>	<u>500,000,000</u>	<u>500,000,000</u>
<b>Sub-total</b>	<b><u>500,000,000</u></b>	<b><u>1,000,000,000</u></b>	<b><u>1,000,000,000</u></b>
<b>Raw Material Purchase Caps</b>	<b><u>1,000,000,000</u></b>	<b><u>2,000,000,000</u></b>	<b><u>2,000,000,000</u></b>
<b>Silver and Copper to be sold by the Group to</b>			
— Jiesi Shiye Group	50,000,000	100,000,000	100,000,000
— Jiesi Weiye Group	<u>50,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>
<b>Metal Supply Caps</b>	<b><u>100,000,000</u></b>	<b><u>200,000,000</u></b>	<b><u>200,000,000</u></b>

As disclosed in the Letter from the Board, the Raw Material Purchase Caps were derived from (i) the estimated demand and purchase volume of gold concentrates and compound gold from the Jiesi Shiye Group and the Jiesi Weiye Group for each of the three years ending 31 December 2026, respectively; (ii) the recent average market price of gold concentrates and compound gold sourced from independent third-party suppliers of the Group; and (iii) the expected increase in production utilisation of the Group for gold concentrates and compound gold. The Metal Supply Caps were derived from (i) the estimated sales volume of copper and silver to the Jiesi Shiye Group and the Jiesi Weiye Group for each of the three years ending 31 December 2026 with reference to the expected production volume of the Group; (ii) the recent average unit sales price of the Group of copper and silver; and (iii) the production capacity of the Group for copper and silver.



To assess the fairness and reasonableness of the Shiye Annual Caps and the Weiye Annual Caps, we have discussed with the management of the Company regarding their basis of determination of the Shiye Annual Caps and the Weiye Annual Caps and reviewed the relevant calculation breakdown for the Review Period (the “**Calculation Breakdown**”), we noted that, the Calculation Breakdown contains (i) the estimated unit cost of gold concentrates and compound gold; (ii) the estimated purchase volume of gold concentrates and compound gold; (iii) the estimated unit price of silver and copper; and (iv) the estimated sale volume of silver and copper, details of which are presented as follows:

#### *Raw Material Purchase Caps*

Based on our review on the Calculation Breakdown, we noted that the Raw Material Purchase Caps are determined based on the estimated unit cost of gold concentrates and compound gold and the estimated purchase volume of gold concentrates and compound gold during the Review Period.

For the estimated unit cost of gold concentrates and compound gold for the Review Period, we noted that the management of the Company made reference to the average unit cost of gold concentrates and compound gold purchased from the suppliers for the 11 months ended 30 November 2023 (“**11M2023**”). We have obtained the actual purchase volume and purchase cost of gold concentrates and compound gold for the 11M2023 and noted that the average cost for compound gold was approximately RMB440 per gram and the average cost for gold concentrates was approximately RMB23,000 per tonne which is in line with the estimated unit cost of gold concentrates and compound gold adopted in the Calculation Breakdown.

For the estimated purchase volume of gold concentrates and compound gold from the Jiesi Shiye Group and the Jiesi Weiye Group, the management of the Company has made reference to (i) the total estimated purchase volume of Raw Materials of the Group for the Review Period; (ii) the historical purchase volume of the Group; and (iii) the background of the Jiesi Shiye Group and the Jiesi Weiye Group in the PRC and overseas. We noted that the management of the Company estimates to purchase (i) approximately 220,000 tonnes of gold concentrates and 10,000 kg of compound gold for the year ending 31 December 2024 with reference to annualised purchase volume of compound gold for 11M2023; and (ii) approximately 250,000 tonnes of gold concentrates and 13,000 kg of compound gold for each of the years ending 31 December 2025 and 2026 with reference to the actual purchase volume of compound gold for FY2022. We have obtained the historical purchase volume of gold concentrates and compound gold for FY2022 and 11M2023 and noted that the Group purchased approximately 250,000 tonnes of gold concentrates and 13,000 kg of compound gold for FY2022 and approximately 200,000 tonnes of gold concentrates (representing an annualised purchase volume of approximately 220,000 tonnes) and 9,000 kg of compound gold (representing an annualised purchase volume of approximately 10,000 kg) for the 11M2023. As advised by the management of the Company, the decrease in purchase volume of gold concentrates and compound gold during 11M2023 as compared to FY2022 was mainly due to the difficulties faced by the Group in sourcing qualified gold concentrates and compound gold. The introduction of the Jiesi Shiye Group and the Jiesi Weiye Group as suppliers of gold concentrates



