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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CITIC Dameng Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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DAMENG

CITIC DAMENG HOLDINGS LIMITED

中信大錳控股有限公司 *

(incorporated in Bermuda with limited liability)
(Stock Code: 1091)

**(1) NEW CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES**
**(2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES**
**(3) REVISION OF ANNUAL CAPS UNDER
2018 CITIC SPECIAL STEEL AGREEMENT**
AND
(4) SHARE PREMIUM REDUCTION

**Independent financial adviser to the Independent Board Committee
and the independent shareholders**



A notice convening a special general meeting of the Company to be held at Room 1, United Conference Centre, 10th Floor, United Centre, 95 Queensway, Hong Kong at 9:30 a.m. on Wednesday, 25 July 2018 is set out on pages 97 to 99 of this circular. Whether or not you are able to attend the meeting in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 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.

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DEFINITIONS

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

“2016 Guangxi Dameng Agreements”	2016 Integrated Services Framework Agreement, 2016 Guangxi Liuzhou Agreement and 2016 Nanning Battery Plant Agreement. Details of these agreements were disclosed in the announcement of the Company dated 30 December 2015
“2016 Guangxi Dameng Caps”	the maximum aggregate annual caps for the transactions contemplated under 2016 Guangxi Dameng Agreements and 2016 Guangxi Dameng Tenancy Agreement for each of the three years ending 31 December 2018
“2016 Guangxi Dameng Tenancy Agreement”	the tenancy agreement dated 30 December 2015 entered into between CITIC Dameng Mining and Guangxi Dameng in respect of the leasing of the premises situated at 2nd Floor of CITIC Dameng Building, No. 18 Zhujin Road, Nanning, Guangxi, PRC for the three years ending 30 June 2019
“2016 Guangxi Liuzhou Agreement”	the agreement dated 30 December 2015 entered into between CITIC Dameng Mining and Guangxi Liuzhou, pursuant to which CITIC Dameng Mining (for itself and on behalf of its subsidiaries) agreed to purchase negative plates, vertical mill(s) and accessories from Guangxi Liuzhou for the three years ending 31 December 2018
“2016 Integrated Services Framework Agreement”	the agreement dated 30 December 2015 entered into between CITIC Dameng Mining and Guangxi Dameng, pursuant to which Guangxi Dameng agreed to provide the Integrated Services and mining drawing services to CITIC Dameng Mining while CITIC Dameng Mining agreed to provide electricity and fuels to Guangxi Dameng in connection with the provision of the Integrated Services at Daxin Mine for the three years ending 31 December 2018
“2016 Nanning Battery Plant Agreement”	the agreement dated 30 December 2015 entered into between CITIC Dameng Mining and Nanning Battery Plant, pursuant to which Nanning Battery Plant agreed to provide packaging bags to CITIC Dameng Mining and/or its subsidiaries for the three years ending 31 December 2018

DEFINITIONS

“2017 CITIC Special Steel Agreement”	the agreement dated 29 December 2017 entered into between the Company and CITIC Special Steel, pursuant to which the Company (for itself and on behalf of its subsidiaries) agreed to sell manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) for the three years ending 31 December 2020. Details of the agreement were disclosed in the announcement of the Company dated 29 December 2017
“2017 CITIC Special Steel Caps”	the maximum annual caps for the transactions contemplated under 2017 CITIC Special Steel Agreement for each of the three years ending 31 December 2020
“2018 CITIC Special Steel Agreement”	the conditional agreement entered into between the Company and CITIC Special Steel dated 21 June 2018, pursuant to which the Company (and/or its subsidiaries) agreed to revise the annual caps for the sales of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) under 2017 CITIC Special Steel Agreement for the three years ending 31 December 2020
“2018 CITIC Special Steel Caps”	the revised maximum annual caps for the transactions contemplated under 2018 CITIC Special Steel Agreement for each of the three years ending 31 December 2020
“2018 Guangxi Dameng Agreements”	2018 Guangxi Dameng Ore Agreement, 2018 Guangxi Dameng EMM Agreement, 2018 Guangxi Dameng Raw Materials Agreement, 2018 Integrated Services Framework Agreement, 2018 Guangxi Liuzhou Agreement and 2018 Nanning Battery Plant Agreement
“2018 Guangxi Dameng Caps”	the maximum aggregate annual caps for the transactions contemplated under 2018 Guangxi Dameng Agreements for each of the four years ending 31 December 2021
“2018 Guangxi Dameng EMM Agreement”	the conditional agreement entered into between the Company and Guangxi Dameng dated 21 June 2018, pursuant to which the Company (for itself and on behalf of its subsidiaries) agreed to purchase EMM from Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020
“2018 Guangxi Dameng Ore Agreement”	the conditional agreement entered into between the Company and Guangxi Dameng dated 21 June 2018, pursuant to which the Company (for itself and on behalf of its subsidiaries) agreed to purchase High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020

DEFINITIONS

“2018 Guangxi Dameng Raw Materials Agreement”	the conditional agreement entered into between the Company and Guangxi Dameng dated 21 June 2018, pursuant to which the Company (for itself and on behalf of its subsidiaries) agreed to sell Raw Materials to Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020
“2018 Guangxi Liuzhou Agreement”	the conditional agreement dated 21 June 2018 entered into between the Company and Guangxi Liuzhou, pursuant to which the Company (for itself and on behalf of its subsidiaries) agreed to purchase vertical mill(s) and accessories from Guangxi Liuzhou for the three years ending 31 December 2021
“2018 Integrated Services Framework Agreement”	the conditional agreement dated 21 June 2018 entered into between the Company and Guangxi Dameng, pursuant to which Guangxi Dameng agreed to provide the Integrated Services and mining drawing services to the Group for the three years ending 31 December 2021
“2018 Nanning Battery Plant Agreement”	the conditional agreement dated 21 June 2018 entered into between the Company and Nanning Battery Plant, pursuant to which Nanning Battery Plant agreed to provide packaging bags to the Group for the three years ending 31 December 2021
“Apexhill”	Apexhill Investments Limited, a company incorporated in the British Virgin Islands, which is an indirect wholly owned subsidiary of CITIC Limited and a shareholder of the Company
“associates” “connected person(s)” “controlling shareholder” or “substantial shareholder”	has the meaning as ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“Business Day”	a day (other than a Saturday, Sunday or any other public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“CITIC Dameng Mining”	中信大錳礦業有限責任公司 (CITIC Dameng Mining Industries Co., Limited), an indirect wholly owned subsidiary of the Company

DEFINITIONS

“CITIC Group”	中信集團有限公司 (CITIC Group Corporation), a state-owned company established in the PRC in 1979 and the controlling shareholder of CITIC Limited. To the best knowledge, information and belief of the Directors, CITIC Group is not connected with Guangxi Dameng for the purposes of the Listing Rules
“CITIC Limited”	CITIC Limited (中國中信股份有限公司), a company incorporated in Hong Kong with limited liability with its shares listed on the Main Board of the Stock Exchange (Stock Code: 267) and the controlling shareholder of the Company
“CITIC Special Steel”	中信泰富特鋼有限公司 (CITIC Pacific Special Steel Co., Ltd.), a company incorporated under the laws of the PRC, which is an indirect wholly owned subsidiary of CITIC Limited
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	CITIC Dameng Holdings Limited, a limited company incorporated in Bermuda, whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 1091)
“Daxin Mine”	CITIC Dameng Mining Industries Limited Daxin Manganese Mine (中信大錳礦業有限責任公司大新錳礦)
“Directors”	directors of the Company
“Dushan Jinmeng”	獨山金孟錳業有限公司 (Dushan Jinmeng Manganese Limited Company Ltd.), a company incorporated under the laws of the PRC, which is owned as to 67% by 廣西金孟錳業有限公司 (Guangxi Jinmeng Manganese Limited Company) and 33% by 深圳藍海策略貿易有限公司 (Shenzhen Blue Ocean Strategy Trading Co., Ltd). 深圳藍海策略貿易有限公司 (Shenzhen Blue Ocean Strategy Trading Co., Ltd) is an indirect wholly owned subsidiary of the Company
“Effective Date”	25 July 2018, being the date on which the Share Premium Reduction shall become effective which is expected to be the date of the SGM, subject to approval by the Shareholders of the relevant special resolution approving the Share Premium Reduction at the SGM
“EMM”	electrolytic manganese metal

