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Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 3833)

**CONTINUING CONNECTED TRANSACTION –
RENEWED MUTUAL SUPPLY AGREEMENT
AND
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



Crescendo Capital Limited

A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 19 to 20 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 45 of this circular.

A notice convening an extraordinary general meeting of Xinjiang Xinxin Mining Industry Co., Ltd. to be held at Conference Room, 19th Level, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC on Thursday, 20 December 2018 at 11:00 a.m. was despatched to the shareholders on 5 November 2018.

Completion and return of the proxy form shall not preclude you from attending and voting in person at the EGM or at any adjourned meetings should you so wish.

* *For identification purposes only*

20 November 2018

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DEFINITIONS

In this circular, unless the context otherwise require, the following expressions have the following meanings:

“Announcement”	the announcement of the Company dated 30 October 2015 which includes details of, among others, the Existing Mutual Supply Agreement
“Articles of Association”	the articles of association of the Company
“Associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of directors of the Company
“Company”	Xinjiang Xinxin Mining Industry Co., Ltd.* (新疆新鑫礦業股份有限公司), a joint stock limited company incorporated in the PRC with limited liability, the H Shares of which are listed on the Stock Exchange
“Company’s Products”	nickel cathode, copper cathode, copper concentrates, self-produced precious metals, sulphuric acid, water, electricity and other ancillary materials provided/to be provided by the Company to the Xinjiang Non-ferrous Group under the Existing Mutual Supply Agreement and the Renewed Mutual Supply Agreement
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Construction Services”	construction-related services, including project design, construction and facilities installation provided/to be provided by the Xinjiang Non-ferrous Group to the Company under the Existing Mutual Supply Agreement and the Renewed Mutual Supply Agreement
“Director(s)”	one or all of the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held on Thursday, 20 December 2018 at 11:00 a.m. at Conference Room, 19th Level, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC for the approval of, among other things, the Renewed Mutual Supply Agreement and the Renewed Annual Caps

DEFINITIONS

“Existing Mutual Supply Agreement”	the master mutual supply agreement dated 30 October 2015 entered into between the Company and Xinjiang Non-ferrous in respect of the mutual provision of production supplies and ancillary services, details of which please refer to the Announcement
“Fukang Refinery”	the refinery located in Fukang, Xinjiang where Fukang Branch of the Company (阜康冶煉廠) carries out its business activities
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the ordinary share capital of the Company with a nominal value of RMB0.25 each subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising the independent non-executive Directors, namely Mr. Hu Benyuan, Mr. Wang Lijin and Mr. Li Wing Sum Steven, to advise the Independent Shareholders in respect of the Renewed Mutual Supply Agreement and the Renewed Annual Caps
“Independent Financial Adviser” or “Crescendo Capital”	Crescendo Capital Limited, a corporation licensed to carry out type 6 regulated activities (advising on corporate finance) under the SFO, and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Renewed Mutual Supply Agreement and the Renewed Annual Caps
“Independent Shareholders”	in respect of the transactions contemplated by the Renewed Mutual Supply Agreement, shareholders of the Company other than Xinjiang Non-ferrous and its Associates
“Independent Third Party(ies)”	third party independent of and not connected with the Company and its connected persons
“Kalatongke Mining”	Xinjiang Kalatongke Mining Company Limited, a wholly-owned subsidiary of the Company with business activity of operating a mine of nickel and copper

DEFINITIONS

“Latest Practicable Date”	14 November 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“NDRC”	National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC)
“Renewed Annual Cap(s)”	the annual cap(s) for the provision of the Construction Services, the Supporting and Ancillary Services and the Company’s Products under the Renewed Mutual Supply Agreement for the three years ending 31 December 2021
“Renewed Mutual Supply Agreement”	the master mutual supply agreement dated 26 October 2018 entered into between the Company and Xinjiang Non-ferrous in respect of the mutual provision of the Construction Services, the Supporting and Ancillary Services and the Company’s Products
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

DEFINITIONS

“Supporting and Ancillary Services”	services provided/to be provided by the Xinjiang Non-ferrous Group to the Group under the Existing Mutual Supply Agreement and the Renewed Mutual Supply Agreement which include: (i) production supplies, transportation and supporting services: supplemental production materials (including copper concentrates, chemical materials, coal, coke and product packaging materials) and work safety products; (ii) storage, transportation and loading services: warehousing services in Beijing for the sales and distribution of nickel cathode to the Company’s end-customers in Beijing and its surrounding areas, Hebei province and the north-eastern region of the PRC; transportation service for the delivery of materials including coke and coal; and (iii) other supporting and ancillary services: machinery repair and improvement; geological exploration in the mining areas
“Xinjiang CNPC”	China National Petroleum Corporation (中國石油天然氣集團公司), Xinjiang branch
“Xinjiang Non-ferrous”	Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業(集團)有限責任公司), a wholly state-owned enterprise with limited liability and incorporated in the PRC, being one of the promoters and the controlling shareholder of the Company
“Xinjiang Non-ferrous Group”	Xinjiang Non-ferrous and its subsidiaries excluding the Company, its subsidiaries and Associates
“%”	per cent.

* *For identification purposes only*

LETTER FROM THE BOARD



Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 3833)

Executive Directors:

Mr. Guo Quan

Mr. Liu Jun

Non-executive Directors:

Mr. Zhang Guohua

Mr. Shi Wenfeng

Mr. Zhou Chuanyou

Mr. Hu Chengye

Independent Non-executive Directors:

Mr. Hu Benyuan

Mr. Wang Lijin

Mr. Li Wing Sum Steven

*Statutory address and principal place of
business in the PRC:*

7/F Youse Building

No. 4 You Hao North Road

Urumqi, Xinjiang

Registered office in Hong Kong:

9/F The Center

99 Queen's Road Central

Central, Hong Kong

20 November 2018

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTION –
RENEWED MUTUAL SUPPLY AGREEMENT
AND
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

INTRODUCTION

The purpose of this circular is:

- (1) to give you details of the Renewed Mutual Supply Agreement and the Renewed Annual Caps;

LETTER FROM THE BOARD

- (2) to set out the recommendation of the Independent Board Committee in respect of the Renewed Mutual Supply Agreement and the Renewed Annual Caps;
- (3) to set out the letter of advice from Crescendo Capital to the Independent Board Committee and the Independent Shareholders in respect of the Renewed Mutual Supply Agreement and the Renewed Annual Caps; and
- (4) to give you details of the proposed amendments to the Articles of Association.

RENEWED MUTUAL SUPPLY AGREEMENT

Date: 26 October 2018

Parties: The Company and Xinjiang Non-ferrous

Term: 1 January 2019 to 31 December 2021

Subject Matter

On 30 October 2015, the Company and Xinjiang Non-ferrous entered into the Existing Mutual Supply Agreement in respect of the mutual provision of the Construction Services, the Supporting and Ancillary Services and the Company's Products. The Existing Mutual Supply Agreement will expire on 31 December 2018.

On 26 October 2018, the Company and Xinjiang Non-ferrous entered into the Renewed Mutual Supply Agreement in respect of the continuing provision of the Construction Services, the Supporting and Ancillary Services and the Company's Products.

Term

The principal terms of the Renewed Mutual Supply Agreement include the followings:

- the Renewed Mutual Supply Agreement is for a term commencing from 1 January 2019 and ending on 31 December 2021 which may be renewed upon agreement by Xinjiang Non-ferrous and the Company, subject to the approval by the Stock Exchange and/or the Independent Shareholders, if applicable;
- the Company and the Xinjiang Non-ferrous Group are at liberty to procure from or provide to any Independent Third Party any of the required services and products save and except that Xinjiang Non-ferrous Group must provide the Company with services or supplies on terms no less favourable than those offered to any Independent Third Party;

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- each party of the Renewed Mutual Supply Agreement may terminate the mutual provision of products and services on not less than six months' prior written notice, however Xinjiang Non-ferrous Group may not terminate its service if the Company has informed them by written notice that the Company is unable to obtain similar products and services from an Independent Third Party (save that the Company has provided written consent to the termination by Xinjiang Non-ferrous Group); and
- the Renewed Mutual Supply Agreement is conditional and effective upon it having complied with the relevant Listing Rules and approved by the Independent Shareholders, if applicable, at the EGM.

The Xinjiang Non-ferrous Group has agreed to provide the Company with the Construction Services and the Supporting and Ancillary Services. The Company has agreed to provide the Company's Products to Xinjiang Non-ferrous Group.

Consideration

The fees in relation to the above products, supplies and services payable between the Company and Xinjiang Non-ferrous during the term of the Renewed Mutual Supply Agreement are determined principally by commercial negotiation between the parties according to the principles of fairness and reasonableness with reference to the market price of the mutual supply services from time to time. Such transactions will be conducted in the ordinary and usual course of business of the Company, on normal commercial terms and on terms not less favourable to the Company than terms available to or from (as appropriate) Independent Third Parties.

In order to ensure that such principle is adhered to, the Company has adopted the following internal procedures:

- (1) In respect of supply of products by Xinjiang Non-ferrous Group under the Supporting and Ancillary Services, the relevant officer of the Finance Department will check the prices of such products under the relevant invoices issued by Xinjiang Non-ferrous Group and the Company and compare such prices with the prevailing market prices of such products if they are supplied by/to other Independent Third Parties. The finance manager will check the aforementioned pricing comparison performed by the finance officer and the financial controller will only approve the relevant invoices after he has ensured that such prices will be on terms not less favourable to the Company than terms available to/from (as appropriate) Independent Third Parties.

Further, the internal audit department of the Company will perform periodic audit of the invoices to/from Xinjiang Non-ferrous Group with reference to the prevailing market prices of the relevant products and ensure that the abovementioned principle is adhered to.

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- (2) In respect of the provision of Construction Services by Xinjiang Non-ferrous Group, the service fees payable will be determined with reference to the prevailing market prices under general commercial terms. Pursuant to the internal guidance of the Company on the construction projects, the Company is required to select service providers for all major construction projects, including the technical improvement projects, through an open tender process (the “**Tendering Process**”), through which the price and terms of services offered by the vendors will be compared and the service contracts will be awarded to vendor(s) which offer(s) the best price and/or terms of service. In addition to the tender from Xinjiang Non-ferrous Group, there will be at least two or more valid tenders to be obtained from Independent Third Parties for a comparable volume and similar service. The tender process is that tenders with the highest scores, which are rated by the tender evaluation committee based on the same objective selection criteria such as qualification, resources, experience and technical expertise of the tenders, reputation and quality of work and pricing and terms of service, are to be selected. Tender evaluation committee of the Company consists of the general manager, deputy general manager, financial controller, chairman of board of supervisors, secretary of the Party Commission for Discipline Inspection of the Company; and managers from Safety Production and Security Department, Sales Department, Internal Audit Department and internal experts. In case Xinjiang Non-ferrous Group is the only bidder/tenderer of the service transaction, the Company would not proceed with the transaction.

Pricing Policies

The mutual supply services will be provided according to the following pricing policies in order of priority and to be settled on a monthly basis:

- the State-prescribed price (國家指定價) (including any price prescribed by any relevant local government), if applicable;
- where there is no State-prescribed price, then the State-guidance price (國家指導價);
- where there is neither a State-prescribed price nor a State-guidance price, the market price which is determined by (i) the price offered by an Independent Third Party for providing similar services in an area where such supporting services are provided under general commercial terms, or (ii) where not applicable, the market price offered by an Independent Third Party for providing similar services in the PRC under general commercial terms;
- where none of the above is applicable, the price shall be determined by the cost-plus method, parties to determine price based on reasonable costs ^(Note) incurred by them in providing the services plus a profit margin of not more than 5% of such reasonable costs ^(Note); and

LETTER FROM THE BOARD

- the Company and Xinjiang Non-ferrous will ensure that any specific agreements which set out the specific terms and conditions for the provision of any such services are entered into between the parties in accordance with the terms and conditions of the Renewed Mutual Supply Agreement.

Note: The profit margin of not more than 5% is arrived at after negotiation between the parties and the reasonable costs are the costs (including relevant taxes and surcharges) as calculated under the Accounting Standards for Business Enterprises of the PRC and the Directors are of the view that such profit margin is fair and reasonable.

In respect of the provision of Construction Services by Xinjiang Non-ferrous Group, the service fees payable will be determined with reference to the price as determined by the Tendering Process. For details of the Tendering Process, please refer to the paragraph headed “Consideration” above.

In respect of the provision of Supporting and Ancillary Services by Xinjiang Non-ferrous Group, the fees payable by the Company will be determined according to the following pricing policy:

- | | |
|---|---|
| – transportation services: | The best bid price as determined by the Tendering Process |
| – supply of gasoline and diesel: | State-prescribed price |
| – supply of coal and coke, production indirect and supplementary materials, packaging materials, parts and services for machinery repairs and maintenance; and labor safety and protection and sundry supplies: | The best bid price as determined by the Tendering Process |

State-prescribed prices for gasoline and diesel are updated by the Xinjiang CNPC (新疆中石油) based on the notice published by the NDRC from time to time depending on the changes in the international oil and gas market prices. As at the Latest Practicable Date, the State-prescribed prices for gasoline and diesel are RMB7.60/liter for No. 92 gasoline, and RMB7.22/liter for No. 0 diesel.