and compound gold would offer an additional supply channel of Raw Materials for the Group. Taking into consideration the aforementioned factors and the initial collaboration with the Jiesi Shiye Group and the Jiesi Weiye Group, the management of the Company estimated that the purchase volume of gold concentrates and compound gold for the year ending 31 December 2024 would be similar to that for 11M2023. Moreover, as a result of the continued cooperation with the Jiesi Shiye Group and the Jiesi Weiye Group, as well as the ongoing effort of the Group to cooperate with new qualified suppliers, the purchase volume of gold concentrates and compound gold for each of the years ending 31 December 2025 and 2026 are expected to return to a level similar to those in the FY2022. We noted from the Calculation Breakdown that approximately 22,000 tonnes of gold concentrates and approximately 1,140 kg of compound gold will be purchased from the Jiesi Shiye Group and the Jiesi Weiye Group for the year ending 31 December 2024. As advised by the management of the Company, both the Jiesi Shiye Group and the Jiesi Weiye Group have offices in Hong Kong and Singapore and a team of experienced staff with knowledge and experience in the international commodity market and they can assist the Group to source Raw Materials from the overseas market. As discussed above, the Group's self-produced Raw Materials are not sufficient to meet the customers' demand in gold bullion and the domestic mining cost may be further increased due to the stringent environment regulations imposed by the PRC Government. There is a need to diversify product sourcing out of the PRC. Having considered the international sourcing ability of the Jiesi Shiye Group and the Jiesi Weiye Group and assuming that (i) gold concentrates and compound gold supplied by the Jiesi Shiye Group and the Jiesi Weiye Group have satisfied with the Group's quality control; (ii) the delivery of Raw Materials by the Jiesi Shiye Group and the Jiesi Weiye Group could be made on a timely basis; (iii) the Jiesi Shiye Group and the Jiesi Weiye Group are cooperative to handle the Group's enquiries and closely monitor the procurement process; and (iv) the terms of the transactions are no less favourable than the Independent Third Parties suppliers, the management of the Company estimated the purchase volume of gold concentrates and compound gold from the Jiesi Shiye Group and the Jiesi Weiye Group for the years ending 31 December 2025 and 2026 will be further increased to approximately 44,000 tonnes and 2,280 kg, respectively.

The Shiye Comprehensive Products Framework Agreement and Weiye Comprehensive Products Framework Agreement are non-exclusive supply agreements, which provide an alternative source for the Group in procuring Raw Materials without procurement obligation. We are advised by the management of the Company that given the Group has all along maintained a diversified list of suppliers, the Group has the flexibility to source Raw Materials from other independent suppliers at anytime as long as the prices and terms offered by independent suppliers are more favorable than those offered by the Jiesi Shiye Group and the Jiesi Weiye Group. We checked the Group's supplier list and noted that there are over 130 qualified suppliers for Raw Materials. The Directors believe that the purchase arrangement with the Jiesi Shiye Group and the Jiesi Weiye Group not only provide an alternative source of Raw Materials but also an opportunity for the Group to connect with suppliers outside the PRC market.



### *Metal Supply Caps*

Based on our review on the Calculation Breakdown, we noted that the Metal Supply Caps was determined based on the estimated unit price of silver and copper and the estimated sale volume of gold, silver and copper during the Review Period.

For the estimated unit price of silver and copper, we noted that the management of the Company has adopted the average unit price for 11M2023. We have obtained the actual sale volume and unit price of silver and copper for the 11M2023 and noted that the average unit price for silver was approximately RMB5,000 per kg and the average unit price for copper was approximately RMB60,000 per tonne which is in line with the estimated unit price of silver and copper adopted in the Calculation Breakdown.