DEFINITIONS

“Group”	the Company and its subsidiaries
“Guangxi Dameng”	廣西大錳業集團有限公司 (Guangxi Dameng Manganese Industrial Group Co., Ltd.), a state-owned limited liability company established under the laws of the PRC, which is wholly-owned by the government of Guangxi, the PRC and a substantial shareholder of the Company. To the best knowledge, information and belief of the Directors, Guangxi Dameng is not connected with CITIC Group for the purposes of the Listing Rules
“Guangxi Liuzhou”	廣西柳州大錳機電設備製造有限公司 (Guangxi Liuzhou Dameng Electrical and Mechanical Equipment Manufacturer Co., Ltd.), a company incorporated under the laws of the PRC which is a wholly owned subsidiary of Guangxi Dameng and is a connected person of the Company
“Guinan Dameng”	Guinan Dameng International Resources Limited (桂南大錳國際資源有限公司) a company incorporated in the British Virgin Islands, which is an indirect wholly owned subsidiary of Guangxi Dameng and a substantial shareholder of the Company
“Highkeen”	Highkeen Resources Limited, a company incorporated in the British Virgin Islands, which is an indirect subsidiary of CITIC Resources Holdings Limited (Stock Code: 1205) and a controlling shareholder of the Company
“High Grade Manganese Ore”	manganese ore with manganese content of more than 30%
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely, Mr. Lin Zhijun, Mr. Mo Shijian and Mr. Tan Zhuzhong
“Independent Third Parties”	persons or companies which are not connected with any of the directors, the chief executives, the substantial shareholders of the Company or any of its subsidiaries, or their respective associates
“Integrated Services”	the provision of social facilities (including but not limited to housing, schools, hospitals, recreational facilities) by Guangxi Dameng to the Group at Daxin Mine

DEFINITIONS

“JORC”	the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy
“kg”	kilogram
“Latest Practicable Date”	25 June 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this circular
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Low Grade Manganese Ore”	manganese ore with manganese content of less than 30% (including 30%)
“Nanning Battery Plant”	南寧市電池廠 (Nanning Battery Plant), a company incorporated under the laws of the PRC which is wholly owned by Guangxi Dameng and is a connected person of the Company
“Non CITIC Independent Shareholders”	Shareholders excluding CITIC Group and its associates
“Non Guangxi Dameng Independent Shareholders”	Shareholders excluding Guangxi Dameng and its associates
“Shinco Capital”	Shinco Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to: (i) advise the Independent Board Committee and Non Guangxi Dameng Independent Shareholders on the fairness and reasonableness of 2018 Guangxi Dameng Agreements and the transactions contemplated thereunder; and (ii) advise the Independent Board Committee and Non CITIC Independent Shareholders on the fairness and reasonableness of 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder
“packaging bags”	the packaging bags for manganese products
“Percentage Ratios”	the applicable percentage ratios (other than the profits ratio) under Rule 14.07 of the Listing Rules
“PRC” or “China”	the People’s Republic of China and for the purposes of this circular excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITIONS

“purchase price”	unless otherwise stated, purchase price refers to ex-tax purchase price
“Raw Materials”	Low Grade Manganese Ore, sulfuric acid and selenium dioxide
“RMB”	Renminbi, the lawful currency of the PRC
“selling price”	unless otherwise stated, selling price refers to ex-tax selling price
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	a special general meeting to be convened and held for approving, among other things, 2018 Guangxi Dameng Agreements, 2018 CITIC Special Steel Agreement, share premium reduction and the transactions contemplated thereunder
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Share Premium Account”	the share premium account of the Company
“Share Premium Reduction”	the proposed reduction of an amount of HK\$3,352,902,000 standing to the credit of the Share Premium Account as at 31 December 2017 to be considered and, if thought fit, passed by Shareholders at the SGM
“Shareholder(s)”	holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

For the purpose of this circular, save for the historical amounts for the years ended 31 December 2016, 2017 and the five months period ended 31 May 2018 which are converted based on their respective historical rates and the annual caps for the above historical transactions are converted at the rate(s) adopted in their respective announcements previously issued by the Group, the amounts in RMB have been converted into HK\$ or vice versa at the rate of RMB1.00 = HK\$1.25 for illustration purposes only. No representation is made that any amounts in HK\$ or RMB have been or could have been or can be converted at the above rate or at any other rates or at all.

Note: The English names of the PRC entities mentioned hereinabove are translated from their Chinese names. If there are any inconsistencies, the Chinese names shall prevail.

LETTER FROM THE BOARD



DAMENG

CITIC DAMENG HOLDINGS LIMITED

中信大錳控股有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 1091)

Executive Directors:

Mr. YIN Bo *(Chairman and Chief Executive Officer)*

Mr. LI Weijian *(Vice Chairman)*

Non-Executive Directors:

Mr. SUO Zhengang

Mr. LYU Yanzheng

Mr. CHEN Jiqu

Independent Non-Executive Directors:

Mr. LIN Zhijun

Mr. MO Shijian

Mr. TAN Zhuzhong

Registered office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Headquarters in Hong Kong:

23/F, 28 Hennessy Road,

Wanchai,

Hong Kong

29 June 2018

To the Shareholders,

Dear Sir or Madam,

**(1) NEW CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(3) REVISION OF ANNUAL CAPS UNDER
2018 CITIC SPECIAL STEEL AGREEMENT
AND
(4) SHARE PREMIUM REDUCTION**

Reference is made to the announcement of the Company dated 21 June 2018 in respect of, inter alia, the 2018 Guangxi Dameng Agreements and 2018 CITIC Special Steel Agreement and Share Premium Reduction.

* For identification purpose only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, (i) details on the 2018 Guangxi Dameng Agreements and the 2018 Guangxi Dameng Caps; (ii) details on the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps; (iii) a letter of recommendation from the Independent Board Committee to (a) the Non Guangxi Dameng Independent Shareholders in respect of the 2018 Guangxi Dameng Agreements and the 2018 Guangxi Dameng Caps and (b) the Non CITIC Independent Shareholders in respect of the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps; (iv) a letter of advice from Shinco Capital to (a) the Independent Board Committee and the Non Guangxi Dameng Independent Shareholders in respect of 2018 Guangxi Dameng Agreements and the 2018 Guangxi Dameng Caps and (b) the Independent Board Committee and the Non CITIC Independent Shareholders in respect of 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps; (v) the reduction of share premium of the Company; and (vi) the notice of the SGM.

(1) NEW CONTINUING CONNECTED TRANSACTIONS WITH GUANGXI DAMENG AND ITS SUBSIDIARIES

(i) 2018 Guangxi Dameng Ore Agreement

On 21 June 2018, the Company entered into the 2018 Guangxi Dameng Ore Agreement with Guangxi Dameng. Pursuant to the 2018 Guangxi Dameng Ore Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020. Details of the 2018 Guangxi Dameng Ore Agreement are set out as follows:

Date:	21 June 2018
Parties:	(1) Guangxi Dameng (as the seller) (2) the Company (as the purchaser)
Subject:	Pursuant to the 2018 Guangxi Dameng Ore Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries).
Pricing terms:	The transactions under Guangxi Dameng Ore Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

LETTER FROM THE BOARD

Under the 2018 Guangxi Dameng Ore Agreement, the quantity of High Grade Manganese Ore to be purchased from Guangxi Dameng (and/or its subsidiaries) is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

Term: For the period from 26 July 2018 to 31 December 2020.

Condition Precedent: The 2018 Guangxi Dameng Ore Agreement is subject to the Non Guangxi Dameng Independent Shareholders' approval. In the event that shareholder's approval is not obtained at the SGM, the Company (and/or its subsidiaries) will not continue the transactions with Guangxi Dameng (and/or its subsidiaries) contemplated under 2018 Guangxi Dameng Ore Agreement.

(ii) 2018 Guangxi Dameng EMM Agreement

On 21 June 2018, the Company entered into the 2018 Guangxi Dameng EMM Agreement with Guangxi Dameng. Pursuant to the 2018 Guangxi Dameng EMM Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase EMM from Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020. Details of the 2018 Guangxi Dameng EMM Agreement are set out as follows:

Date: 21 June 2018

Parties: (1) Guangxi Dameng (as the seller)
(2) the Company (as the purchaser)

Subject: Pursuant to 2018 Guangxi Dameng EMM Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase EMM from Guangxi Dameng (and/or its subsidiaries).