Since none of the previous transactions regarding the Supporting and Ancillary Services and the Company’s Products were transacted based on the cost- plus method as all the Supporting and Ancillary Services and the Company’s Products have a State prescribed price, a State-guidance price or a market price (as appropriate), the Company expects that the prices of the Supporting and Ancillary Services and the Company’s Products would continue to be determined by reference to the best bid price under the Tendering Process and in compliance with the State-prescribed price or the State-guidance price, if any, in the future.

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The Company will provide the Company's Products to Xinjiang Non-ferrous Group at market prices which are to be determined as afore-mentioned. Since the prices of all the existing Company's Products can be determined with reference to the prevailing market prices, the Company expects that the pricing of the supply of the Company Products will not be based on the cost-plus method. Up to and as at the Latest Practicable Date, State-prescribed price and State-guidance price have never been applicable to the Company's Products as they have never been included in any category for the State-prescribed price or the State-guidance price.

Internal Control Measures Relating To Pricing Policies

For Construction Services and Supporting and Ancillary Services under the Renewed Mutual Supply Agreement, the engineering department or the user department of the subsidiaries of Company and its designated persons will obtain quotations or tenders of the services from at least two independent third parties for a comparable volume and similar services and ascertain the pricing of the quotations or tenders of the suppliers according to the above pricing policy. The service price of each service and contract price of each construction contract will be reviewed and be approved by the head of the engineering department of the subsidiaries of the Company for preparation of the final contracts. Individual contracts for construction projects and Supporting and Ancillary Services under the Renewed Mutual Supply Agreement are reviewed and approved by the general manager of the Company.

For the sales of the Company's products to Xinjiang Non-ferrous Group under the Renewed Mutual Supply Agreement, the sales department of the Company and its designated persons will submit the sales orders to the Finance Department of the Company with the required quantities who will then check into the spot rates of the metal products from Shanghai Yangtze River Non-ferrous Metals Spot Market (official website: www.ccmn.cn 長江有色金屬網) for preparation of formal sales invoices. Upon the receipt of payments from the customers, the Finance Department will acknowledge the sales department for preparation of the goods delivery notes for warehouse to deliver products to customers.

* 長江有色金屬網(www.ccmn.cn) is one of the leading Internet business platform hosted by Grand River (Xiamen) Information Technology Co., Ltd. The network provides the "spot prices of non-ferrous metals market framework" by logical-mathematical theories and experience, so that the metal offers are closer to the market; now mainly releases six basic non-ferrous metal prices (copper, aluminum, zinc, tin, lead and nickel). The Directors consider that such platform is a market-recognized platform in relation to trading and/or pricing information of the relevant non-ferrous metal products.

Quotations or tenders of the Construction Services and Supporting and Ancillary services, payments of material requests, collections of sales invoices and goods delivery notes are subject to the internal audit procedures of the Company on a periodical basis.

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For the supply of supporting and ancillary services, that is, transportation services, and supply of coal and coke, production indirect and supplementary materials, packaging materials, parts and services for machinery repairs and maintenance; and labour safety and protection and sundry supplies, the user department of the subsidiaries of the Company and its designated persons will submit material request forms or purchase orders of services to the Finance Department of the subsidiaries of the Company with the required quantities who will then conduct check on the prevailing market price and/or the unit price of similar products or services to be purchased from other independent third parties in order to ensure the actual price of the Supporting and Ancillary Services would be determined on normal commercial terms and on terms not less favourable to the Company than terms offered by Independent Third Parties. Different levels of the Finance Department of the Company would also perform independent checks on the unit price charged by the Xinjiang Non-ferrous Group and compare such price with the prevailing market price and/or the unit price of similar products to be purchased from other Independent Third Parties during the relevant period before payment is made. For the supply of gasoline and diesel, the unit prices will be checked against the State-prescribed prices given by the Xinjiang CNPC. The internal audit department of the Company would perform periodic audit of the invoices to/from Xinjiang Non-ferrous Group with reference to the prevailing market prices and the State-prescribed prices of the relevant products and ensure that the above internal procedures were adhered to.

For the supply of geological exploration service in the mining areas by Xinjiang Non-ferrous Group, if any, the pricing policy is the prevailing market price through the tender process which is the same as that of the supply of Construction Services. The internal control measures relating to the pricing policy in respect of geological exploration would be the same as that of the supply of Construction Services.

In respect of sales of the Company's Products to Xinjiang Non-ferrous Group, which mainly consist of copper cathode, copper concentrates and other products, and in order to ensure each sales transaction will be on terms no more favourable to Xinjiang Non-ferrous Group than to other Independent Third Parties, the pricing of each sales transaction is determined by the Sales Department based upon the spot price of the product from Shanghai Yangtze River Nonferrous Metals Spot Market and be approved by the Sales Department manager and checked by the Finance Department manager and final approved by the Pricing Committee of the Company. The Pricing Committee of the Company consists of the general manager, financial controller and the managers of the Sales Department and the Finance Department of the Company. The proportion of sales of copper cathode to Xinjiang Non-ferrous Group as to the total sales of copper cathode of the Group is expected to be less than 5.4% for the year ending 31 December 2018, while the planned proportion of sales will be approximately 4.2% for each of the three years ending 31 December 2021.

Accordingly, the Directors believe that the above methods and procedures can ensure that the relevant continuing connected transactions will be conducted in accordance with the terms (including pricing policy) provided under the Renewed Mutual Supply Agreement and such transactions will be conducted on normal commercial terms and in the interest of the Company and Shareholders as a whole.

LETTER FROM THE BOARD

Historical figures

The fees paid by the Group to Xinjiang Non-ferrous Group in relation to the provision of Construction Services and the Supporting and Ancillary Services by Xinjiang Non-ferrous Group and the fees received by the Group for the provision of Company's Products to the Xinjiang Nonferrous Group under the Existing Mutual Supply Agreement for each of the two years ended 31 December 2017 and the nine months ended 30 September 2018 are set out below:

	Transaction amounts for the year ended 31 December 2016 (RMB)	Transaction amounts for the year ended 31 December 2017 (RMB)	Transaction amounts for the nine months ended 30 September 2018 (RMB)
The Construction Services fees under the Existing Mutual Supply Agreement	59,623,183 (Annual cap: 112,300,000)	39,785,541 (Annual cap: 106,300,000)	21,441,785 (Annual cap: 68,500,000)
The Supporting and Ancillary Services fees under the Existing Mutual Supply Agreement	113,760,204 (Annual cap: 836,560,000)	84,880,480 (Annual cap: 912,995,000)	56,323,874 (Annual cap: 990,797,000)
The Company's Products fees received under the Existing Mutual Supply Agreement	77,359,410 (Annual cap: 124,419,000)	108,040,280 (Annual cap: 137,239,000)	45,415,675 (Annual cap: 150,060,000)

Proposed Annual Caps

The Directors have considered and proposed the following annual caps in respect of the services fees under the Renewed Mutual Supply Agreement:

For the years ending 31 December	2019 (RMB)	2020 (RMB)	2021 (RMB)
Annual caps for the Construction Services fees under the Renewed Mutual Supply Agreement	96,300,500	70,801,300	51,930,660
Annual caps for the Supporting and Ancillary Services fees under the Renewed Mutual Supply Agreement	78,663,700	82,245,000	87,801,870
Annual caps for the Company's Products fees under the Renewed Mutual Supply Agreement	84,223,289	90,564,349	96,991,140

LETTER FROM THE BOARD

In determining the above annual caps for the three years ending 31 December 2021 under the Renewed Mutual Supply Agreement, the Directors have assumed that (i) the Company's business will continue to grow, taking into consideration the Group's planned production capacity has not been fully achieved and the increase in construction projects as further explained below; (ii) despite the increase in construction projects in relation to environmental protection as a result of improved environmental standards, the Company expects that certain projects under construction will be completed in the course of the three years ending 31 December 2021, resulting in a declining trend in the proposed annual caps for the Construction Services fees; and (iii) the prices of utilities, raw materials and finished products are expected to increase in the next three years taking into consideration the anticipated general inflation rate of approximately 3% to 5% in the PRC. The above proposed annual caps for the Construction Services fees, the Supporting and Ancillary Services fees and the Company's Products fees under the Renewed Mutual Supply Agreement for the three years ending 31 December 2021 have been determined based on the historical transaction amounts, the expected market conditions, the development trend in the non-ferrous metals industry, the expected supply of the Company's Products and its production expansion plans for the next three years. The expected supply of the Company's Products, among others, copper cathode, for the year of 2019, 2020 and 2021 are 500 tonnes, 500 tonnes and 500 tonnes, respectively. The increase in the annual caps of the Company's Products fee is mainly due to the expected increase in unit market price of copper of approximately 10% (including a certain percentage of buffer in order to accommodate any probable upward price fluctuation).

The Construction Services fees

The Construction Services fees under the Existing Mutual Supply Agreement for the year ending 31 December 2018 are expected to be amounted to approximately RMB41 million. The annual caps for the Construction Services fees under the Renewed Mutual Supply Agreement for the years ending 31 December 2019, 2020 and 2021, compared to the expected Construction Services fees under the Existing Mutual Supply Agreement for the year ending 31 December 2018 of approximately RMB41 million, represent expected increases of approximately RMB55.3 million, RMB29.8 million and RMB10.9 million, respectively. Such increases are mainly attributable to (i) the increase in construction projects as a result of the upgrade of the main production process of the Group in the next three years and (ii) the increase in construction projects in relation to environmental protection as a result of the improved and more stringent environmental standards as required by the PRC government policy, for example, the implementation of the special restriction standards under the Thermal Power Plant Air Pollutant Emission Standards (《火電廠污染物排放標準》), Boiler Air Pollutant Emission Standards (《鍋爐大氣污染物排放標準》) and Announcement concerning the Implementation for Special Emission Limits for Key Pollutants (《關於執行重點污染物特別排放限值的公告》) issued by the Environmental Bureau of the Xinjiang Uygur Autonomous Region in 2017 and 2018, respectively to favour the PRC economic development. The Company is currently undergoing one major technological renovation and expansion project, namely enhancement of mining of the Kalatongke Mining. During 2019 to 2021, the Company has planned to carry out several major technological renovation and expansion projects, including (i) technical improvement projects for Fukang Refinery; (ii) smelter expansion and technical improvement project for Xinjiang Zhongxin; and (iii) mining roadway surface project for Hami Jubao Resources Co., Ltd. ("Jubao"). On this basis, the Company considers there will be an increase in construction projects.

LETTER FROM THE BOARD

The increases in annual caps for the Construction Services fees under the Renewed Mutual Supply Agreement for the three years ending 31 December 2019, 2020 and 2021 shows a decreasing trend as the Company expects that certain projects under construction will be completed in the course of the three years ending 31 December 2021.

In assessing the annual caps for the Construction Services under the Renewed Mutual Supply Agreement, the Directors assumed the budgeted amounts as below:

For the years ending 31 December	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
– Kalatongke Mining	29,540	15,800	17,250
– Fukang Refinery	36,000	21,000	6,000
– Xinjiang Yakesi Resources Co. Ltd. (“Yakesi”)	18,524	19,271	19,680
– Xinjiang Zhongxin Mining Co., Ltd. (“Xinjiang Zhongxin”)	10,000	13,730	9,000
– Jubao	2,236	1,000	–
Total	96,300	70,801	51,930

Basis of determining the budgeted amounts for the new and existing projects

The table below sets forth the details of the budgeted amounts for the major projects of Group’s Construction Services under the Renewed Mutual Supply Agreement:

	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
Kalatongke Mining			
2019 new project-sulphuric acid tail suction projects and sewage disposal works civil engineering projects	20,000	4,500	4,500
No. 3 air shaft ladder compartment installation project	3,450	5,800	7,250
Sundry equipment installation projects and maintenance of side blow furnace	6,000	5,500	5,500

LETTER FROM THE BOARD

	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
Fukang Refinery			
Workshop pressurized Leaching technical renovation project and extended sewage disposal works civil engineering projects	36,000	21,000	6,000
Yakesi			
Factory maintenance projects	3,000	2,500	2,600
Mine transportation	6,435	7,020	7,312
Ore crushing	6,077	6,206	6,206
Zhongxin			
Smelting factory technical renovation phase II project	5,000	8,730	4,000
Maintenance for factory area and engineering projects	5,000	5,000	5,000

The Supporting and Ancillary Services fees

The Supporting and Ancillary Services fees under the Existing Mutual Supply Agreement for the year ending 31 December 2018 is expected to be amounted to approximately RMB76 million. The annual caps for the Supporting and Ancillary Services fees under the Renewed Mutual Supply Agreement for the years ending 31 December 2019, 2020 and 2021, compared to the expected Supporting and Ancillary Services fees under the Existing Mutual Supply Agreement for the year ending 31 December 2018 of approximately RMB76 million, represent expected increases of approximately RMB2.7 million, RMB6.2 million and RMB11.8 million, respectively. Such increases, accounted for approximately 5% p.a. growth rate, are mainly attributable to (i) the expanding business scale of the Group, resulting in, for example, the moderate increase in demand for coke, a raw material for the production of Company's major products, thereby contributing to the moderate increasing demand for Supporting and Ancillary Services; and (ii) the increase in the evaluated selling prices of coke and refractory materials taking into consideration the anticipated general inflation rate of approximately 3% to 5% in the PRC in the next three years.