For the estimated sale volume of silver and copper for the year ending 31 December 2024, the management of the Company has made reference to the historical sale volume of silver and copper for 11M2023. We noted that the total sale volume of silver was approximately 18,000 kg for 11M2023 and the estimated annualised sale volume is approximately 20,000 kg. The total sale volume of copper was approximately 3,500 tonnes for 11M2023 and the estimated annualised sale volume is approximately 3,800 tonnes. The estimated annualised sale volume of silver and copper for 11M2023 are in line with the estimated sale volume adopted in the Calculation Breakdown for the year ending 31 December 2024. As silver and copper are the by-products generated from the gold smelting process of gold concentrates, the production volume of silver and copper is closely related to the processing volume of gold concentrates. As the estimated purchase volume of gold concentrates of the Group increased from approximately 220,000 tonnes for the year ending 31 December 2024 to approximately 250,000 tonnes for the year ending 31 December 2025 and 2026, the sale volume of silver and copper of the Group increased proportionally. The estimated sale volume of silver of the Group for the year ending 31 December 2025 and 2026 were approximately 23,000 kg while the estimated sale volume of copper of the Group for the years ending 31 December 2025 and 2026 were approximately 4,300 tonnes.

Based on the Calculation Breakdown, we noted that the management of the Company estimated approximately 3,000 kg, 6,000 kg and 6,000 kg of silver will be sold to each of the Jiesi Shiye Group and Jiesi Weiye Group for the three years ending 31 December 2026, respectively. The management of the Company estimated approximately 600 tonnes, 1,150 tonnes and 1,150 tonnes of copper will be sold to each of the Jiesi Shiye Group and Jiesi Weiye Group for the three years ending 31 December 2026, respectively. The revenue from the sale of silver and copper accounted for not more than 5% of the total revenue of the Group. The Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement are non-exclusive and merely provide the Group with an additional sales channel for the by-products in the PRC and overseas market.



Having considered that (i) the estimated purchase cost of gold concentrates and compound gold are in line with the average purchase cost of the Group for 11M2023; (ii) the estimated purchase volume of gold concentrates and compound gold have made reference to historical purchase volume; (iii) the estimated unit price of silver and copper are in line with the average unit sales price of the Group for 11M2023; (iv) the estimated sale volume of silver and copper have made reference to the historical sale volume and closely related to the processing volume of gold concentrates; (v) the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement are non-exclusive and merely provide the Group an additional supply channel of Raw Materials and sales channel for the by-products in the PRC and overseas market, we are of the view that the Shiye Annual Caps and the Weiye Annual Caps are fair and reasonable.

#### **5. Internal Control Measures Governing the Transactions under the Framework Agreements**

As set out in the Letter from the Board, the Company will adopt the following internal control measures to regulate the Shiye Mutual Supply Transactions and the Weiye Mutual Supply Transactions:

- (i) the procurement department of the Company is responsible for maintaining a list of suppliers of gold concentrates and compound gold and gathering information from time to time regarding the market prices and other transaction terms offered by the independent third-party suppliers through various channels, including but not limited to, independent industry websites with public market data and discussions with third-party industry players;
- (ii) the procurement department of the Company is also responsible for screening the quality of gold concentrates and compound gold from time to time and review the Group's list of suppliers and source from alternative suppliers depending on the quality of products offered, the suppliers' availability and the terms and conditions of such order(s) in order to ensure the Group's product quality;
- (iii) the sale department of the Company is responsible for timely monitoring the market prices and the transaction terms from recent sale records to ensure that the terms offered by the Group to the Jiesi Shiye Group and the Jiesi Weiye Group are no more favorable than the terms available to Independent Third Parties;
- (iv) the finance department of the Company regularly monitors the actual amounts for each type of the continuing connected transactions incurred on a monthly basis to ensure the respective annual caps are not exceeded and report to the Directors and management of the Group;