Pricing terms: The transactions under the 2018 Guangxi Dameng EMM Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

LETTER FROM THE BOARD

Under the 2018 Guangxi Dameng EMM Agreement, the quantity of EMM to be purchased from Guangxi Dameng (and/or its subsidiaries) is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of EMM from Guangxi Dameng (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

Term: For the period from 26 July 2018 to 31 December 2020.

Condition Precedent: The 2018 Guangxi Dameng EMM Agreement is subject to the Non Guangxi Dameng Independent Shareholders' approval. In the event that shareholder's approval is not obtained at the SGM, the Company (and/or its subsidiaries) will not continue the transactions with Guangxi Dameng (and/or its subsidiaries) contemplated under 2018 Guangxi Dameng EMM Agreement.

(iii) 2018 Guangxi Dameng Raw Materials Agreement

On 21 June 2018, the Company entered into the 2018 Guangxi Dameng Raw Materials Agreement with Guangxi Dameng. Pursuant to the 2018 Guangxi Dameng Raw Materials Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to sell Raw Materials to Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020. Details of the 2018 Guangxi Dameng Raw Materials Agreement are set out as follows:

Date: 21 June 2018

Parties: (1) the Company (as the seller)
(2) Guangxi Dameng (as the purchaser)

Subject: Pursuant to the 2018 Guangxi Dameng Raw Materials Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to sell Raw Materials to Guangxi Dameng (and/or its subsidiaries).

Pricing terms: The transactions under 2018 Guangxi Dameng Raw Materials Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available to Independent Third Parties.

LETTER FROM THE BOARD

Under the 2018 Guangxi Dameng Raw Materials Agreement, the quantity of raw materials to be sold to Guangxi Dameng (and/or its subsidiaries) is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to sell a minimum amount or any pre-defined quantity of raw materials to Guangxi Dameng (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

Term: For the period from 26 July 2018 to 31 December 2020.

Condition
Precedent: The 2018 Guangxi Dameng Raw Materials Agreement is subject to the Non Guangxi Dameng Independent Shareholders' approval. In the event that shareholder's approval is not obtained at the SGM, the Company (and/or its subsidiaries) will not continue the transactions with Guangxi Dameng (and/or its subsidiaries) contemplated under 2018 Guangxi Dameng Raw Materials Agreement.

(2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH GUANGXI DAMENG AND ITS SUBSIDIARIES

Reference is made to the announcement of the Company dated 30 December 2015 in respect of the 2016 Guangxi Dameng Agreements.

2016 Guangxi Dameng Agreements will expire on 31 December 2018 and it is currently expected that the transactions under 2016 Guangxi Dameng Agreements except 2016 Guangxi Dameng Tenancy Agreement will continue to be entered into on a recurring basis thereafter. On 21 June 2018, the Company has entered into the 2018 Integrated Services Framework Agreement, 2018 Guangxi Liuzhou Agreement and 2018 Nanning Battery Plant Agreement with Guangxi Dameng and/or its subsidiaries.

(i) 2018 Integrated Services Framework Agreement

Date: 21 June 2018

Parties: (1) Guangxi Dameng
(2) the Company

Subject: Pursuant to 2018 Integrated Services Framework Agreement, Guangxi Dameng agreed to provide the Integrated Services and mining drawing services to the Group.

LETTER FROM THE BOARD

Pricing terms: The transactions under 2018 Integrated Services Framework Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

Fees charged by Guangxi Dameng to the Company in relation to the provision of the Integrated Services are based on the costs incurred by Guangxi Dameng and to be agreed between the parties. The fees for the provision of the Integrated Services by Guangxi Dameng will be charged to the Group at the respective rates of HK\$339,583 (equivalent to RMB271,666), HK\$339,583 (equivalent to RMB271,666) and HK\$339,583 (equivalent to RMB271,666) per month for each of the three years ending 31 December 2021.

The fees for the provision of mining drawing services to be charged by Guangxi Dameng to the Group are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same services issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

Term: For the period from 1 January 2019 to 31 December 2021.

Condition Precedent: The 2018 Integrated Services Framework Agreement is subject to the Non Guangxi Dameng Independent Shareholders' approval.

(ii) 2018 Guangxi Liuzhou Agreement

Date: 21 June 2018

Parties: (1) Guangxi Liuzhou
(2) the Company

Subject: Pursuant to 2018 Guangxi Liuzhou Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase vertical mill(s) and accessories from Guangxi Liuzhou.

Pricing terms: The transactions under 2018 Guangxi Liuzhou Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

LETTER FROM THE BOARD

Under 2018 Guangxi Liuzhou Agreement, the quantity of vertical mill(s) and accessories to be purchased from Guangxi Liuzhou is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of vertical mill(s) and accessories from Guangxi Liuzhou during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with the prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

Term: For the period from 1 January 2019 to 31 December 2021.

Condition Precedent: The 2018 Guangxi Liuzhou Agreement is subject to the Non Guangxi Dameng Independent Shareholders' approval.

(iii) 2018 Nanning Battery Plant Agreement

Date: 21 June 2018

Parties: (1) Nanning Battery Plant
(2) the Company

Subject: Pursuant to 2018 Nanning Battery Plant Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase packaging bags produced by Nanning Battery Plant.

Pricing terms: The transactions under 2018 Nanning Battery Plant Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

Under 2018 Nanning Battery Plant Agreement, the quantity of packaging bags to be purchased by the Group is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of packaging bags from Nanning Battery Plant during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

LETTER FROM THE BOARD

Term:	For the period from 1 January 2019 to 31 December 2021.
Condition Precedent:	The 2018 Nanning Battery Plant Agreement is subject to the Non Guangxi Dameng Independent Shareholders' approval.

PRICING STANDARDS

(i) In respect of the Integrated Services contemplated under 2018 Integrated Services Agreement

Daxin Mine of the Company is located in a remotely isolated area of Guangxi, the PRC, where the social welfare and recreational facilities in the Daxin Mine have not been transferred to the Group. Historically, Guangxi Dameng has developed and operated various basic social facilities for the Group's employees, such as the provision of Integrated Services by Guangxi Dameng which enables employees of the Group to continue to enjoy the basic and necessary living and social welfare facilities at Daxin Mine. The Group is not able to find the same or similar living and social welfare facilities provided by other independent third parties nearby Daxin Mine. Given such historical and geographical background, therefore no quotation and tender in respect of the provision of Integrated Services is obtained.

In order to determine the fair and reasonable amount of the Integrated Services, the Group has make reference to:

- (1) the historical fees paid to Guangxi Dameng for the Integrated Services of approximately RMB3,120,000, RMB3,240,000 and RMB1,400,000 by the Group for the two years ended 31 December 2017 and for the five months period ended 31 May 2018;
- (2) the estimated market rental of RMB12.8 per meter² per annum in respect of the land area used for provision of social facilities (including but not limited to housing, schools, hospitals, recreational facilities) by Guangxi Dameng to the Group at Daxin Mine for the three years ending 31 December 2021, which is in line with or lower than the prevalent market rental in the other region of Guangxi province, the PRC.

(ii) In respect of transactions contemplated under 2018 Guangxi Dameng Ore Agreement, 2018 Guangxi Dameng EMM Agreement, 2018 Guangxi Dameng Raw Materials Agreement, 2018 Guangxi Liuzhou Agreement and 2018 Nanning Battery Plant Agreement and the mining drawing services under 2018 Integrated Services Agreement

The purchase or sale prices in respect of the goods or products under the 2018 Guangxi Dameng Ore Agreement, 2018 Guangxi Dameng EMM Agreement, 2018 Guangxi Dameng Raw Materials Agreement, 2018 Guangxi Liuzhou Agreement, 2018 Nanning Battery Plant Agreement and mining drawing service under 2018 Integrated Services Agreement will be determined with reference to:

LETTER FROM THE BOARD

- (1) the applicable state price in respect of the goods or products or services promulgated by local government of the PRC (if any);
- (2) if there is no applicable state price for such goods or products or services, the fair prices of the same or same type of goods or products or services provided by independent third parties in the location of the Company or the nearby area, and the prevailing market price of the transaction. The Group will obtain relevant market price information through various channels, which include (i) considering at least two comparable transactions (if any) conducted by independent third parties during the same period on such goods or products or services; (ii) communication and exchange of price information with at least two independent suppliers or customers by various means, including telephone conversations, emails and meetings, with peers and business partners within the same industry; and/or (iii) online information obtained from various websites from time to time like 華誠金屬網 (<http://www.hme01.com/information/>), 中國鐵合金在線 (<http://www.cnfeol.com/>) or other relevant websites. The Company will conclude the relevant market price by (i) at least two comparable transactions with independent third parties; and (ii) the prices offered by at least two independent suppliers or customers to set the fair price; or
- (3) where there are no available prevailing market prices or where it is impracticable to obtain the relevant market price information, the Group and the Guangxi Dameng and/or its subsidiaries will determine the price after arm's length negotiations with reference to (i) the previous same or same type of the transactions concluded by the Group with Guangxi Dameng and/or its subsidiaries; and/or (ii) previous same or same type of the transactions concluded by the Group with independent third parties.