LETTER FROM THE BOARD

In assessing the annual caps for the Supporting and Ancillary Services under the Renewed Mutual Supply Agreement, the Directors assumed the budgeted amounts as below:

For the years ending 31 December	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
Purchase of coke	14,274	17,129	20,554
Purchase of chemicals	18,362	16,635	16,961
Purchase of refractory materials	12,803	13,504	14,344
Purchase of steel	8,036	9,158	9,668
Purchase of transportation services	8,069	8,192	8,329
Purchase of other Supporting and Ancillary Services	17,119	17,627	17,945
	<u>78,663</u>	<u>82,245</u>	<u>87,801</u>
Total	<u><u>78,663</u></u>	<u><u>82,245</u></u>	<u><u>87,801</u></u>

The expected increase in annual caps for the Supporting and Ancillary Services fees under the Renewed Mutual Supply Agreement was mainly resulted by the increase in average selling prices of coke and refractory materials. The expected increases in the average selling price of coke and refractory materials for the next three years are set out below:

	2018	2019	2020	2021
Coke (<i>RMB per tonne</i>)	1,471	1,427	1,713	2,055
		-3.0%	+20.0%	+20.0%
Refractory materials (<i>RMB per tonne</i>)	7,326	8,308	8,433	8,572
		+13.4%	+1.5%	+1.6%

The Company's Products fees

The Company's Products fees under the Existing Mutual Supply Agreement for the year ending 31 December 2018 is expected to be amounted to approximately RMB74 million. The annual caps for the Company's Products fees under the Renewed Mutual Supply Agreement for the years ending 31 December 2019, 2020 and 2021, compared to the expected Company's Products fees under the Existing Mutual Supply Agreement for the year ending 31 December 2018 of approximately RMB74 million, represent approximately increases of RMB10.2 million, RMB16.6 million and RMB23 million, respectively. Such increases are mainly attributable to the expected increase in the market prices of the Company's Products in the next three years and the budgeted amounts of supplying other non-ferrous metals to Xinjiang Non-ferrous Metals Research Institute.

LETTER FROM THE BOARD

In assessing the annual caps for the sales of the Company's Products under the Renewed Mutual Supply Agreement, the Directors assumed (i) the increase in the market prices of the Company's Products, in particular: copper concentrates and copper cathode, which was based on the analysis of historical market prices of copper for the past ten years and the projection of copper market prices for the next three years as illustrated in the table below, demonstrating an upward trend of copper market prices since 2016, and (ii) the increase in budgeted amounts as below:

For the years ending 31 December	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(approximately)</i>	<i>(approximately)</i>	<i>(approximately)</i>
Sales of copper concentrates	39,820	43,624	47,476
Sales of copper cathode	23,707	25,862	28,016
Sales of other Company's Products	20,696	21,078	21,499
Total	<u>84,223</u>	<u>90,564</u>	<u>96,991</u>

The table below sets forth the Directors' assumption of the budgeted sales volume and the projected market unit price of copper concentrates and copper cathode:

	2018	2019	2020	2021
	<i>forecast</i>	<i>budget</i>	<i>budget</i>	<i>budget</i>
Sales of copper concentrates (<i>tonnes</i>)	3,901	4,000	4,000	4,000
Unit price (<i>RMB per tonne</i>)	9,262	9,955	10,906	11,869
Sales of copper cathode (<i>tonnes</i>)	500	500	500	500
Unit price (<i>RMB per tonne</i>)	43,852	47,414	51,724	56,031

The increase in annual caps for the sales of the Company's Products are mainly attributable to the increase in the market unit price of copper concentrates and copper cathode.

Forecasted upturn of copper price

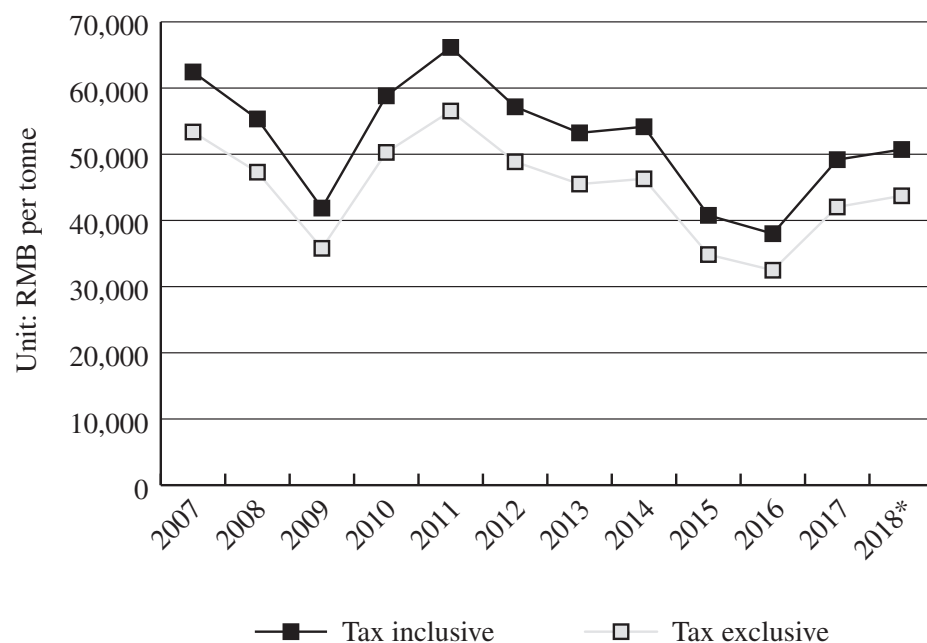
The proposed annual caps for the Company's Products fees are based on the assumption that the market price of copper, the major product, will increase in the forthcoming three years, namely: RMB47,414, RMB51,724 and RMB56,031 per tonne. As compared to the 2018 forecast average unit price of RMB43,852 per tonne, the budgeted market prices of copper represent a growth rate of 8%, 9%, 8.3% in 2019, 2020 and 2021, respectively.

LETTER FROM THE BOARD

The Company has taken into account a potential upturn of copper market prices in arriving at the annual caps of the Company's Products fees which is basically consistent with the overall view of the major copper industry players (for example, the vice general manager of sales department of Xinjiang Wuxin Copper Industry Company Limited (新疆五鑫銅業有限責任公司), the largest copper cathode producer and supplier in Xinjiang) and commodity futures dealers (for example, the manager and future commodity trader of China Chentong Commodity Trading Company Limited (中國誠通商品貿易有限公司)). During the budget process, in addition to the internal analysis of historical copper price, the Board also made reference to (i) the industry reports made by an analyst from Deutsche Bank in May 2018 forecasting the increase of copper price to US\$7,500 per tonne in 2019 from US\$7,300 per tonne in second half of 2018 due to the decrease in world supply of copper by 1% to 19.9 million tonnes; (ii) the fact that at the conference on 19 October 2018, the "Annual Meeting of the China Non-ferrous And the 2019 Forecasted Metal Prices by SMM" (《2018中國有色金屬年會暨2019 SMM金屬價格預測發佈會》), a senior analyst forecasted an upward trend of copper price in 2019 due to the decrease in copper supply in 2019 by approximately 2.4%, and (iii) allowing a certain percentage of buffer to accommodate any probable upward price fluctuation during the upcoming three years from 2019 to 2021, for example, the recent devaluation of Renminbi as compared to US currency.

Note: all unit prices of commodities are stated excluding tax

Internal analysis of historical copper price for the past ten years



* As of October 2018

LETTER FROM THE BOARD

Reasons for and benefits of entering into the Renewed Mutual Supply Agreement

The Company entered into the Renewed Mutual Supply Agreement to continue to procure from and provide to the Xinjiang Non-ferrous Group services for the following reasons:

- the Xinjiang Non-ferrous Group has an established system of mining, ore processing, smelting, processing, repairing, manufacturing, equipment installation, construction, transportation, storage, design, and it has competitive strengths over other suppliers of similar services in Xinjiang;
- the Company's smelting operation is enhanced by the capability and techniques of the Xinjiang Non-ferrous Group in designing and producing non-standardised production facilities and equipment;
- the design institute of the Xinjiang Non-ferrous Group has the expertise in the design of production facilities in respect of mining, ore processing and refining of non-ferrous and precious metals and they are familiar with the Company's production sites, facilities and equipment;
- the Xinjiang Non-ferrous Group has an experienced and stable construction team in shafts construction and facilities installation; and
- the automobile transportation companies, the materials procurement company and the storage warehouse of the Xinjiang Non-ferrous Group are able to provide the Company with a stable supply of materials, transportation services and warehousing services.

The Directors are of the view that the terms of the Renewed Mutual Supply Agreement were entered into on normal commercial terms and such terms and its annual caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

INFORMATION RELATING TO THE COMPANY

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

INFORMATION RELATING TO XINJIANG NON-FERROUS

Xinjiang Non-ferrous is principally engaged in, among other things, investment in non-ferrous metal industry and sale of non-ferrous metal products.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Xinjiang Non-ferrous is the controlling shareholder (as defined in the Listing Rules) of the Company and is beneficially interested in 885,204,000 domestic shares of the Company, representing approximately 40.06% of the entire issued share capital of the Company. Accordingly, Xinjiang Non-ferrous is a connected person of the Company and the entering into each of the Renewed Mutual Supply Agreement constitute continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

Given that one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Renewed Mutual Supply Agreement exceed 5% on an annual basis, the Renewed Mutual Supply Agreement is subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since Xinjiang Non-ferrous is the controlling shareholder of the Company, it and its Associates are required to and will be abstained from voting at the EGM in relation to the approval of the Renewed Mutual Supply Agreement and the Renewed Annual Caps.

In the event that the ordinary resolutions in respect of the Renewed Mutual Supply Agreement and the Renewed Annual Caps are voted down by the Independent Shareholders, the Company will abide by its internal control procedures and procure the services or supplies or sell the Company's products at the open market. In respect of procurement of services or supplies, the Company will either select the service or product providers who offer the best bid price as determined by the Tendering Process or the best price at the open market. In respect of the sale of the Company's products, the Company will sell at the open market at prices which are to be determined as mentioned in the paragraph headed "Pricing Policies" above.

BOARD'S APPROVAL

Mr. Zhang Guohua, Mr. Shi Wenfeng, Mr. Liu Jun and Mr. Guo Quan have abstained from voting on the Board resolutions approving the Renewed Mutual Supply Agreement and the Renewed Annual Caps since Mr. Zhang Guohua is the chairman of the board of directors and legal representative of Xinjiang Non-ferrous to sign any deeds, material contracts and other material documents of Xinjiang Non-ferrous; Mr. Shi Wenfeng is a director and the deputy general manager of Xinjiang Non-ferrous; Mr. Shi Wenfeng is a director and the deputy general manager of Xinjiang Non-ferrous; and Mr. Liu Jun and Mr. Guo Quan are also secretary to the Party Committee and deputy secretary of the Party Committee, respectively, of the Company, and secretary to the Party Committee and deputy secretary of the Party Committee of the Company are appointed directly by Xinjiang Non-ferrous.

Save as mentioned above, no other Director has a material interest in the transactions and hence no other Director has abstained from voting on these board resolutions.

LETTER FROM THE BOARD

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

In order to comply with the relevant requirements under the Notice Regarding the Promotion of the Requirements of Incorporation of Party Building Work into the Articles of Associations” (《關於扎實推進黨建工作總體要求寫入公司章程有關事項的通知》(新國資黨發[2017]40號)) issued by the Xinjiang Uygur Autonomous Region State-owned Assets Supervision and Administration Commission Party Official (新疆維吾爾自治區國資委黨委), the Company proposed to make amendments to certain provisions of the Articles of Association.

According to the Articles of Association and the relevant laws and regulations, the proposed amendments to the Articles of Association are subject to approval of the Shareholders by way of special resolution at the general meeting of the Company. Further, the proposed amendments to the Articles of Association will become effective after the relevant procedures for the approval and/or registration or filing in the PRC have been completed.

Please refer to Appendix II for the details of the proposed amendments to the Articles of Association.

EGM

A notice convening the EGM to be held at Conference Room, 19th Level, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC on Thursday, 20 December 2018 at 11:00 a.m.. was despatched to the Shareholders on 5 November 2018.

Whether or not you are able to attend the meeting, you are requested to complete the form of proxy which was sent out on 5 November 2018 in accordance with the instructions printed thereon and return the same to the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17 Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 24 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

PROCEDURES FOR VOTING AT THE EGM

According to Rule 13.39(4) of the Listing Rules, any vote at a general meeting must be taken by poll.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors consider that all resolutions proposed for consideration and approval by the Shareholders of the Company at the EGM are in the best interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the EGM as set out in the notice of the EGM.