- (v) the internal audit department and compliance affairs department of the Company are responsible to monitor the continuing connected transactions on a monthly basis to ensure (a) the Company and the connected parties have fulfilled the terms of the agreements in relation to such continuing connected transactions during the relevant month; and (b) the actual transaction amounts incurred and estimated to be incurred between the Company and the connected parties are within the respective annual caps approved by the Shareholders and report to the Directors and management of the Group;
- (vi) the Board conducts regular review on the execution of the continuing connected transactions, and reviews the financial statements of the Group which include the disclosure of the continuing connected transactions on a semi-annual basis. The review mainly includes a review on whether the Company and the connected parties have fulfilled the terms of the agreements in relation to continuing connected transactions, and whether the actual transaction amounts between the Company and the connected persons are within the respective annual caps approved by the Shareholders;
- (vii) the independent non-executive Directors will review and confirm that the pricing and terms of the transactions contemplated under the connected transactions agreements are in the Group's ordinary and usual course of business and are fair and reasonable to the Group and in the interests of the Shareholders and the Group as a whole, on terms no less favourable to the Group than prices and terms offered by the Group to independent third parties on an annual basis;
- (viii) the auditors of the Company will review the pricing and terms of the transactions contemplated under the connected transaction agreements and the respective annual caps of such continuing connected transactions in compliance with the annual reporting and review requirements under the Listing Rules on an annual basis; and
- (ix) the audit committee of the Company conducts review of the annual financial statements and annual report which include the disclosure of the implementation of the continuing connected transactions, including whether the terms of the continuing connected transactions are fair and reasonable and whether the transaction amounts are within the relevant annual cap.



For the purpose of evaluating the effectiveness of internal control measures are in place to monitor the transactions under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement, we have discussed with the management of the Company and understood that the procurement department of the Company is responsible for maintaining a list of suppliers of Raw Materials and screening the quality of Raw Materials to ensure the Raw Materials supplied by the Jiesi Shiye Group and the Jiesi Weiye Group fulfilling the Group's quality requirements. For each procurement transaction, the procurement department of the Company is responsible for gathering information from independent industry websites with public market data regarding the market prices of the metals to ensure the purchase cost of Raw Materials proposed by the Jiesi Shiye Group and the Jiesi Weiye Group is in line with the market price. For each sale transaction, the sale department of the Company is responsible for monitoring the terms of transactions between the Group, the Jiesi Shiye Group and the Jiesi Weiye Group are no less favorable than those offered to the Independent Third Parties.

The finance department of the Company is responsible to monitor the transaction amounts with the Jiesi Shiye Group and the Jiesi Weiye Group on a monthly basis and notify the management of the Company when the actual transaction amounts are close to the Shiye Annual Caps and the Weiye Annual Caps.

On a monthly basis, the internal audit department and compliance affairs department of the Company are responsible to monitor the transactions between the Group, the Jiesi Shiye Group and the Jiesi Weiye Group to ensure that (i) the transaction with the Jiesi Shiye Group and the Jiesi Weiye Group are in compliance with the terms of the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement; and (ii) the actual transaction with the Jiesi Shiye Group and the Jiesi Weiye Group are within the Shiye Annual Caps and the Weiye Annual Caps.

From an annual review perspective, the Group's auditors will conduct annual review on the transactions contemplated under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement in according to the Listing Rules requirements.

We have obtained and reviewed the Board's minutes and noted that the Board has approved the internal control measures as discussed above.

Given that there is no historical transaction between the Group, the Jiesi Shiye Group and the Jiesi Weiye Group, there is no relevant internal approval document available for our review. In view of the above, we consider that the internal control measures to be adopted by the Group in governing the continuing connected transactions contemplated under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement are fairly structured and reasonable. There are clear procedures and hierarchy to monitor that the pricing and transaction terms which are in compliance with the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement.



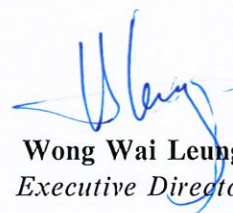
## RECOMMENDATION

Having considered the above, we are of the opinion that (i) the continuing connected transactions under the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement are in the ordinary and usual course of business of the Group; and (ii) the terms of the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement (including the Shiye Annual Caps and the Weiye Annual Caps) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM for approving the terms of the Shiye Comprehensive Products Framework Agreement and the Weiye Comprehensive Products Framework Agreement (including the Shiye Annual Caps and the Weiye Annual Caps).

Yours faithfully,  
For and on behalf of  
Octal Capital Limited



**Alan Fung**  
*Managing Director*



**Wong Wai Leung**  
*Executive Director*

*Note:* Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Listing Rules and the Takeovers Code of listed companies in Hong Kong. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities), Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible office of Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.