According to the internal control policy of the Group, there are at least two historical transactions and enquiries or at least two participants in the tender (if applicable) when determining the sale or purchase price for the goods or products or service fees and the Group will continue to strictly follow the abovementioned requirements.

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Annual Caps and Historical Amounts of the Transactions Between the Group and Guangxi Dameng and/or its subsidiaries in respect of sale/purchase of High Grade Manganese Ore, EMM and Raw Materials

Set out below are the annual caps and historical amounts in relation to the transactions between the Group and Guangxi Dameng and/or its subsidiaries in respect of sale/purchase of High Grade Manganese Ore, EMM and Raw Materials for the period between 1 January 2016 and 31 May 2018:

	For the year ended 31 December 2016		For the year ended 31 December 2017		For the year ending 31 December 2018	For the five months period ended 31 May 2018
	Annual Caps	Historical Amounts	Annual Caps	Historical Amounts	Annual Caps	Historical Amounts
Purchase of high grade manganese ore from Guangxi Dameng and/or its subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil
Purchase of EMM from Guangxi Dameng and/or its subsidiaries	Nil	Nil	Nil	Nil	Nil	Nil
Sale of Raw Materials to Guangxi Dameng and/or its subsidiaries						
(1) Low Grade Manganese Ore	Nil	Nil	Nil	Nil	Nil	Nil
(2) sulfuric acid	Nil	Nil	Nil	Nil	Nil	Nil
(3) selenium dioxide	Nil	Nil	Nil	Nil	Nil	Nil

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Annual Caps and Historical Amounts of the Transactions Between the Group and Guangxi Dameng and/or its subsidiaries in respect of the continuing connected transactions under 2016 Guangxi Dameng Agreements

Set out below are the annual caps and historical amounts in relation to the transactions between the Group and Guangxi Dameng under 2016 Guangxi Dameng Agreements for the period between 1 January 2016 and 31 May 2018:

			For the year ended			For the year ended			For the	For the
			31 December 2016			31 December 2017			31 December	five months
									2018	period ended
			Annual	Historical		Annual	Historical		Annual	Historical
			Caps (A)	Amounts (B)	(B)/(A)	Caps (A)	Amounts (B)	(B)/(A)	Caps (A)	Amounts (B)
										(B)/(A)
2016 Guangxi Dameng Agreements										
(1)	2016 Integrated Services Framework Agreement									
(i)	Provision of Integrated Services by Guangxi Dameng									
		HK\$3,737,000	HK\$3,649,000	97.6%	HK\$3,881,000	HK\$3,736,000	96.3%	HK\$4,024,000	HK\$1,750,000	43.5%
		(equivalent to	(equivalent to		(equivalent to	(equivalent to		(equivalent to	(equivalent to	
		RMB3,120,000)	RMB3,120,000)		RMB3,240,000)	RMB3,240,000)		RMB3,360,000)	RMB1,400,000)	
(ii)	Provision of mining drawing service by Guangxi Dameng									
		HK\$838,000	HK\$702,000	83.8%	HK\$838,000	HK\$653,000	77.9%	HK\$838,000	HK\$295,000	35.2%
		(equivalent to	(equivalent to		(equivalent to	(equivalent to		(equivalent to	(equivalent to	
		RMB700,000)	RMB600,000)		RMB700,000)	RMB566,000)		RMB700,000)	RMB236,000)	
(iii)	Provision of electricity and fuels to Guangxi Dameng									
		HK\$72,000	HK\$42,000	58.3%	HK\$72,000	HK\$48,000	66.7%	HK\$72,000	HK\$29,000	40.3%
		(equivalent to	(equivalent to		(equivalent to	(equivalent to		(equivalent to	(equivalent to	
		RMB60,080)	RMB36,000)		RMB60,080)	RMB42,000)		RMB60,080)	RMB23,000)	

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		For the year ended 31 December 2016			For the year ended 31 December 2017			For the year ending 31 December 2018	For the five months period ended 31 May 2018	
		Annual Caps (A)	Historical Amounts (B)	(B)/(A)	Annual Caps (A)	Historical Amounts (B)	(B)/(A)	Annual Caps (A)	Historical Amounts (B)	(B)/(A)
(2)	2016 Guangxi Liuzhou Agreement									
	Purchase of vertical mills and accessories from Guangxi Liuzhou	HK\$15,569,000 (equivalent to RMB13,000,000)	HK\$12,868,000 (equivalent to RMB11,002,000)	82.7%	Nil	Nil	Nil	Nil	Nil	Nil
(3)	2016 Nanning Battery Plant Agreement									
	Purchase of packaging bags from Nanning Battery Plant	HK\$6,012,000 (equivalent to RMB5,020,000)	HK\$4,718,000 (equivalent to RMB4,034,000)	78.5%	HK\$6,012,000 (equivalent to RMB5,020,000)	HK\$5,710,000 (equivalent to RMB4,952,000)	95.0%	HK\$6,012,000 (equivalent to RMB5,020,000)	HK\$2,758,000 (equivalent to RMB2,206,000)	45.9%
(4)	2016 Guangxi Dameng Tenancy Agreement									
	Letting of the Premises to Guangxi Dameng	HK\$939,000 (equivalent to RMB783,821)	HK\$895,000 (equivalent to RMB765,000)	95.3%	HK\$972,000 (equivalent to RMB811,255)	HK\$891,000 (equivalent to RMB773,000)	91.7%	HK\$1,006,000 (equivalent to RMB839,649)	HK\$409,000 (equivalent to RMB327,000)	40.7%

As at the Latest Practicable Date and up to the date of SGM, the annual caps for the 2016 Guangxi Dameng Agreements for the year ending 31 December 2018 have not been nor expected to be exceeded.

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2018 Guangxi Dameng Caps

The 2018 Guangxi Dameng Caps under 2018 Guangxi Dameng Agreements are as follows:

	2018 Guangxi Dameng Caps		
	For the period from 26 July to 31 December 2018	For the year ending 31 December 2019 (Note*)	For the year ending 31 December 2020
2018 Guangxi Dameng Ore Agreement			
Purchase of High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries)	HK\$154,286,000 (equivalent to RMB123,429,000)	HK\$330,750,000 (equivalent to RMB264,600,000)	HK\$396,900,000 (equivalent to RMB317,520,000)
2018 Guangxi Dameng EMM Agreement			
Purchase of EMM from Guangxi Dameng (and/or its subsidiaries)	HK\$115,500,000 (equivalent to RMB92,400,000)	HK\$257,250,000 (equivalent to RMB205,800,000)	HK\$351,146,000 (equivalent to RMB280,917,000)
2018 Guangxi Dameng Raw Materials Agreement			
Sale of Raw Materials to Guangxi Dameng (and/or its subsidiaries)			
(1) Low Grade Manganese Ore	HK\$11,571,000 (equivalent to RMB9,257,000)	HK\$18,900,000 (equivalent to RMB15,120,000)	HK\$19,845,000 (equivalent to RMB15,876,000)
(2) sulfuric acid	HK\$10,000,000 (equivalent to RMB8,000,000)	HK\$27,563,000 (equivalent to RMB22,050,000)	HK\$28,941,000 (equivalent to RMB23,153,000)
(3) selenium dioxide	HK\$3,834,000 (equivalent to RMB3,067,000)	HK\$9,975,000 (equivalent to RMB7,980,000)	HK\$10,474,000 (equivalent to RMB8,379,000)

Note *: As the annual caps of the 2018 Guangxi Dameng Ore Agreement, 2018 Guangxi Dameng EMM Agreement and Guangxi Dameng Raw Materials Agreement for the year ending 31 December 2018 relate only to a shorter period from 26 July to 31 December 2018, there are significant increases in the annual caps of the 2018 Guangxi Dameng Ore Agreement, 2018 Guangxi Dameng EMM Agreement and Guangxi Dameng Raw Materials Agreement for the year ending 31 December 2019 over that of 2018.