GENERAL

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser, the proposed amendments to the Articles of Association and the additional information set out in the appendices to this circular and the notice of the EGM.

By Order of the Board
Zhang Junjie and Lam Cheuk Fai
Joint Company Secretaries



Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock code: 3833)

20 November 2018

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS –
RENEWED MUTUAL SUPPLY AGREEMENT**

We refer to the circular dated 20 November 2018 (the “**Circular**”) of Xinjiang Xinxin Mining Industry Co., Ltd. (the “**Company**”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise specified.

We, being the independent non-executive Directors, have been appointed by the Board as members of the Independent Board Committee to advise the Independent Shareholders of the Company on the Renewed Mutual Supply Agreement and the Renewed Annual Caps. Crescendo Capital has been appointed as the Independent Financial Adviser to advise the Independent Shareholders and us on the fairness and reasonableness of, among other things the Renewed Mutual Supply Agreement and the Renewed Annual Caps. Details of Crescendo Capital’s advice, together with the principal factors and reasons it has taken into consideration in giving such advice, are set out in the “Letter from the Independent Financial Adviser” on pages 21 to 45 of the Circular.

The Independent Shareholders’ attention is drawn to the “Letter from the Board”, the advice of Crescendo Capital in its capacity as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of whether (i) the Renewed Mutual Supply Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Renewed Mutual Supply Agreement and the transactions contemplated thereunder (together with the Renewed Annual Caps thereunder) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole as set out in the “Letter from the Independent Financial Adviser” as well as other additional information set out in other parts of the Circular.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the independent advice of Crescendo Capital, in particular the principal factors, reasons and recommendations set out in the “Letter from the Independent Financial Adviser” on pages 21 to 45 of the Circular and having considered the terms of the Renewed Mutual Supply Agreement and the Renewed Annual Caps, we consider that (i) the Renewed Mutual Supply Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Renewed Mutual Supply Agreement and the transactions contemplated thereunder (together with the Renewed Annual Caps thereunder) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Renewed Mutual Supply Agreement and the Renewed Annual Caps.

Yours faithfully,

Independent Board Committee

Mr. Hu Benyuan, Mr. Wang Lijin and Mr. Li Wing Sum Steven

Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from Crescendo Capital to the Independent Board Committee and the Independent Shareholders in relation to the Renewed Mutual Supply Agreement and the Renewed Annual Caps, which has been prepared for the purpose of inclusion in this circular.



1506 Tai Tung Building
8 Fleming Road
Wanchai
Hong Kong

20 November 2018

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the continuing connected transactions contemplated under the Renewed Mutual Supply Agreement in relation to the mutual provision of the Construction Services, the Supporting and Ancillary Services and the Company's Products between the Group and Xinjiang Non-ferrous Group (the "**Continuing Connected Transactions**") and the proposed Renewed Annual Caps, details of which are set out in the letter from the Board contained in the circular dated 20 November 2018 to the shareholders of the Company (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.

On 26 October 2018, the Company entered into the Renewed Mutual Supply Agreement with Xinjiang Non-ferrous in relation to the provision of (i) the Construction Services and the Supporting and Ancillary Services by Xinjiang Non-ferrous Group to the Group; and (ii) the Company's Products by the Group to Xinjiang Non-ferrous Group for a period of three years, commencing from 1 January 2019.

As at the Latest Practicable Date, Xinjiang Non-ferrous was a controlling Shareholder, which was beneficially interested in 885,204,000 domestic shares of the Company, representing approximately 40.06% of the entire issued share capital of the Company, and thus a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the transactions contemplated under the Renewed Mutual Supply Agreement constitute continuing connected transactions for the Company. As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the Renewed Annual Caps for the three years ending 31 December 2021 exceed 5% on an annual basis, the Renewed Mutual Supply Agreement and the Renewed Annual Caps are subject to the reporting, announcement, annual review and the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Xinjiang Non-ferrous and its Associates are required to and will abstain from voting in relation to the approval of the Renewed Mutual Supply Agreement and the Renewed Annual Caps at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Hu Benyuan, Mr. Wang Lijin and Mr. Li Wing Sum Steven, has been established to advise the Independent Shareholders as to whether the terms of the Continuing Connected Transactions are fair and reasonable, such transactions are on normal commercial terms and in the ordinary and usual course of business of the Group, and including the Renewed Annual Caps, are 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 on the fairness and reasonableness of the terms of the Renewed Mutual Supply Agreement 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.

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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 agreement of the Continuing Connected Transactions. 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 Continuing Connected Transactions, we have considered the following principal factors and reasons:

1. Background and reasons for the Continuing Connected Transactions

(a) Background

The Group is principally engaged in mining, ore processing, smelting and refining 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 non-ferrous metal industry and sale of non-ferrous metal products.

Xinjiang Non-ferrous Group have been providing the Construction Services and the Supporting and Ancillary Services to the Group, and the Group has been providing the Company's Products to Xinjiang Non-ferrous Group, since October 2007. The Existing Mutual Supply Agreement shall expire on 31 December 2018 and the parties to the Existing Mutual Supply Agreement intend to continue the Continuing Connected Transactions on an on-going basis after the expiry of the Existing Mutual Supply Agreement. As such, the Company entered into the Renewed Mutual Supply Agreement with Xinjiang Non-ferrous on 26 October 2018.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) *Provision of the Construction Services*

Xinjiang Non-ferrous Group has been providing construction related services, including project design, construction and facility installation, to the Group from time to time in its ordinary and usual course of business. We understand from management of the Company that Xinjiang Non-ferrous Group is a major player in the non-ferrous metal industry in Xinjiang and has an established system of mining, ore processing, smelting, processing, repairing, manufacturing, equipment installation, construction, transportation, storage and design. The design institute of Xinjiang Non-ferrous Group has the expertise in the design of production facilities in respect of mining, ore processing and refining of non-ferrous and precious metals, and Xinjiang Non-ferrous Group has an experienced and stable construction team in shafts construction and facility installation. The Company considers that Xinjiang Non-ferrous Group has competitive advantages over other suppliers of similar services in Xinjiang. In addition, with the capability and techniques of Xinjiang Non-ferrous Group in designing and producing non-standardized production facilities and equipment, the Group's smelting operation was enhanced through the co-operations with Xinjiang Non-ferrous Group in relation to the Group's previous technical improvement projects. The Group has also been satisfied with the quality of services rendered by Xinjiang Non-ferrous Group in relation to the Group's previous technical improvement projects. Therefore, the Company considers that it is appropriate to continue to engage Xinjiang Non-ferrous Group as one of the construction service providers of the Group if its terms of services are no less favourable than those offered by other service providers.

(c) *Provision of the Supporting and Ancillary Services*

Pursuant to the Renewed Mutual Supply Agreement, the Supporting and Ancillary Services to be provided by Xinjiang Non-ferrous Group to the Company shall include (i) provision of production supplies such as supplemental production materials (including copper concentrates, chemical materials, coal, coke and product packaging materials) and work safety products; (ii) storage, transportation and loading services, including warehousing services for the sales and distribution of nickel cathode to the Company's end-customers in Beijing and its surrounding areas, Hebei province and the north-eastern region of the PRC, and transportation services for delivery of materials including coke and coal; and (iii) other supporting and ancillary services like machinery repair and improvement and geological exploration in the mining areas.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We were advised by management of the Company that the Supporting and Ancillary Services are necessary for the Group to secure a smooth operation. Being a major player in the non-ferrous metals industry in Xinjiang, Xinjiang Non-ferrous Group is considered to be a reliable business partner of the Group which is capable of providing the supplies and materials, transportation, warehousing and geological exploration services that meet the needs and standard of the Group. Therefore, the Directors consider that it is in the interest of the Company to maintain a long-term supplier relationship with Xinjiang Non-ferrous Group for securing a stable supply of the Supporting and Ancillary Services, which is essential for the operations of the Group.

(d) *Provision of the Company's Products*

Pursuant to the Renewed 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, sulfuric acid, water, electricity and other ancillary materials. The Directors consider that the sale of the Company's Products to Xinjiang Non-ferrous Group can help securing a stable sales channel and turnover for the Group.

Having considered that (i) Xinjiang Non-ferrous Group is a major player in the non-ferrous metals industry in Xinjiang which has been offering high quality Construction Services that meet the Group's stringent standards in the previous technical improvement and construction projects; (ii) the Group has established a long-term business relationship with Xinjiang Non-ferrous Group and is satisfied with the quality of the Construction Services and the Supporting and Ancillary Services provided by Xinjiang Non-ferrous Group; (iii) the Group needs the Construction Services and the Supporting and Ancillary Services for its daily operation from time to time; (iv) the entering into of the Renewed Mutual Supply Agreement in respect of the Supporting and Ancillary Services can secure the supply channels and the quality of products and services for the Group; and (v) the sale 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 consider that the Continuing Connected Transactions are commercial transactions conducted in the ordinary and usual course of business of the Group and it is in the interests of the Company and Shareholders as a whole to conduct the Continuing Connected Transactions.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Principal terms of the Continuing Connected Transactions

Pursuant to the Renewed Mutual Supply Agreement, Xinjiang Non-ferrous agreed to provide the Construction Services and the Supporting and Ancillary Services to the Group, and the Group agreed to provide the Company's Products to Xinjiang Non-ferrous Group, for a period of three years, commencing from 1 January 2019, which may be renewed upon agreement by Xinjiang Non-ferrous and the Company, subject to the approval of the Stock Exchange and/or the Independent Shareholders, if applicable. The Company and Xinjiang Non-ferrous Group are at liberty to procure from, or provide to, any Independent Third Party any of the required services and products save and except that Xinjiang Non-ferrous Group must provide the Company with services or supplies on terms no less favourable than those offered to any Independent Third Party.

Each party of the Renewed Mutual Supply Agreement may terminate the mutual provision of products and services by giving to the other party not less than six months' prior written notice. However, unless the Company has provided written consent to the termination by Xinjiang Non-ferrous Group, Xinjiang Non-ferrous Group may not terminate its supply of services and/or products if the Company has informed them by written notice that the Company is unable to obtain similar products and/or services from an Independent Third Party. The Renewed Mutual Supply Agreement is conditional and effective upon having complied with the relevant Listing Rules and approved by the Independent Shareholders, if applicable, at the EGM.

The Renewed Mutual Supply Agreement is a framework agreement which sets out the principles upon which detailed terms and conditions of the transactions are to be determined between the parties. The Company and Xinjiang Non-ferrous will ensure that any specific agreement, which sets out the specific terms and conditions for the provisions of services or products, to be entered into between the parties shall be in accordance with the terms and conditions of the Renewed Mutual Supply Agreement.

Under the Renewed Mutual Supply Agreement, the Company and Xinjiang Non-ferrous agreed that the actual price of the services and products would be determined principally by commercial negotiations between the parties according to the principles of fairness and reasonableness with reference to the market price of the services and products from time to time and would be on normal commercial terms and on terms not less favourable to the Company than terms available to or from, as appropriate, Independent Third Parties. The mutual supply services will be provided according to the following general pricing policies in order of priority and shall be settled on a monthly basis:

- the State-prescribed price, including any price prescribed by any relevant local government, if applicable;
- where there is no State-prescribed price, then the State-guidance price;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- where there is neither a State-prescribed price nor a State-guidance price, the market price which shall be determined by (i) the price offered by an Independent Third Party for providing similar products or services in an area where such products or services are provided under general commercial terms; or (ii) where not applicable, the price offered by an Independent Third Party for providing similar products or services in the PRC under general commercial terms; and
- where none of the above is applicable, the price shall be determined by the parties based on reasonable costs, being costs (including relevant taxes and surcharges) as calculated under the Accounting Standards for Business Enterprises of the PRC, incurred by them in providing the products or services plus a profit margin of not more than 5% of such reasonable costs (the “**Cost-plus Method**”).

Implementation of pricing policies

(a) Provision of the Construction Services

According to management of the Company, the service fees for the Construction Services are, and will continue to be, determined with reference to the price as determined by the tendering process as there is neither a State-prescribed price nor a State-guidance price for the Construction Services. Pursuant to the internal guidance of the Company on construction projects, the Company is required to select service providers for all major construction projects, including the technical improvement projects, through an open tender process, through which the price and terms of services offered by the vendors will be compared and rated by the tender evaluation committee of the Company and the service contracts will be awarded to vendor(s) which offer(s) the best price and/or terms of service. The tender evaluation committee of the Company consists of the Company’s general manager, deputy general manager, financial controller, chairman of board of supervisors, secretary of the Party Commission for Discipline Inspection of the Company, managers from safety production and security department, sales department and internal audit department and internal experts. For each tender evaluation, in addition to the tender from Xinjiang Non-ferrous Group, there should be at least two or more valid tenders obtained from Independent Third Parties for comparison purposes. In case Xinjiang Non-ferrous Group is the only bidder/tenderer of a transaction, the Company would not proceed with the transaction.