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		2018 Guangxi Dameng Caps		
		For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
2018 Integrated Services Framework Agreement				
(i)	Provision of Integrated Services by Guangxi Dameng	HK\$4,075,000 (equivalent to RMB3,260,000)	HK\$4,075,000 (equivalent to RMB3,260,000)	HK\$4,075,000 (equivalent to RMB3,260,000)
(ii)	Provision of mining drawing services by Guangxi Dameng	HK\$875,000 (equivalent to RMB700,000)	HK\$875,000 (equivalent to RMB700,000)	HK\$875,000 (equivalent to RMB700,000)
2018 Guangxi Liuzhou Agreement				
	Purchase of vertical mill(s) and accessories from Guangxi Liuzhou	HK\$32,500,000 (equivalent to RMB26,000,000)	—	—
2018 Nanning Battery Plant Agreement				
	Purchase of packaging bags from Nanning Battery Plant	HK\$6,275,000 (equivalent to RMB5,020,000)	HK\$6,275,000 (equivalent to RMB5,020,000)	HK\$6,275,000 (equivalent to RMB5,020,000)

The proposed annual caps in respect of the purchase of the High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the historical demand and purchase price of High Grade Manganese Ore by the Group for its manganese ferroalloy production for the two years and five months ended 31 May 2018; (ii) the estimated aggregate demand of High Grade Manganese Ore for the Group's manganese ferroalloy production and our resale to Dushan Jinneng to meet its manganese ferroalloy production totalling of approximately 137,100 tonnes, 280,000 tonnes and 320,000 tonnes for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020; and (iii) the estimated purchase prices of High Grade Manganese Ore of RMB900 per tonne, RMB945 per tonne and RMB992 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

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The proposed annual caps in respect of the purchase of EMM from Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the historical production of EMM by Guangxi Dameng (and/or its subsidiaries) and historical sales of EMM of the Group for the two years and five months ended 31 May 2018; (ii) the estimated quantity of EMM purchase from Guangxi Dameng (and/or its subsidiaries) of approximately 9,400 tonnes, 20,000 tonnes and 26,000 tonnes for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated purchase prices of EMM of RMB9,800 per tonne, RMB10,290 per tonne and RMB10,805 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

The proposed annual caps for the sale of Low Grade Manganese Ore to Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia (i) the historical demand of Low Grade Manganese Ore for EMM production by the Group for the two years and five months ended 31 May 2018; (ii) the estimated sales quantity of Low Grade Manganese Ore to Guangxi Dameng (and/or its subsidiaries) of approximately 25,700 tonnes, 40,000 tonnes and 40,000 tonnes for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated average selling prices of Low Grade Manganese Ore of RMB360 per tonne, RMB378 per tonne and RMB397 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

The proposed annual caps for the sale of sulfuric acid to Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia (i) the historical demand and purchase price of sulfuric acid for EMM production by the Group for the two years and five months ended 31 May 2018; (ii) the estimated sale of sulfuric acid to Guangxi Dameng (and/or its subsidiaries) of approximately 22,900 tonnes, 60,000 tonnes and 60,000 tonnes for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated average selling prices of sulfuric acid of RMB350 per tonne, RMB368 per tonne and RMB386 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

The proposed annual caps for the sale of selenium dioxide to Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia (i) the historical demand and purchase price of selenium oxide for EMM production by the Group for the two years and five months ended 31 May 2018; (ii) the estimated sales quantity of selenium dioxide to Guangxi Dameng (and/or its subsidiaries) of approximately 16,100kg, 40,000kg and 40,000kg for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated average selling prices of selenium dioxide of RMB190 per kg, RMB200 per kg and RMB209 per kg for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

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The proposed annual caps for the Integrated Services paid to Guangxi Dameng (and/or its subsidiaries) were a matter of commercial negotiation between the parties with reference to (i) the historical fees paid to Guangxi Dameng for the Integrated Services of approximately RMB3,120,000, RMB3,240,000 and RMB1,400,000 by the Group for the two years ended 31 December 2017 and for the five months period ended 31 May 2018; (ii) the estimated market rental of RMB12.8 per meter² in respect of the land area used for provision of social facilities (including but not limited to housing, schools, hospitals, recreational facilities) by Guangxi Dameng to the Group at Daxin Mine for the three years ending 31 December 2021.

The proposed annual caps for the mining drawing services paid to Guangxi Dameng (and/or its subsidiaries) were a matter of commercial negotiation with reference to (i) the historical fees paid to Guangxi Dameng for the mining drawing services of approximately RMB600,000, RMB566,000 and RMB236,000 for the two years ended 31 December 2017 and for the five months period ended 31 May 2018; (ii) the estimated mining drawing services provided by Guangxi Dameng to CITIC Dameng Mining for the three years ending 31 December 2021.

The proposed annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou were determined primarily based on (i) the historical transaction of vertical mill(s) and accessories between the Group and Guangxi Liuzhou for the two years and five months ended 31 May 2018; (ii) the estimated demand of vertical mill(s) and accessories by the Group of one unit, Nil and Nil for each of the three years ending 31 December 2021 respectively; (iii) the estimated purchase price of vertical mill(s) and accessories of RMB26,000,000 per unit during the three years ending 31 December 2021.

The proposed annual caps for the purchase of packaging bags from Nanning Battery Plant were determined primarily based on (i) the historical demand and purchase price of packaging bags by the Group for the two years and five months ended 31 May 2018; (ii) the estimated demand in number of packaging bags by the Group of approximately 321,000 for each of the three years ending 31 December 2021; (iii) the estimated average selling price of packaging bags of RMB15.6 per unit during the three years ending 31 December 2021.

Reasons for Entering Into 2018 Guangxi Dameng Agreements

The Group has established long term and good cooperation and working relationship with Guangxi Dameng and its subsidiaries.

2018 Guangxi Dameng Ore Agreement

As disclosed in the website of PMG Mining (Pty) Limited (a subsidiary of Guangxi Dameng) (<http://www.pmgmining.co.za/pmgmining/english/aboutus.asp>), Guangxi Dameng now operates Bishop Mine, South Africa with existing mining capacity of approximately 600,000 tonnes per annum and is now developing Paling Mine South Africa, and its mining capacity of the two mines, in aggregate, will be further increased to approximately 1,200,000 per annum in year 2018. The measured and indicated manganese resources of Bishop Mine is approximately 10,084,800 tonnes with average manganese content of 34% and the manganese resources of Paling Mine is approximately 40,000,000 tonnes with average manganese content of 35%. Guangxi Dameng is one of the key manganese ore suppliers in the PRC and can offer such High Grade Manganese Ore in large quantities at competitive prices. Such High Grade Manganese Ore are essential materials for manganese ferroalloy production.

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2018 Integrated Services Framework Agreement

The provision of Integrated Services by Guangxi Dameng has enabled our employees to continue to enjoy the basic and necessary living and social welfare facilities at Daxin Mine. On the other hand, Guangxi Dameng possesses the requisite certification for carrying out the mining drawing services and is familiar with geological composition of Daxin Mine, and therefore can provide mining drawing services at competitive prices.

2018 Guangxi Dameng EMM Agreement, 2018 Guangxi Liuzhou Agreement and 2018 Nanning Battery Plant Agreement

Guangxi Dameng's subsidiaries have proven to be reliable suppliers to the Group in the provision of tools and equipment and raw materials at competitive prices which are beneficial to the continuing operations and business of the Group, including but not limited to the followings:

- (i) Guangxi Dameng together with its subsidiaries is also one of the leading EMM producers in Guangxi, the PRC which produces EMM at competitive price with high quality and can supplement the customers demand of the Group from time to time and to enlarge our Group's market share and maintain our market leadership in the region. In addition, the collaboration with Guangxi Dameng can ensure a more orderly market in the local region and enhance the Group's economies of scales and sales bargaining power in negotiating commercial terms with their common customers.
- (ii) Guangxi Liuzhou is one of the reputable market leaders in Guangxi, the PRC for production of electrical and mechanical equipment.
- (iii) Nanning Battery Plant is one of the reputable market leaders in Guangxi, the PRC for production of packaging bags.