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Since the Construction Services were tailor-made to fit the specific requirements of the Company, we were unable to compare the terms of Construction Services offered by Xinjiang Non-ferrous Group to the Group with the terms of construction services offered by Xinjiang Non-ferrous Group to other Independent Third Parties. However, we have reviewed the tender assessment reports of a renovation project in relation to the 2,000-tonnes flotation system, and a window renovation project, of Kalatongke Mining carried out in 2018, which were randomly selected from the list of Construction Projects awarded to Xinjiang Non-ferrous Group in 2018 and the transaction amounts of which represent approximately 44% of the total transaction amount of Construction Services awarded to Xinjiang Non-ferrous Group in 2018. We noted that the bidding parties of the aforementioned projects included both member(s) of Xinjiang Non-ferrous Group and Independent Third Parties. We also noted that the contracts were awarded to tenderers with the highest scores, which were rated by the tender evaluation committee based on the same assessment criteria such as qualification, experience, technical expertise, reputation and quality of work of the tenderers and the proposed pricing and duration of services. We considered the results of the tender process fair and reasonable. With a similar open tender system in place and taking into account the nature of services and the prevailing market circumstances, we believe that the prices and terms of the transactions in respect of the Construction Services under the Renewed Mutual Supply Agreement will be on normal commercial terms, and be fair and reasonable so far as the Independent Shareholders are concerned.

(b) Provision of the Supporting and Ancillary Services and the Company's Products

The prices of the Supporting and Ancillary Services and the Company's Products are, and will be, determined according to the following pricing policy:

Products/Services	Determination basis
(i) Supporting and Ancillary Services	
– gasoline and diesel	State-prescribed price
– all other Supporting and Ancillary Services	The best bid price as determined by the tendering process
(ii) Company's Products	Prevailing market price

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We understand from management of the Company that the prices for all previous transactions regarding purchases of gasoline and diesel were determined in accordance with the State-prescribed price released by Xinjiang CNPC based on the notice published by the NDRC from time to time. For transactions in relation to the purchases of Supporting and Ancillary Services other than gasoline and diesel, the prices were determined with reference to the best bid price as determined by the tendering process while the transactions in relation to the supply of the Company's Products, the prices were determined with reference to the prevailing market price as neither the State-prescribed prices nor State-guidance prices were available for such transactions.

Management of the Company confirmed that none of the previous transactions regarding the Supporting and Ancillary Services and the Company's Products were transacted based on the Cost-plus Method as all the Supporting and Ancillary Services and the Company's Products have either a State-prescribed price, a State-guidance price or a market price. Management of the Company also expected that the Cost-plus Method would not be applicable for the Supporting and Ancillary Services and the Company's Products in the foreseeable future.

We were advised by management of the Company that no gasolines were purchased from Xinjiang Non-ferrous Group during the period under the Existing Mutual Supply Agreement. We have reviewed ten samples of invoices for diesel transactions conducted between the Group and Xinjiang Non-ferrous Group and noted that the prices of those transactions were complied with the State-prescribed prices for diesel issued by Xinjiang CNPC at the relevant time. Given the samples were randomly selected from transactions carried out at different time during the term of the Existing Mutual Supply Agreement, we consider that the samples are representative and sufficient.

In order to ensure the actual price of the Supporting and Ancillary Services provided by Xinjiang Non-ferrous Group was on normal commercial terms and being not less favourable to the Company than those offered by Independent Third Parties, the Company would obtain tenders/quotations from at least two Independent Third Parties for similar services/products for comparison before entering into the contract. In addition, staff from different levels of the finance department of the Company would perform independent checks by comparing the price charged by Xinjiang Non-ferrous Group with the prevailing market price obtained through tenders/quotations and/or the unit price of similar products purchased from other Independent Third Parties during the relevant period before payment was made.

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We have reviewed ten samples of invoices issued by Xinjiang Non-ferrous Group to the Group for transactions in relation to the Supporting and Ancillary Services (other than gasoline and diesel) and the tenders/quotations obtained from other Independent Third Parties for the same set of transactions. We noted that signatures of both the finance officer and the finance manager who performed the verification works were put on the invoices to signify their completion of the verification works on the pricing of such transactions. Given the samples were randomly selected from transactions carried out at different time during the term of the Existing Mutual Supply Agreement, we consider that the samples are representative and sufficient. In view of the above, we believe that the above-mentioned internal control policy has been properly followed by the Group in its daily operations. Furthermore, we have reviewed ten samples of invoices issued to the Group by Xinjiang Non-ferrous Group and the Independent Third Parties respectively in relation to similar Supporting and Ancillary Services rendered and noted that the terms offered by Xinjiang Non-ferrous Group were not less favourable to the Group as compared to those offered by the Independent Third Parties. Given the samples were randomly selected from transactions carried out at different time during the term of the Existing Mutual Supply Agreement, we consider that the samples are representative and sufficient.

In order to ensure each sales transaction will be on terms no more favourable to Xinjiang Non-ferrous Group than to other Independent Third Parties, the selling prices of the Company's Products are and were determined by sales department of the Company with reference to the prevailing market prices as quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market (official website: www.ccmn.cn), an independent e-commerce website hosted by 長江有色(廈門)科技股份有限公司(Yangtze River Non-ferrous (Xiamen) Technology Co., Ltd.*) that provides an on-line platform for information and trading in relation to transactions of major non-ferrous metals (namely copper, aluminum, zinc, tin, lead and nickel), independently checked by the finance department and approved by the pricing committee of the Company, which consists of the general manager, financial controller and the managers of the sales department and the finance department.

We have visited the website of Yangtze River Non-ferrous Metals and noted that it summarized the pricing information of six major non-ferrous metals, namely copper, aluminum, zinc, tin, lead and nickel in different markets such as London Metal Exchange and Shanghai Metals Spot Market. We understand from management of the Company that the website of Yangtze River Non-ferrous Metals is one of the leading internet platforms widely recognized by the players in the PRC non-ferrous metals industry regarding trading and pricing information. Based on the above, we concur with the view of the Directors that it is a valid reference for information in relation to the trading and/or pricing of the relevant non-ferrous metals.

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We have reviewed ten samples of contracts entered into between the Group and Xinjiang Non-ferrous Group and the relevant prevailing market prices as quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market and noted that the prices charged by the Group represented a slight discount of approximately 0.4% to 0.6% to the prevailing market prices as quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market. We understand from management of the Company that the Group has been selling its copper to customers (including Xinjiang Non-ferrous Group and Independent Third Parties) at a slightly preferential price as compared to that quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market in view of the quality of the Group's copper. Therefore, we have also reviewed ten sets of samples of invoices issued by the Group to Xinjiang Non-ferrous Group and the Independent Third Parties respectively in relation to the sales of similar products at similar time and the then prevailing market prices of such products as quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market. We noted from the selected samples that the prices charged by the Group to the Independent Third Parties also represented a slight discount of approximately 0.4% to 0.6% to the prevailing market prices as quoted at Shanghai Yangtze River Non-ferrous Metals Spot Market. Given the Group offers preferential prices of copper to both Xinjiang Non-ferrous Group and Independent Third Parties, we consider the terms offered by the Group to Xinjiang Non-ferrous Group were no less favourable to the Group as compared to those offered to the Independent Third Parties. The samples of invoices were randomly selected from transactions carried out at different time during the term of the Existing Mutual Supply Agreement and thus we considered are representative and sufficient. We were given to understand that the internal audit department of the Company would perform periodic audit of the invoices to/from Xinjiang Non-ferrous Group with reference to the prevailing market prices of the relevant products and ensure that the abovementioned internal procedures were adhered to. Management of the Company also confirmed us that the aforementioned pricing policy was and would be consistently applied to all transactions in respect of the mutual supply of the Supporting and Ancillary Services and the Company's Products between the Group and Xinjiang Non-ferrous Group.

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As set out in the Letter from the Board, the profit margin of not more than 5% under the Cost-plus Method was arrived at after negotiations between the parties to the Renewed Mutual Supply Agreement. In order to assess the fairness and reasonableness of the 5% margin under the Cost-plus Method, we have tried to look for public information regarding the profit margin of similar services and products for comparison purposes but no such information was available. Given that (i) both parties to the Renewed Mutual Supply Agreement are mutually bounded by the same maximum profit margin of 5% under the Cost-plus Method; (ii) the Cost-plus Method will be adopted only if there are no State-prescribed prices, State-guidance prices or market prices; and (iii) the Directors consider that the chance of using the Cost-plus Method in determining the prices of the Supporting and Ancillary Services and the Company's Products is remote as the pricing of all the existing Supporting and Ancillary Services and the Company's Products can be determined based on the State-prescribed price or with reference to the State-guidance price or the market price, we concur with the view of the Directors that the Cost-plus Method is commercially justifiable.

Based on the above and taking into account that (i) the Company has the liberty to procure from, or provide to, any Independent Third Party any of the Construction Services, the Supporting and Ancillary Services and the Company's Products; (ii) Xinjiang Non-ferrous Group must provide the Company with services or supplies on terms no less favourable to the Company than those offered to any Independent Third Party and such practices have been and will be consistently applied by Xinjiang Non-ferrous Group; and (iii) the Company may terminate the mutual provision of products and services by giving to Xinjiang Non-ferrous Group not less than six months' prior written notice while the termination of the provision of services and products by Xinjiang Non-ferrous Group is subject to the consent of the Company, and Xinjiang Non-ferrous Group may not terminate its supply of services and/or products if the Company has informed them by written notice that the Company is unable to obtain similar products and/or services from other Independent Third Parties, we consider that the terms of the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

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3. Bases of the Renewed Annual Caps

The historical transaction amounts of the Continuing Connected Transactions are summarized as follows:

	Historical Transaction Amounts		
	For the year ended 31 December		For the nine months ended 30 September
	2016	2017	2018
	<i>approximately</i> RMB'000	<i>approximately</i> RMB'000	<i>approximately</i> RMB'000
Provision of the Construction Services	59,623	39,786	21,442
Provision of the Supporting and Ancillary Services	113,760	84,880	56,324
Provision of the Company's Products	77,359	108,040	45,416

The proposed Renewed Annual Caps are summarized as follows:

	Renewed Annual Caps		
	For the year ending 31 December		
	2019	2020	2021
	<i>approximately</i> RMB'000	<i>approximately</i> RMB'000	<i>approximately</i> RMB'000
Provision of the Construction Services			
Kalatongke Mining	29,540	15,800	17,250
Fukang Refinery	36,000	21,000	6,000
Xinjiang Yakesi Resources Co. Ltd. ("Yakesi")	18,524	19,271	19,680
Xinjiang Zhongxin Mining Co., Ltd. ("Xinjiang Zhongxin")	10,000	13,730	9,000
Hami Jubao Resources Co. Ltd. ("Jubao")	2,236	1,000	—
Proposed Renewed Annual Caps	96,300	70,801	51,930

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	Renewed Annual Caps		
	For the year ending 31 December		
	2019	2020	2021
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Provision of the Supporting and Ancillary Services			
Purchase of coke	14,274	17,129	20,554
Purchase of chemical materials	18,362	16,635	16,961
Purchase of refractory products	12,803	13,504	14,344
Purchase of steel	8,036	9,158	9,668
Purchase of transportation services	8,069	8,192	8,329
Purchase of other Supporting and Ancillary Services	17,119	17,627	17,945
Proposed Renewed Annual Caps	78,663	82,245	87,801
Provision of the Company's Products			
Sales of copper concentrates	39,820	43,624	47,476
Sales of copper cathode	23,707	25,862	28,016
Sales of other Company's Products	20,696	21,078	21,499
Proposed Renewed Annual Caps	84,223	90,564	96,991

The proposed Renewed Annual Caps were determined based on the historical transaction amounts, the expected market conditions, the development trend in the non-ferrous metals industry, the expected supply of the Company's Products and its production expansion plans for the next three years. In determining the Renewed Annual Caps, the Directors have assumed that (i) the Company's business will continue to grow taking into consideration the Group's production capacity has not been fully achieved and the increase in construction projects for the year ending 31 December 2019; (ii) despite the increase in construction projects in relation to environmental protection as a result of more stringent environmental standards, certain projects under construction will be completed in the course of the three years ending 31 December 2021 and result in a declining trend in the proposed annual caps for the Construction Services; and (iii) the prices of utilities, raw materials and finished products are expected to increase in the three years ending 31 December 2021.

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(a) Provision of the Construction Services

We understand from management of the Company that the Renewed Annual Caps for the provision of the Construction Services were determined by the Directors with reference to the estimations on the Group's demand for the Construction Services for its existing developments, the historical transaction amount and the increase in market prices of the Construction Services.

We were advised by management of the Company that subsequent to the completion of the 10,000-ton nickel technological improvement project of Fukang Refinery in 2016, the actual construction fee paid/payable under the Construction Services had been reducing from approximately RMB59.6 million for the year ended 31 December 2016 to approximately RMB21.4 million for the nine months ended 30 September 2018. The Group is planning to upgrade its main production process to enhance its production efficiency. Meanwhile, in view of the more stringent environmental standard imposed by the PRC government such as the implementation of the special restriction standards under 《火電廠污染物排放標準》 (Thermal Power Plant Air Pollutant Emission Standards*), 《鍋爐大氣污染物排放標準》 (Boiler Air Pollutant Emission Standards*) and 《關於執行重點污染物特別排放限值的公告》 (Announcement concerning the Implementation for Special Emission Limits for Key Pollutants*) issued by the Environmental Bureau of the Xinjiang Uygur Autonomous Region in 2017 and 2018, the Company expected that construction projects in relation to environmental protection would increase in the coming years.