2018 Guangxi Dameng Raw Materials Agreement

In terms of Raw Materials, the Group is the largest EMM producer in southern China and therefore we can purchase Low Grade Manganese Ore, sulfuric acid and selenium dioxide at competitive prices which can be resold to Guangxi Dameng (and/or its subsidiaries) for their EMM production. Trading with Guangxi Dameng and its subsidiaries increases our economies of scales and therefore strengthens our bargaining power in price and other commercial terms negotiation with our Raw Materials suppliers and is beneficial to the continuing operations and business of the Group.

The Directors are of the view that: (i) 2018 Guangxi Dameng Agreements have been entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the terms under 2018 Guangxi Dameng Agreements (including 2018 Guangxi Dameng Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on the Company

The Company is a vertically integrated manganese producer that produces and sells manganese products. It has manganese mining, ore processing and downstream processing operations in the PRC as well as manganese mining and ore processing operations in Gabon.

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Information on Guangxi Dameng, Guangxi Liuzhou and Nanning Battery Plant

Guangxi Dameng holds 22.64% equity interest in the Company and therefore is a connected person of the Company. Guangxi Dameng together with its subsidiaries is principally engaged in manganese mining and processing, EMM production, battery production, mechanical engineering, accessories manufacturing and export trade, and other businesses.

Guangxi Liuzhou is a wholly owned subsidiary of Guangxi Dameng and therefore is a connected person of the Company. Guangxi Liuzhou is principally engaged in electrical and mechanical equipment manufacturing business.

Nanning Battery Plant is a wholly owned subsidiary of Guangxi Dameng and therefore is a connected person of the Company. Nanning Battery Plant is principally engaged in battery manufacturing and accessories production (including plastic bags) businesses.

Listing Rules Implications

The transactions under 2016 Guangxi Dameng Agreements and 2016 Guangxi Dameng Tenancy Agreement (on their own) were previously subject only to announcement, reporting and annual review requirements as detailed in the Company's announcement of 30 December 2015.

As the Company intends to enter into the transactions contemplated under 2018 Guangxi Dameng Agreements, the highest applicable Percentage Ratio calculated with reference to 2016 Guangxi Dameng Caps and 2018 Guangxi Dameng Caps under 2016 Guangxi Dameng Agreements and 2018 Guangxi Dameng Agreements on an aggregate basis exceeds 5%. The transactions contemplated under 2018 Guangxi Dameng Agreements are therefore subject to announcement, reporting and annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best knowledge and belief of the Directors, none of the Directors have a material interest in the transactions contemplated under 2018 Guangxi Dameng Agreements and therefore have to abstain from voting on the board resolution approving the 2018 Guangxi Dameng Agreements.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Non Guangxi Dameng Independent Shareholders in respect of the terms of the 2018 Guangxi Dameng Agreements.

To the best knowledge and belief of the Directors, save and except for Guinan Dameng (which holds 776,250,000 Shares, representing approximately 22.64% of the issued Shares) and its associates, no Shareholder is required to abstain from voting at the SGM on resolutions approving the 2018 Guangxi Dameng Agreements.

Shinco Capital has been appointed by the Company to advise the Independent Board Committee and the Non Guangxi Dameng Independent Shareholders in respect of the terms of the 2018 Guangxi Dameng Agreements and the transactions contemplated thereunder.

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(3) REVISION OF ANNUAL CAPS UNDER 2018 CITIC SPECIAL STEEL AGREEMENT

Reference is made to the announcement of the Company dated 29 December 2017 in respect of the 2017 CITIC Special Steel Agreement.

On 29 December 2017, the Company entered into 2017 CITIC Special Steel Agreement with CITIC Special Steel. Pursuant to 2017 CITIC Special Steel Agreement, the Group agreed to sell manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) for the period from 1 January 2018 to 31 December 2020. Details of 2017 CITIC Special Steel Agreement are set out as follows:

Date:	29 December 2017
Parties:	(1) The Group (as the seller) (2) CITIC Special Steel (as the purchaser)
Subject:	Pursuant to 2017 CITIC Special Steel Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to sell manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries).
Pricing terms:	The transactions under 2017 CITIC Special Steel Agreement are conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions are no less favourable than those available from Independent Third Parties.

Under the 2017 CITIC Special Steel Agreement, the quantity of manganese ferroalloy to be sold by the Group is not fixed and is to be determined and agreed between the parties from time to time. The Group is not required to sell a minimum amount or any pre-defined quantity of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices and to be agreed between the parties.

The annual cap for the sale of manganese ferroalloy by the Group to CITIC Special Steel (and/or its subsidiaries) under 2017 CITIC Special Steel Agreement is calculated by reference to the prevailing market unit price of manganese ferroalloy multiplying the estimated quantity of manganese ferroalloy to be sold by the Group to CITIC Special Steel (and/or its subsidiaries) under 2017 CITIC Special Steel Agreement for the for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020. The amount will be settled in accordance with the prevailing market practice and to be agreed between the parties.

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- Pricing standards: The selling prices in respect of the manganese ferroalloy under 2017 CITIC Special Steel Agreement are determined with reference to:
- (1) the applicable state price in respect of the manganese ferroalloy issued by local government of the PRC (if any);
 - (2) if there is no applicable state price for manganese ferroalloy, the fair prices of the same or same type of manganese ferroalloy provided by independent third parties in the location of the Company or the nearby area, and the prevailing market price of the transaction. The Group will obtain relevant market price information through various channels, which include (i) considering at least two comparable transactions (if any) conducted by independent third parties during the same period on such manganese ferroalloy; (ii) communication and exchange of price information with at least two independent customers by various means, including telephone conversations, emails and meetings, with peers and business partners within the manganese ferroalloy production industry and (iii) online information obtained from various websites from time to time like 華誠金屬網 (<http://www.hme01.com/information/>), 中國鐵合金在線 (<http://www.cnfeol.com/>) or other relevant websites. The Company will conclude the relevant market price by (i) at least two comparable transactions with independent third parties; and (ii) the prices offered by at least two independent suppliers to set the fair price; or
 - (3) where there are no available prevailing market prices or where it is impracticable to obtain the relevant market price information, the Group and CITIC Special Steel and/or its subsidiaries will determine the price after arm's length negotiations with reference to (i) the previous same or same type of the transactions concluded by the Group with CITIC Special Steel and/or its subsidiaries; and/or (ii) previous same or same type of the transactions concluded by the Group with independent third parties;

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According to the internal control policy of the Group, there are at least two historical transactions and enquiries or at least two participants in the tender (if applicable) when determining the price of manganese ferroalloy and the Group will continue to strictly follow the abovementioned requirements.

Term: For the period from 1 January 2018 to 31 December 2020.

2018 CITIC SPECIAL STEEL AGREEMENT

Reference is made to the announcement of the Company dated 21 June 2018 in respect of the 2018 CITIC Special Steel Agreement.

The Company, as part of internal control procedures, regularly keeps reviewing the existing annual caps and updated accumulated transactions of various continuing connected transactions including particularly those under 2017 CITIC Special Steel Agreement for the three years ending 31 December 2020. In April 2018, the management of the Company, based on the significant increase of historical transactions under 2017 CITIC Special Steel Agreement for the first quarter of 2018 and the expected increase of production volume of Qinzhou Ferroalloy Plant and the gradual completion of the commercial production by Dushan Jinmeng as detailed in the section headed “Reasons for Entering Into 2018 CITIC Special Steel Agreement”, reported to the Board members of the expected significant increase of transactions thereunder and suggested to the Board to initiate compliance procedures for revising the annual caps.

On 21 June 2018, the Company (for itself and on behalf of its subsidiaries) entered into the 2018 CITIC Special Steel Agreement with CITIC Special Steel to revise the annual caps under the 2017 CITIC Special Steel Agreement. The 2018 CITIC Special Steel Agreement is subject to approval by Non CITIC Independent Shareholders and the transactions contemplated thereunder will commence only after the Company has obtained such approval in the SGM.

For the two years ended 31 December 2016 and 2017, the sale of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) by the Group amounted to HK\$47,632,000 (equivalent to RMB40,725,000) and HK\$81,628,000 (equivalent to RMB70,790,000) respectively.

During the period from 1 January 2018 to the Latest Practicable Date, the Group has already delivered 5,000 tonne of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) with a total value of approximately HK\$45,623,000 (equivalent to RMB36,498,000), which is approximately 61% of the 2017 CITIC Special Steel Caps for the year ending 31 December 2018.

As at the Latest Practicable Date and up to the date of SGM, the annual cap for the 2017 CITIC Special Steel Agreement for the year ending 31 December 2018 has not been nor expected to be exceeded.