Currently, the Group is undergoing one major technological renovation and expansion project, namely enhancement of mining of Kalatongke Mining, and has planned several major technological renovation and expansion projects, including (i) environmental protection projects for Kalatongke Mining; (ii) technical improvement projects for Fukang Refinery; (iii) smelter expansion and technical improvement project for Xinjiang Zhongxin; and (iv) mining roadway surface project for Jubao, to be carried out during the three years ending 31 December 2021. The Company expects that the construction works for such projects would continue during 2019 to 2021.

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We have reviewed, and discussed with management of the Company, the Company's budgets for the construction services of the abovementioned projects and noted that the existing project of Kalatongke Mining mainly involves mining in No. 3 ore body. As at the Latest Practicable Date, approximately 90% of the Construction Services regarding No. 3 ore body of Kalatongke Mining has been completed and construction fee of approximately RMB156.41 million has been paid/payable by the Company to Xinjiang Non-ferrous Group. The Company anticipated that approximately 2%, 4% and 4% of the Construction Services for No. 3 ore body of Kalatongke Mining shall be completed in 2019, 2020 and 2021 respectively and therefore construction fees of RMB3.54 million, RMB5.8 million and RMB7.25 million have been scheduled to be paid to Xinjiang Non-ferrous Group in the year ending 31 December 2019, 2020 and 2021 respectively. We noted that the payment schedule for No. 3 ore body of Kalatongke Mining is generally commensurate with the expected work progress.

In addition to the Construction Services regarding No. 3 ore body of Kalatongke Mining, the Company has planned to carry out environmental protection projects, which mainly involve sulphuric acid tail suction and sewage treatment with a total construction fee of approximately RMB29 million, for Kalatongke Mining during the three years ending 31 December 2021. As at the Latest Practicable Date, the Construction Services regarding the environmental protection projects have not been commenced yet. The Company anticipated that approximately 68%, 16% and 16% of the Construction Services regarding the environmental protection projects shall be completed in 2019, 2020 and 2021 respectively and therefore construction fees in the amount of approximately RMB20.0 million, RMB4.5 million and RMB4.5 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2019, 2020 and 2021 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

The Company has also planned to carry out technical improvement projects, which mainly involve pressurized leaching and sewage treatment with a total construction fee of approximately RMB63 million, for Fukang Refinery during the three years ending 31 December 2021. As at the Latest Practicable Date, the Construction Services for Fukang Refinery have not been commenced yet. The Company anticipated that approximately 57%, 33% and 10% of the Construction Services for Fukang Refinery shall be completed in 2019, 2020 and 2021 respectively and therefore construction fees in the amount of approximately RMB36.0 million, RMB21.0 million and RMB6.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2019, 2020 and 2021 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

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The Company has budgeted to carry out the 2nd phase smelter expansion and technical improvement project with a total construction fee of approximately RMB17.73 million for Xinjiang Zhongxin during the three years ending 31 December 2021. As at the Latest Practicable Date, the Construction Services for Xinjiang Zhongxin has not been commenced yet. The Company anticipated that approximately 28%, 49% and 23% of the Construction Services for Xinjiang Zhongxin shall be completed in 2019, 2020 and 2021 respectively and therefore construction fees in the amount of approximately RMB5.0 million, RMB8.73 million, and RMB4.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2019, 2020 and 2021 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

Moreover, a project for mining roadway surface of Jubao with a total construction fee of approximately RMB3.24 million has been scheduled to commence in 2019 and complete in 2020. The Company anticipated that approximately 69% and 31% of the Construction Services for Jubao shall be completed in 2019 and 2020 respectively and therefore construction fees in the amount of approximately RMB2.24 million and RMB1.0 million will be payable to Xinjiang Non-ferrous Group in the year ending 31 December 2019 and 2020 respectively if the construction works are carried out by Xinjiang Non-ferrous Group.

We have reviewed, and discussed with management of the Company, the budgets of the abovementioned projects and were advised by management of the Company that such budgets were arrived at after taking into account the works required, the expected construction progress and the prevailing market price for similar construction services. We noted that the proposed construction fee payable to Xinjiang Non-ferrous Group for the planned projects are generally commensurate with the estimated budgets and work progress of those projects. Having considered the anticipated progress of the construction works, the value of the construction contracts and the payment schedules, the construction fees payable to Xinjiang Non-ferrous Group in relation to the above projects were estimated to be approximately RMB66.78 million, RMB41.03 million and RMB21.75 million for the year ending 31 December 2019, 2020 and 2021 respectively, which accounted for approximately 69%, 58% and 42% of the proposed Renewed Annual Caps of the Construction Services for the year ending 31 December 2019, 2020 and 2021 respectively.

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Furthermore, in order to further improve the production efficiency of the operations of Yakesi, Kalatongke Mining and Xinjiang Zhongxin and provide buffer for possible maintenance and sundry projects, the Company assumed that certain improvement, maintenance and sundry projects might be carried out in the coming three years. The Company estimated that the construction fees payable to Xinjiang Non-ferrous Group in relation to the improvement, maintenance and sundry projects expected to be carried out for Yakesi, Kalatongke Mining and Xinjiang Zhongxin would be approximately RMB29.52 million, RMB29.77 million and RMB30.18 million for the year ending 31 December 2019, 2020 and 2021 respectively, which accounted for approximately 31%, 42% and 58% of the proposed Renewed Annual Caps of the Construction Services for the year ending 31 December 2019, 2020 and 2021 respectively. The breakdown of the budgeted amounts of possible improvement, maintenance and sundry projects to be carried out are set out as follow:

Budgeted amounts for possible projects			
For the year ending 31 December			
	2019	2020	2021
	<i>approximately</i>	<i>approximately</i>	<i>approximately</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Yakesi			
– Possible mine transportation	6,435	7,020	7,312
– Possible ore crushing	6,077	6,206	6,206
– Possible factory maintenance projects	3,000	2,500	2,600
– Possible sundry projects	3,012	3,545	3,563
Kalatongke Mining	6,000	5,500	5,500
Xinjiang Zhongxin	5,000	5,000	5,000
Total	29,524	29,771	30,181

Given the Company's needs, the budgets and expected work progress of the scheduled construction works, which are expected to commence in 2019 and complete during 2020 and 2021 by phases, we consider that the proposed Renewed Annual Caps for the Construction Services to be decreasing from 2019 to 2021 are fair and reasonable.

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(b) *Provision of the Supporting and Ancillary Services*

We have discussed with management of the Company and reviewed the calculation of the Renewed Annual Caps for the Supporting and Ancillary Services. We noted that the historical transaction amounts of the Supporting and Ancillary Services between the Group and Xinjiang Non-ferrous Group have been decreasing from approximately RMB113.8 million for the year ended 31 December 2016 to approximately RMB56.3 million for the nine months ended 30 September 2018. We understand from management of the Company that the decrease in transaction amounts of the Supporting and Ancillary Services were mainly due to (i) the decrease in transportation costs for transportation services provided by Xinjiang Non-ferrous Group in relation to the Group's purchases of nickel concentrates from certain independent suppliers as the Group has ceased to bear such costs since 2017; and (ii) the decrease in purchase volume of ancillary production materials from Xinjiang Non-ferrous Group as the Group purchased some of those materials from other independent suppliers during the relevant years.

Despite the aforementioned, having considered that (i) the business scale of the Company will expand and the demand for the Supporting and Ancillary Services will increase accordingly; and (ii) the prices of utilities, raw materials and other supporting and ancillary services will increase in the next three years taking into consideration the anticipated general inflation rate of approximately 3% to 5% in the PRC, management of the Company estimated that the Renewed Annual Caps for the Supporting and Ancillary Services for the year ending 31 December 2019 would increase by approximately 4.5%, as compared to the annualized transaction amount for the year ending 31 December 2018, to approximately RMB78.7 million, and further increase at a compound annual growth rate of approximately 5.6% in 2020 and 2021.

We were given to understand that the projected increase in the Renewed Annual Caps for the Supporting and Ancillary Services for the three years ending 31 December 2021 was mainly attributable to the substantial increase in purchase of chemical materials, which are major raw materials for production of the Company's major products, for the year ending 31 December 2019 and the projected increases in average selling prices of major products under the Supporting and Ancillary Services, in particular coke.

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We have discussed with management of the Company the production plans of the Group for the three years ending 31 December 2021 and noted that the targeted production volume of the Group's major products, namely nickel cathode and copper cathode, were projected to reach the maximum production capacity for the year ending 31 December 2019 and remain constant for the three years ending 31 December 2021, having taken into account the existing production capacity of the Group and the expected future demand of nickel cathode and copper cathode. We understand from management of the Company that the production volume of nickel cathode for the year ended 31 December 2016 and 2017 and the nine months ended 30 September 2018 accounted for approximately 98%, 84% and 68% (or 91% if the output is annualized for the year ending 31 December 2018) of the Group's maximum production capacity respectively while the production volume of copper cathode for the year ended 31 December 2016 and 2017 and the nine months ended 30 September 2018 accounted for approximately 83%, 68% and 54% (or 72% if the output is annualized for the year ending 31 December 2018) of the Group's maximum production capacity respectively. The relatively low production output for the year ended 31 December 2017 was mainly attributable to the implementation of newly adopted measures for production safety governance and environmental protection facilities management by the Group which had temporarily lowered the production and operating time during 2017. After familiarizing with the new measures and changes in production process, the production volume has picked up in 2018 and is expected to continue to increase and reach the maximum production capacity for the three years ending 31 December 2021.

According to the statistics released by China Non-ferrous Metals Industry Association, a national and non-profit association with members from enterprises, institutions and social organizations relating to China's non-ferrous metals industry and administrated by the State-owned Assets Supervision and Administration Commission of the State Council and the PRC Ministry of Civil Affairs, the production volume of nickel for the year ended 31 December 2017 was approximately 0.2 million tonnes, representing a decrease of approximately 7.5% as compared to the previous year while the production volume of nickel for the nine months ended 30 September 2018 was approximately 0.1 million tonnes, representing an increase of approximately 1.0% as compared to the previous corresponding period. Furthermore, the production volume of refined copper for the year ended 31 December 2017 and the nine months ended 30 September 2018 were approximately 8.9 million tonnes and 6.6 million tonnes respectively, representing an increase of approximately 7.7% and 11.2% as compared to the previous corresponding year and period respectively. With reference to the press releases issued on 25 April 2018 and 3 October 2018 by International Nickel Study Group ("INSG"), an inter-governmental organization with the aim of improving nickel market's transparency, the world's primary nickel production was 1.99 million tonnes in 2016 and 2.07 million tonnes in 2017 and is projected to increase to 2.204 million tonnes in 2018 and 2.389 million tonnes in 2019. INSG also stated that the

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world's primary nickel usage was 2.03 million tonnes and 2.184 million tonnes in 2016 and 2017 respectively and would increase to 2.35 million tonnes in 2018 and 2.422 million tonnes in 2019. Based on the reports namely "Copper Market Forecast 2018/2019" released on 3 October 2018 and "Copper: Preliminary Data for July 2018" released on 22 October 2018 by International Copper Study Group ("ICSG"), an inter-governmental organization that serves to increase copper market's transparency and promote international discussions and cooperation on the issues related to copper, the world's apparent usage of refined copper increased by 1.3% for the seven months ended 31 July 2018 and the growth rate for the PRC was 4% for the relevant period. ICSG expected that the world's apparent usage of refined copper would increase by around 2.1% and 2.6% in 2018 and 2019 respectively while the PRC would remain the biggest contributor to the world's growth in apparent usage of refined copper with a growth rate of approximately 3.2% in 2018. ICSG also projected that the world's refined copper production would increase by 2.7% in 2018 and 2019 respectively and the PRC would remain the largest contributor to the world's refined copper production growth in 2018 and 2019.

Given that (i) the market demand of nickel and refined copper in the PRC is generally projected to be on a rising trend in the next few years; and (ii) the Group is well experienced in sales and manufacturing of nickel cathode and copper cathode and it recorded growth of approximately 184.8% in nickel cathode sales in the first half of 2018, as compared to the first half of 2017, we are satisfied that the production plans of the Group have been prepared after due and careful consideration.

During the discussion with management of the Company, we understand that the demand for chemical materials in 2019 would increase by approximately 26.8% as compared to the annualized figure of 2018 having considered the targeted increases in production volume of nickel cathode and copper cathode for the year ended 31 December 2019. On the other hand, the demand of certain other products under the Supporting and Ancillary Services such as coke and refractory materials would decrease in 2019 as compared to the demand for 2018 as the Company plans to include new suppliers situated outside Xinjiang in its supplier list.