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Annual Caps and Historical Amounts of the Transactions Between the Group and CITIC Special Steel (and/or its subsidiaries) in respect of Sale of Manganese Ferroalloy

Set out below are the annual caps and historical amounts in relation to the transactions between the Group and CITIC Special Steel (and/or its subsidiaries) for the period between 1 January 2016 to 31 May 2018:

	For the year ended			For the year ended			For the	For the five months period		
	31 December 2016			31 December 2017			year ending	ended 31 May 2018		
	Annual	Historical		Annual	Historical		31 December	Annual	Historical	
	Caps (A)	Amounts (B)	(B)/(A)	Caps (A)	Amounts (B)	(B)/(A)	2018	Caps (A)	Amounts (B)	(B)/(A)
Sale of manganese ferroalloy to CITIC Special Steel and/or its subsidiaries	HK\$95,611,000	HK\$47,632,000	49.8%	HK\$95,611,000	HK\$81,628,000	85.4%	HK\$75,000,000	HK\$45,623,000		60.8%
	(equivalent to RMB75,600,000)	(equivalent to RMB40,725,000)		(equivalent to RMB75,600,000)	(equivalent to RMB70,790,000)		(equivalent to RMB63,025,000)	(equivalent to RMB36,498,000)		

2018 CITIC Special Steel Caps

The 2018 CITIC Special Steel Caps under the 2018 CITIC Special Steel Agreement are as follows:

	For the year ending		For the year ending		For the year ending	
	31 December 2018		31 December 2019		31 December 2020	
	Original	Revised	Original	Revised	Original	Revised
	annual cap	annual cap	annual cap	annual cap	annual cap	annual cap
2018 CITIC Special Steel Agreement						
Sale of manganese ferroalloy to CITIC Special Steel and/or its subsidiaries	HK\$75,000,000	HK\$383,979,000	HK\$75,000,000	HK\$862,785,000	HK\$75,000,000	HK\$905,962,000
	(equivalent to RMB63,025,000)	(equivalent to RMB307,183,000)	(equivalent to RMB63,025,000)	(equivalent to RMB690,228,000)	(equivalent to RMB63,025,000)	(equivalent to RMB724,769,000)

The proposed annual caps for the sale of the manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) are determined primarily based on (i) the historical production and sales price of manganese ferroalloy by the Group for the two years and five months ended 31 May 2018; (ii) the estimated sale of the manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) by the Group of approximately 46,500 tonnes, 99,600 tonnes and 99,600 tonnes for each of the three years ending 31 December 2020 respectively, as further explained in the following paragraph headed “Reasons for Entering Into 2018 CITIC Special Steel Agreement” below. Nevertheless, the Group currently does not have any significant committed orders from CITIC Special Steel (and/or its subsidiaries); (iii) the estimated selling prices of manganese ferroalloy of RMB6,600 per tonne, RMB6,930 per tonne and RMB7,277 per tonne for each of the three years ending 31 December 2020 respectively.

LETTER FROM THE BOARD

Reasons for Entering Into 2018 CITIC Special Steel Agreement

Since 2014, the selling price for manganese alloy experienced a continuous rebound following numerous years' fluctuation. The stabilisation and continuous rebound in selling price served to release the pended-up demand for manganese ferroalloy production, with the Group's sales to CITIC Special Steel (and/or its subsidiaries) for the first quarter 2018 having surged by more than 212% as compared with the same period in 2017. The 2017 CITIC Special Steel Agreement has an unexpired period of more than two years and that the Company expects that the manganese ferroalloy market will continue to improve.

In addition, Dushan Jinmeng commenced its first phase of commercial production in the late 2017, which upon completion of the whole project scheduled to be around the end of the year 2018 will have an annual production capacity of 500,000 tonnes manganese ferroalloy in Guizhou province, the PRC and we intend to purchase the manganese ferroalloy from it and resell to our customers (including CITIC Special Steel (and/or its subsidiaries)). Furthermore, it is expected that our Qinzhou Ferroalloy Plant through leasing or subcontracting the surrounding manganese ferroalloy production plants will increase its manganese ferroalloy production capacity from 60,000 tonne per annum to approximately 110,000 tonne per annum on or before July 2018 and approximately 200,000 tonne per annum on or before the year end of 2018, which further enhancing our manganese ferroalloy production in a significant manner.

The intended sales of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) therefore will only account for approximately 23.1%, 27.1% and 26.2% of the total sales of our manganese ferroalloy for the three years ending 31 December 2020 with the remaining sales to independent third parties.

At the same time, we plan to grasp the continued improving market environment of the manganese ferroalloy business and the scale advantages of the Group in the manganese ferroalloy, so as to further develop the manganese ferroalloy trading business.

With the steady growth in selling price for manganese ferroalloy, the surge in new orders and the gradual commercial production by Dushan Jinmeng, which coupled with the Group's business plan of expanding its trading business, the Company expects that the annual transaction amount by the Group will exceed the 2017 CITIC Special Steel Caps based on the business projections.

In addition, CITIC Special Steel (together with its subsidiaries) is one of the market leaders in steel production in the PRC which purchases manganese ferroalloy in large quantities and at competitive price. As disclosed in the 2017 annual report of CITIC Limited, CITIC Special Steel (and its subsidiaries) is the largest dedicated manufacturer of special steel in China with a total production capacity of 12 million tonnes per annum and therefore has a huge and constant demand of manganese ferroalloy to satisfy its special steel production, therefore sales of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) can expand our customer portfolio and increase our sales network, which is beneficial to our continuing operations and business.

LETTER FROM THE BOARD

Our sales of manganese ferroalloy to CITIC Special Steel (for itself and its subsidiaries) have grown since 2015, thus generating valuable revenue for the Group. The cooperation with CITIC Special Steel (for itself and its subsidiaries) has been beneficial for the Group, significantly helping the Group to expand its ferroalloy manganese sales in the PRC over the years. The Board believes this cooperation can help the Group to increase sales in manganese ferroalloy.

The Directors (excluding Mr. Suo Zhengang and Mr. Lyu Yanzhen, all are also directors of certain subsidiaries of CITIC Group, have abstained from voting on the board resolution approving 2018 CITIC Special Steel Agreement) are of the view that: (i) 2018 CITIC Special Steel Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the terms under 2018 CITIC Special Steel Agreement (including 2018 CITIC Special Steel Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Information on CITIC Special Steel

CITIC Special Steel is an indirect wholly owned subsidiary of CITIC Limited, which is in turn a subsidiary of CITIC Group. Therefore, CITIC Special Steel is a connected person of the Company. CITIC Special Steel (together with its subsidiaries) is principally engaged in steel and ancillary products manufacturing and processing.

Listing Rules Implications

As the highest applicable Percentage Ratio calculated with reference to the 2018 CITIC Special Steel Caps is more than 5%, the transactions contemplated under 2018 CITIC Special Steel Agreement are therefore subject to the reporting, annual review and announcement and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

To the best knowledge and belief of the Directors, save for Mr. Suo Zhengang and Mr. Lyu Yanzhen, none of the Directors have a material interest in the transactions contemplated under 2018 CITIC Special Steel Agreement and therefore have to abstain from voting on the board resolution approving the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder.

An Independent Board Committee comprising all the independent non-executive Directors has been formed to advise the Non CITIC Independent Shareholders in respect of the terms of the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder.

To the best knowledge and belief of the Directors, save and except for Apexhill (which holds 311,026,000 Shares, representing approximately 9.07% of the issued Shares), Highkeen (which holds 1,179,000,000 Shares, representing approximately 34.39% of the issued Shares) and their associates, no Shareholder is required to abstain from voting at the SGM on resolutions approving the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder.

LETTER FROM THE BOARD

Shinco Capital has been appointed by the Company to advise the Independent Board Committee and the Non CITIC Independent Shareholders in respect of the terms of the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder.