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Meanwhile, the average selling price of chemical materials is expected to increase by 38.7% for the year ending 31 December 2019, as compared to that for the nine months ended 30 September 2018, in view of the increasing trend of prices of chemical materials during the past years. Based on the information provided by the Company, the actual average selling price of chemical materials purchased by the Group from Xinjiang Non-ferrous Group grew at a compound annual growth rate of approximately 40.7% from 2016 to 2018. Having considered the historical compound annual growth rate of the average selling price of chemical materials in 2016 to 2018, we consider that the projected average selling price of chemical materials for the year ending 31 December 2019 is reasonable.

We were also advised by management of the Company that the average selling price of coke is estimated to increase at a compound annual growth rate of 20% from 2019 to 2021. Based on the information provided by the Company, the selling price of coke for purchases from Xinjiang Non-ferrous Group increased with a compound annual growth rate of approximately 32.3% during 2016 to 2018. Based on the above, we consider the average selling price of coke adopted by the Company in calculating the annual caps are reasonable.

Based on the above and having considered that the Renewed Annual Caps represent only the maximum amounts that can be transacted between the Group and Xinjiang Non-ferrous Group during the relevant period and the actual prices to be charged by Xinjiang Non-ferrous Group will depend on the prevailing market rate at the time of the transactions, we consider that the proposed Renewed Annual Caps in respect of the Supporting and Ancillary Services for the three years ending 31 December 2021 are fair and reasonable.

(c) *Provision of the Company's Products*

We have discussed with management of the Company, and reviewed, the calculation of the Renewed Annual Caps for the sales of the Company's Products. In estimating the annual caps for the sales of the Company's Products under the Renewed Mutual Supply Agreement, the Directors assumed that there would be increases in selling prices of the Company's Products, in particular copper concentrates and copper cathode, and the supply of other non-ferrous metals to Xinjiang Non-ferrous Metals Research Institute, which was absent in previous years. We noted that the compound annual growth rate of the Renewed Annual Caps for sale of the Company's Products is approximately 7.3% for the three years ending 31 December 2021, with the compound annual growth rates for copper concentrates, copper cathode and other products of approximately 9.2%, 8.7% and 1.9% respectively. We also noted that the projected sales amount of copper concentrate and copper cathode accounted for over 75% of the Renewed Annual Caps for the sale of the Company's Products for each of the three years ending 31 December 2021.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The historical transaction amount of the sales of the Company's Products by the Group to Xinjiang Non-ferrous Group increased from approximately RMB77.4 million for the year ended 31 December 2016 to approximately RMB108.0 million for the year ended 31 December 2017. We were advised by management of the Company that such increase was mainly attributable to the increases in average selling prices of copper concentrates and copper cathode of approximately 20.4% and 33.0% respectively in 2017, as compared to 2016, as well as the increase in sales volume of copper cathode to Xinjiang Non-ferrous Group in 2017. Despite the continuous increase in average selling price of copper cathode regarding the sales to Xinjiang Non-ferrous Group in the nine months ended 30 September 2018, which showed a compound annual growth rate of approximately 18.1% during 2016 to 2018, the annualized transaction amount of the Company's Products between the Group and Xinjiang Non-ferrous Group in 2018 dropped by approximately 43.8% as compared to that of 2017 as a result of the decrease in sales volume of copper concentrates for sales to Xinjiang Non-ferrous Group during the nine months ended 30 September 2018 since Xinjiang Non-ferrous Group purchased some of the copper concentrates from independent suppliers in 2018.

Based on the discussions between the Group and Xinjiang Non-ferrous Group, we were informed that Xinjiang Non-ferrous Group has planned to increase its production volume of copper cathode in 2019 and thus the demand of copper concentrates from the Group would increase in 2019. Management of the Company expected that the sales volumes of copper concentrates and copper cathode for sales to Xinjiang Non-ferrous Group would increase to 4,000 tonnes and 500 tonnes in 2019 respectively and then stay constant for the two years ending 31 December 2021, having considered the estimated increasing demand of copper concentrates and copper cathode by Xinjiang Non-ferrous Group for its increased budgeted production volume of copper cathode and beryllium copper alloy in the coming years. We have reviewed the memorandum of understanding entered into between the Group and Xinjiang Non-ferrous Group regarding the projected sales volume of copper concentrates and copper cathode between the parties and noted that the tentative purchase volume of copper concentrates and copper cathode agreed by both parties is in line with the projected sales volumes adopted by the Group in budgeting the Renewed Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Management of the Company expected that the price of copper in the PRC would continue to increase at a compound annual growth rate of approximately 8.7% for the three years ending 31 December 2021. Having considered the projected increases in sales volume and price of copper, the Company anticipated that the transaction amounts for copper concentrates for the three years ending 31 December 2021 would be approximately RMB39.8 million, RMB43.6 million and RMB47.5 million respectively, representing a compound annual growth rate of approximately 9.2%, while the transaction amounts for copper cathode for the three years ending 31 December 2021 would be approximately RMB23.7 million, RMB25.9 million and RMB28.0 million respectively, representing a compound annual growth rate of approximately 8.7%.

The average three-month future price of copper cathode in the London Metal Exchange was US\$4,871 per tonne, US\$6,197 per tonne, and US\$6,950 per tonne in 2016, 2017 and the first half of 2018 respectively, representing a compound annual growth rate of approximately 19.4%. The average spot price (including tax) of copper cathode in Shanghai Yangtze River Non-ferrous Metals Spot Market was RMB38,082 per tonne, RMB49,197 per tonne and RMB51,958 per tonne in 2016, 2017 and the first half of 2018 respectively, representing a compound annual growth rate of approximately 16.8%. Based on the information provided by the Company, the historical selling prices of copper concentrates and copper cathode to Xinjiang Non-ferrous Group grew at a compound annual growth rate of approximately 18% respectively from 2016 to 2018. According to “Copper and its Electrifying Future” published in May 2018 by DBS Group Research, a financial services group providing, among others, insights and analysis to the commodity market, it is forecasted that London Metal Exchange copper prices on average will stay above US\$7,000 per tonne and rise gradually with a compound annual growth rate of approximately 2% from 2018 to 2022.

Based on the above and having considered that the Renewed Annual Caps represent only the maximum amounts that can be transacted between the Group and Xinjiang Non-ferrous Group during the relevant period and the actual copper price to be charged will depend on the prevailing market rate at the time of the transactions, we consider that the compound annual growth rate of approximately 8.7% adopted by the Group regarding the increase in copper price for the three years ending 31 December 2021 is reasonable and the Renewed Annual Caps for the sales of the Company’s Products are fair and reasonable.

Having considered the above analysis, we consider that the Renewed Annual Caps proposed by the Directors are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider that (i) the Continuing Connected Transactions are conducted in the ordinary and usual course of business of the Group; and (ii) the terms of the Continuing Connected Transactions (and the Renewed Annual Caps thereunder) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution(s) to approve the Continuing Connected Transactions (and the Renewed Annual Caps thereunder) at the upcoming EGM.

Yours faithfully,
For and on behalf of
Crescendo Capital Limited

Amilia Tsang
Managing Director

Helen Fan
Associate 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 approximately 14 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 10 years of experience in corporate finance.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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 herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**Directors, supervisors and chief executive of the Company**

- (i) As at the Latest Practicable Date, save and except for Mr. Zhou Chuanyou, being a Director, who has interest in 480,924,000 domestic shares and 5,000,000 H Shares of the Company as set out in the section headed “Substantial shareholders of the Company” on page 47 of this circular, none of the Directors, supervisors and chief executive of the Company had any interests and short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which any such Director, chief executive or supervisor is taken or deemed to have under such provisions of the SFO) or which was required to be entered into the register required to be kept by the Company under section 352 of the SFO or which was otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.
- (ii) As at the Latest Practicable Date, none of the Directors or supervisors of the Company had any direct or indirect interest in any assets which have since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Substantial shareholders of the Company

As at the Latest Practicable Date, so far as the Directors are aware, each of the following persons, not being a Director, chief executive or supervisor of the Company, had an interest in the shares of the Company which falls to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of shares held	Class of share	Approximate percentage of shareholding on relevant class of shares (%)	Approximate percentage of the total share capital (%)
Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工 業(集團)有限責任公司)	885,204,000 (L)	Domestic share	61.01	40.06
Shanghai Yilian Kuangneng Co. Ltd.* (上海怡聯礦能實業有 限公司) (Note)	282,896,000 (L)	Domestic share	19.50	12.80
Zhongjin Investment (Group) Ltd.* (中金 投資(集團)有限公司) (Note)	198,028,000 (L)	Domestic share	13.65	8.96
The National Council for Social Security Fund of the PRC (中國全國社會 保障基金理事會)	69,000,000 (L)	H share	9.09	3.12

(L) = Long positions

Note: The entire shareholding or equity interests of Shanghai Yilian Kuangneng Co. Ltd.* (上海怡聯礦能實業有限公司) and Zhongjin Investment (Group) Ltd.* (中金投資(集團)有限公司) are beneficially owned by Mr. Zhou Chuanyou.

* The English name is a translation of the Chinese name and provided for reference only.

Save as disclosed above, as at the Latest Practicable Date, there was no other person (other than a Director, chief executive or supervisor of the Company), who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. SERVICE AGREEMENTS

As at the Latest Practicable Date, each of the Directors and supervisors of the Company has entered into a service contract for a term of three years with the Company from 14 October 2017 or the date of new appointment to the expiration of the term of the fifth session of the Board of Directors and of the Supervisors Committee of the Company.

Pursuant to Articles 106 and 145 of the Articles of Association, the term for Directors and supervisors of the Company is three years commencing from the date of their respective appointment or re-appointment, subject to re-appointment at a general meeting.

Save as disclosed above, none of the Directors or supervisors of the Company had any existing or proposed service contract with any member of the Group (except contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation)).

4. INTEREST IN CONTRACT

As at the Latest Practicable Date, none of the Directors or supervisors of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which any member of the Group was a party.

5. NO MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, the date to which the latest published consolidated audited accounts of the Company were made up.

6. COMPETING INTEREST

As at the Latest Practicable Date, the following Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company, as defined in the Listing Rules:

Mr. Zhang Guohua is the Chairman of Xinjiang Non-ferrous and also acts as the legal representative of Xinjiang Non-ferrous to sign any deeds, material contracts and other material documents of Xinjiang Nonferrous. Mr. Shi Wenfeng is a director and the deputy general manager of Xinjiang Non-ferrous. Mr. Liu Jun and Mr. Guo Quan are also secretary to the Party Committee and deputy secretary of the Party Committee, respectively, of the Company, and secretary to the Party Committee and deputy secretary of the Party Committee of the Company are appointed directly by Xinjiang Non-ferrous. Mr. Zhang, Mr. Shi, Mr. Liu and Mr. Guo have not given any confidential or sensitive commercial information of the Company to Xinjiang Non-ferrous or any other third party and have physically abstained the voting right of directors to consider connected transactions with Xinjiang Non-ferrous. As the Board of Directors of the Company is independent from the board of directors of Xinjiang Non-ferrous and the above Directors do not control the Board of the Company, the Group is capable of carrying on its businesses independent from, and at arm's length from, the business of Xinjiang Non-ferrous.

Save as disclosed above, none of the Directors and its subsidiary, or their respective associates (as defined in the Listing Rules) had interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

7. EXPERT AND CONSENT

- (a) The following is the qualifications of the expert who has given opinions and advice which are included in this circular:

Name	Qualification
Crescendo Capital	A licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO

- (b) Crescendo Capital does 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.
- (c) Crescendo Capital has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

- (d) Crescendo Capital did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2017, the date to which the latest published audited financial statements of the Group were made up.

8. MISCELLANEOUS

- (a) The statutory address and principal place of business of the Company in the PRC is situated at 7/F, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC 830000.
- (b) The registered office of the Company in Hong Kong is 9/F, The Center, 99 Queen's Road Central, Central, Hong Kong.
- (c) The Hong Kong share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The joint company secretaries of the Company are Mr. Zhang Junjie and Mr. Lam Cheuk Fai.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text, except Appendix II Proposed Amendments to the Articles of Association of which the Chinese text shall prevail over the English text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company in Hong Kong at 9/F, The Center, 99 Queen's Road Central, Central, Hong Kong, up to and including the date of the EGM:

- (a) the service agreements referred to in the section headed "Service Agreements" in this Appendix;
- (b) the letter of advice from Crescendo Capital, the text of which is set out in this circular;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out in this circular;
- (d) the letter of consent referred to under the paragraph headed "Expert and Consent" in this appendix; and
- (e) copies of the Existing Mutual Supply Agreement and Renewed Mutual Supply Agreement.

1. The original Article 2 which provides:

Article 2 The Company is a company limited by shares established in accordance with the Company Law, the Special Provisions and other relevant regulations and shall observe and comply with the Company Law, Special Provisions and the Articles.

The Company was approved by the People's Government of Xinjiang Uygur Autonomous Region through the approval letter regarding the Establishment of Xinjiang Xinxin Mining Industry Co., Ltd. (Xin Zheng Han (2005) No. 127) to be incorporated by way of promotion on 1 September 2005. The Company was registered with the Administration for Industry and Commerce of Xinjiang Uygur Autonomous Region and obtained the enterprise legal person business license on 1 September 2005. The unified social credit code of the Company is: 91650100778968995G.

The promoters of the Company are as follows: Xinjiang Non-ferrous Metal Industry (Group) Co., Ltd.* (新疆有色金屬工業(集團)有限責任公司), Shanghai Yilian Mining and Energy Industry Co., Ltd.* (上海怡聯礦能實業有限公司), Zhongjin Investment (Group) Co., Ltd.* (中金投資(集團)有限公司), Zijin Mining Group (Xiamen) Investment Co., Ltd.* (紫金礦業集團(廈門)投資有限公司), Xinjiang Xinying New Material Co., Ltd.* (新疆信盈新型材料有限公司) and Shaanxi Honghao Industry Co., Ltd.* (陝西鴻浩實業有限公司).

is proposed to be amended as follows:

Article 2 The Company is a company limited by shares established in accordance with the Company Law, the Special Provisions and other relevant regulations and shall observe and comply with the Company Law, Special Provisions and the Articles.

The Company was approved by the People's Government of Xinjiang Uygur Autonomous Region through the approval letter regarding the Establishment of Xinjiang Xinxin Mining Industry Co., Ltd. (Xin Zheng Han (2005) No. 127) to be incorporated by way of promotion on 1 September 2005. The Company was registered with the Administration for Industry and Commerce of Xinjiang Uygur Autonomous Region and obtained the enterprise legal person business license on 1 September 2005. The unified social credit code of the Company is: 91650100778968995G.

The promoters of the Company are as follows: Xinjiang Non-ferrous Metal Industry (Group) Co., Ltd.* (新疆有色金屬工業(集團)有限責任公司), Shanghai Yilian Mining and Energy Industry Co., Ltd.* (上海怡聯礦能實業有限公司), Zhongjin Investment (Group) Co., Ltd.* (中金投資(集團)有限公司), Zijin Mining Group (Xiamen) Investment Co., Ltd.* (紫金礦業集團(廈門)投資有限公司), Xinjiang Xinying New Material Co., Ltd.* (新疆信盈新型材料有限公司) and Shaanxi Honghao Industry Co., Ltd.* (陝西鴻浩實業有限公司).

In accordance with the requirements of the Constitution of the Communist Party of China (《中國共產黨章程》), the Company has established an organization under the Party to accomplish the tasks assigned by the Party. The Party Committee of the Company shall play the core leadership and core political role of providing direction, managing the overall situation and ensuring implementation. The Company shall also establish the working organs of the Party, which shall be equipped with sufficient staff to deal with Party affairs and provided with sufficient funds to operate the Party organization.

2. The original heading of Chapter 14 which provides:

Chapter 14 Construction of Party Organization

is proposed to be amended as follows:

Chapter 14 Party Committee

3. The original Article 158 which provides:

Article 158 According to the provisions of the Constitution of the Chinese Communist Party and the Company Law, the Company shall set up the organization of the Chinese Communist Party, establish work institutions of the party, assign personnel to handle party affairs and organize party activities.

Pursuant to the provisions of the Constitution of the Chinese Communist Party, the Company shall set up the committee of the party (Party Committee of the Company), which shall consist of party secretary, deputy party secretary and party committee member. The selection of party secretary, deputy party secretary and party committee member conforms to relevant provisions of the Constitution of the Chinese Communist Party, among which the party secretary should be a director of the Company, and there should be one deputy party secretary and five party committee members. Eligible party committee members of the Company will be entitled to join the board of directors, board of supervisors and management level through statutory procedure. Eligible party members of the board of directors, board of supervisors and management level will be entitled to join the Party Committee of the Company in accordance with relevant provisions and procedure.

Pursuant to the provisions of the Constitution of the Chinese Communist Party, the Company shall establish a commission for discipline inspection of the party (Party Commission for Discipline Inspection of the Company), which was jointly led by the Party Committee of the Company and higher party commission for discipline inspection. The Party Commission for Discipline Inspection of the Company shall fulfill the supervisory responsibility of strengthening party discipline and assist the Party Committee of the Company in carrying out works on honest governance and anti-corruption.

is proposed to be amended as follows:

Article 158 The Company shall establish the Party Committee consisting of a secretary and several other members. The Party Committee shall establish a deputy secretary responsible for the Party building works of the Company. Eligible members of the Party Committee can join the Board, the board of supervisors and senior management through legal procedures. Eligible members in the Board, the board of supervisors and senior management can join the Party Committee in accordance with relevant provisions and procedures. Meanwhile, commission for discipline inspection shall be established in accordance with relevant requirements.

4. The original Article 159 which provides:

Article 159 The Party Committee of the Company may set up working institutions of the party, while the establishment of specific working institutions shall be discussed and decided by the Party Committee of the Company according to work requirements and related provisions.

Personnel who handle party affairs comprise of approximately 1% of the total number of employees. Administrative fund is arranged at the proportion of 0.5% to 1% of the total salary of the employees for the previous year, which shall be accounted in the budget and stated in the management expenses of the Company, to ensure appropriate working condition and adequate administrative fund for the party organization of the Company.

is proposed to be amended as follows:

Article 159 The Party Committee of the Company shall perform its duties in accordance with the Constitution of the Communist Party of China and other internal rules of the Party.

- (1) to uphold the consciousness of political integrity, overall situation, the core and conformity, ensure and supervise the Company's implementation of guidelines and policies of the Party and the State, implement major strategic decisions of the Central Committee of the Party and the State Council as well as the relevant material work arrangement of the Party Committee, the government of the Autonomous Region, implement relevant material working requirements of the Party Committee of the State-owned Assets Supervision and Administration Commission of the State Council and the superior Party organizations.
- (2) to focus on the overall goal of social stability and long-term stability in Xinjiang, strengthen the collective leadership, promote scientific decision-making, and promote the Company's full implementation of economic, political, stability, and social responsibilities.
- (3) to uphold the integration of the principle of management of cadres by the Party with the lawful selection of the operation management by the board of directors and with the lawful exercise of authority of deployment of personnel by the operation management. The Party organization shall consider and comment on the candidates nominated by the board of directors or the general manager, or shall recommend candidates to the board of directors or the general manager. The Party organization, together with the board of directors shall evaluate the proposed candidates and put forth comments and suggestions collectively.
- (4) to analyse and discuss major issues such as the reform, development and stability of the Company, major operational and management issues and major issues concerning employee interests, and to provide comments and suggestions thereon.
- (5) to undertake the main responsibility exercising strict self-governance of the Party in every respect. Lead the building of the Company's primary Party organizations, the Company's ideological and political work, united front work, spiritual civilization construction, corporate culture construction and the work of mass organizations such as the labour union and the communist youth league. Lead the construction of the Party's working style to uphold anti-corruption and integrity and support the discipline inspection committee in fulfilling its supervisory responsibility.

5. Approving the deletion of Articles 160, 161 and 162 which provide:

Article 160 Responsibilities of the party organization of the Company include:

- (1) adhering to the leadership of the party over state-owned enterprises, ensuring the effective implementation by the Company of the path, principles and policies of the party and national laws and regulations, as well as each of the decisions and resolutions of the upper authorities of the Company;
- (2) enhancing ideological and theoretical construction. Setting our minds, providing guidance on practice, facilitating works and educating the public with the socialist theoretical system in Chinese style. Strengthening ideology and faith and the education of self-behavior based on the principles of the Party, educating and leading party members and cadres to stay their faith in Marxism and feel confident about the path, theory, policies and culture of the socialist theoretical system in Chinese style;
- (3) participating in the decision-making process on material issues. Supporting the general meeting, the board of directors, board of supervisors and manager level to exercise their rights and perform responsibilities in accordance with the laws, and ensuring that state-owned enterprises are on the right track to transformation and development. Insisting on democratic centralism, strengthening collective leadership, and promoting decision-making in scientific, democratic and legal manners, so as to encourage the Company to fully fulfill its economic, political and social responsibilities;
- (4) adhering to the principle of managing cadres and talents by the party. In line with the requirement for the establishment of a modern system for state-owned enterprises in Chinese style, the Company shall ensure the leadership of the party over personnel affairs of cadres and the management power over backbone cadres, and strengthen the formation of the teams of leaders and cadres of the Company as well as nurture and develop a team of high caliber talents;
- (5) implementing the major responsibility for stringent governance within the entire party, which shall include imposing further measures on internal supervision, maintaining a serious political life within the party and emphasizing political discipline, leading and promoting honest governance and anti-corruption works, as well as leading, supporting and ensuring the due implementation of supervisory responsibility by the Party Commission for Discipline Inspection of the Company, so as to establish a clean enterprise;
- (6) relying on employees wholeheartedly, establishing a sound democratic management system with employee representative congress as its basic form, supporting the works of employee representative congress and protecting the legal rights of employees;

- (7) strengthening the construction of grass-root party organizations. Coordinating and following up each construction work of grass-root party organizations and facilitating the establishment of learning-oriented, service-oriented and innovation-oriented party organizations. Ensuring the thorough construction within the party organizations, promoting the normalization and institutionalization of the learning and education model of “two learnings and one practicing”, strictly carrying out the “three meetings and one class” system, focusing on the development of the principal role of party branches, promoting the in-depth integration of party construction with production and operation, innovating working vehicles and building activity platforms by focusing on production and operation so as to transform the construction of party organizations into the motivation for enterprise development;
- (8) maintaining focus on promotional work, strategic planning and mass organization. Leading and supporting mass organizations such as the working union and the Communist Youth League to conduct their works independently in accordance with to laws and their respective articles. Insisting on leading the building of corporate culture with socialist core value system, and establishing an corporate image that is committed to contributing to the country, benefiting the society, serving the people and caring for its employees;
- (9) managing each of the construction works concerning grass-root party organizations and improving the establishment of learning-oriented, service- oriented and innovation-oriented party organizations. Closely connecting the public, strengthening ideological and political works, and promoting the establishment of corporate culture and spiritual civilization. Implementing and maintaining accountability system on works, and controlling the level of complaints via letters and visits to build a harmonious enterprise;
- (10) commencing works by focusing on the core of production and operation of the enterprise, regarding improvement in enterprise effectiveness, increasing enterprise competitiveness and materializing capital preservation and appreciation of state-owned assets as the starting points and objectives of the works carried out by the party organization of the Company, and persisting in the synchronised arrangement, review, implementation and evaluation of party construction works with the core works of production and operation of the Company, so as to make use of various resources of party organizations comprehensively as well as motivating party members and employees to accomplish the core missions of the Company collectively;
- (11) finishing other works as delegated by the higher party organizations.

Article 161 The Party Committee of the Company shall discuss and make the following decisions:

- (1) implementing the path, principles and policies of the party as well as opinions and measures regarding the decisions and resolutions of higher party organizations;
- (2) issues concerning various construction works carried out by party of the Company, which include ideological construction, organizational construction, working style construction, anti-corruption construction and policy construction;
- (3) recommending candidates to the board of directors and general manager within the scope of management authority and standard procedures and conducting inspection and putting forward opinions and suggestions concerning such candidates nominated by the board of directors or general manager;
- (4) material issues submitted and reported to higher party organizations and material problems submitted and reported to subordinate party organizations;
- (5) implementation proposals for material activities of party organizations;
- (6) material issues concerning strategic planning and mass organization;
- (7) other issues which shall be discussed and determined by the Party Committee of the Company.

Article 162 The Party Committee of the Company shall participate in determining the following matters:

- (1) the thorough implementation of national laws and regulations and the material measures to be carried out based on the material decisions of higher authorities;
- (2) the development strategy, medium and long term development plans and guidelines for production and operation of the Company;
- (3) the operation plans and investment plans of the Company;
- (4) the financial budget and financial statements of the Company for the year;
- (5) the plans for profit distribution and recovery of losses of the Company;
- (6) the proposals for the increase or reduction in registered capital, the issuance of securities or other securities and the listing of the Company;
- (7) the proposals for material transformation of the Company and the proposals for merger, division, dissolution and change of corporate structure, as well as the establishment and disposal of its subordinate enterprises;

- (8) the issues in terms of the principle and direction concerning external investments, aggregate loans, disposal of assets, pledge of assets, external guarantees, trust wealth management, connected transactions and utilization of significant amount of funds of the Company;
 - (9) the establishment of internal management units of the Company;
 - (10) the assessment, remuneration, management and supervision of middle and senior management members of the Company;
 - (11) the remuneration distribution and employee benefits of the Company;
 - (12) the fundamental management system of the Company;
 - (13) the proposals for the amendments to the Articles;
 - (14) the information disclosure of the Company;
 - (15) the material issues concerning the immediate interests of the employees;
 - (16) the treatment proposals adopted by the Company regarding political and social responsibilities in respect of safety production, stability maintenance and material emergencies, etc.;
 - (17) other material issues that require negotiation and discussion of the Party Committee of the Company.
6. Approving the number of the original “Article 163” to “Article 237” of the Articles of Association to be updated to “Article 160” to “Article 234” accordingly and the contents stated remain the same.