INTERNAL CONTROL MEASURES

The Company has established various internal control measures to monitor the transactions contemplated under the 2016 Guangxi Dameng Agreements, 2016 Guangxi Dameng Tenancy Agreement, 2018 Guangxi Dameng Agreements and 2018 CITIC Special Steel Agreement (and, where applicable, other continuing connected transactions of the Group) (“CCTs”). The internal control measures include, among others:

- (i) In order to ensure that the terms of individual transactions between the Company and Guangxi Dameng (and/or its subsidiaries) or CITIC Special Steel (and/or its subsidiaries) are fair and reasonable and in accordance with market practice, the Company will continue to adopt the below internal control procedures in relation to the transactions contemplated under 2016 Guangxi Dameng Agreements, 2016 Guangxi Dameng Tenancy Agreement, 2018 Guangxi Dameng Agreements and 2018 CITIC Special Steel Agreement:
 - (a) the Company will have regular and close contact and dialogue with a wide range of suppliers and customers in order to keep abreast of market trends and sale and purchase terms in the market throughout each year;
 - (b) consideration of market intelligence provided to the Company through subscription to a range of market analysis publications and reports covering supply and demand and prevailing price of the raw materials and products.
- (ii) Our Audit and Compliance Department (“**CA Department**”) is responsible for overall daily monitoring and control of the ongoing compliance of the CCTs. In addition, a designated staff in each of our subsidiaries is responsible for handling the compliance procedures for CCTs at the subsidiary level.
- (iii) CA Department is responsible for ensuring that all our CCTs comply with connected transaction management regulation (《關連交易管理制度》). In particular, the regulation requires CCTs to be carried out in accordance with terms which are not less stringent than the Listing Rules. An extract of the regulation is set out below:
 - (a) A list of our “connected persons” is updated from time to time and in any event, not less than once per year;
 - (b) All relevant information regarding our CCTs (including the background, term, annual cap, pricing basis, relationship with the connected persons) have to be reviewed on a periodic basis;

LETTER FROM THE BOARD

- (c) A monthly review report in respect of our CCTs (“**Monthly CCTs Report(s)**”) are prepared on a monthly basis;
 - (d) All relevant information regarding new CCTs, if any, have to be approved by our INEDs on Audit Committee (“**AC**”) and subsequently by the Board at the board meetings before their implementation.
- (iv) Internal Audit Department (“**IA Department**”) reports directly to the AC which comprises all three INEDs. IA Department has built in review of CCTs in its annual work plan as a continuous process. Its review includes testing of CCTs samples to ensure that the pricing mechanism is in accordance with the relevant framework agreements, including vouching on a test basis against third party quotations for fairness. IA Department also reviews the monthly CCTs Report(s) prepared by CA Department. Roughly on a quarterly basis, IA Department reports in writing to the AC in advance of each AC meeting. IA Department is also invited to join each AC meeting during which it reports directly to the AC detailing its findings of review. In the AC meeting which review the annual accounts, IA Department summarizes and consolidates their review work and findings on CCTs carried out during the year covered by the annual report. In addition, AC meets with the Auditors and discusses particularly any findings on their review of CCTs. AC in turn reports to the Board for any of their reportable findings and get the approval/endorsement of AC’s findings and recommendation.
- (v) The Monthly CCTs Report(s) prepared by CA Department includes extrapolation of the actual figures of each category of CCTs accumulated to date to an annualized figure. Such annualized figure is compared to the annual cap. If the annualized figure may exceed the annual cap, CA department will alert the Company Secretary and Finance Department who together with the relevant personnel, will estimate the transactions in the remaining period through the year end in a more precise manner. Appropriate actions will be taken (if necessary) including amongst others (a) limiting further transactions or (b) considering compliance procedures to increase the annual cap, will be taken to ensure that the annual cap will not be exceeded.

The Board is of the view that the above measures can ensure that the pricing and other contract terms for the Group’s continuing connected transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and that the continuing connected transactions are conducted as agreed in the relevant agreements governing them and in compliance with the relevant Listing Rule requirements.

LETTER FROM THE BOARD

(4) SHARE PREMIUM REDUCTION

The Board intends to seek shareholders' approval at the SGM to reduce the share premium of the Company in accordance with applicable laws and regulations of Bermuda and the Bye-laws. The amount standing to the credit of the Share Premium Account as at 31 December 2017 was HK\$3,352,902,000. It is proposed that (i) an amount of HK\$3,352,902,000 standing to the credit of the Share Premium Account be cancelled and that HK\$700,000,000 of the credit arising from the Share Premium Reduction be applied to offset the amount of the accumulated loss of the Company and (ii) the remaining balance of HK\$2,652,902,000 of the credit arising from the Share Premium Reduction be transferred to the Contributed Surplus Account.

Reasons for the Share Premium Reduction

The Directors consider it unnecessary to maintain the Share Premium Account at its current level. The Company is subject to the restrictions under the laws of Bermuda on the use of the funds standing to the credit of the Share Premium Account which, in summary, is limited to application towards crediting as fully paid bonus shares to be issued and paying the costs arising on the issue of Shares. The Contributed Surplus Account is a distributable reserve which is available to be applied by the Company in a more general manner, including but not limited to, payment of dividends to Shareholders, issue of bonus shares, elimination of accumulated losses and the repurchase of Shares.

The Share Premium Reduction and the subsequent transfer of part of the credit arising therefrom to the Contributed Surplus Account will increase the distributable reserves of the Company and give the Company greater flexibility. The Board believes that the Share Premium Reduction is in the interests of the Company and Shareholders as a whole.

Effect of the Share Premium Reduction

The implementation of the Share Premium Reduction does not involve any reduction in the authorised or issued share capital of the Company nor does it involve any reduction in the nominal value of the Shares or the trading arrangements concerning the Shares. Save for the expenses incurred by the Company in relation to the Share Premium Reduction, the implementation of the Share Premium Reduction will not, in itself, have any material adverse effect on the underlying assets, liabilities, business operations, management or financial position of the Company or the interests of Shareholders as a whole.

LETTER FROM THE BOARD

Conditions of the Share Premium Reduction

The Share Premium Reduction is conditional upon:

1. the passing of a special resolution by Shareholders to approve the Share Premium Reduction at the SGM; and
2. compliance with the requirements of section 46(2) of the Companies Act to effect the Share Premium Reduction, including (i) the publication of a notice in relation to the Share Premium Reduction in an appointed newspaper in Bermuda on a date not more than 30 days and not less than 15 days before the Effective Date, and (ii) the Board being satisfied that on the Effective Date, there are no reasonable grounds for believing that the Company is, or after the Share Premium Reduction would be, unable to pay its liabilities as they become due.

Subject to the fulfilment of the above conditions, it is expected that the Share Premium Reduction shall become effective on the date of the SGM. The details of the Share Premium Reduction are disclosed in the Company's announcement dated 21 June 2018.

SGM

A notice convening the SGM is set out on pages 97 to 99 of this circular. Pursuant to Rule 13.39(4) of the Listing Rules and the bye-laws of the Company, all votes of the Shareholders at the SGM will be taken by poll and the Company will announce the results of the poll in the manner set out in Rule 13.39(5) of the Listing Rules.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the SGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible but in any event not less than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof in person if you so wish.

RECOMMENDATION

Your attention is drawn to the letters from the Independent Board Committee set out on pages 38 to 41 of this circular which contains the recommendation from the Independent Board Committee to the Non Guangxi Dameng Independent Shareholders, Non CITIC Independent Shareholders and the letter from Shinco Capital set out on pages 42 to 89 of this circular which contains its advice to the Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders.

LETTER FROM THE BOARD

The Directors (excluding the independent non-executive Directors, whose opinion is included in the letter from the Independent Board Committee to the Non Guangxi Dameng Independent Shareholders and Non CITIC Dameng Independent Shareholders) consider that:

- (i) the 2018 Guangxi Dameng Ore Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and
- (ii) the 2018 Guangxi Dameng EMM Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (iii) the 2018 Guangxi Raw Materials Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (iv) the 2018 Integrated Services Framework Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (v) the 2018 Guangxi Liuzhou Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (vi) the 2018 Nanning Battery Plant Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole;
- (vii) the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Non CITIC Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

The Directors also consider that:

- (viii) the Share Premium Reduction is in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Accordingly, the Directors recommend that:

- Non Guangxi Dameng Independent Shareholders vote in favour of the resolutions (i) to (vi);
- Non CITIC Independent Shareholders vote in favour of the resolution (vii); and
- Shareholders vote in favour of the resolution (viii)

as set out in the notice of SGM contained in this circular.

By order of the Board
CITIC DAMENG HOLDINGS LIMITED
Yin Bo
Chairman



DAMENG

CITIC DAMENG HOLDINGS LIMITED

中信大鋆控股有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 1091)

29 June 2018

To the Non Guangxi Dameng Independent Shareholders

Dear Sir or Madam,

**(1) NEW CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(3) REVISION OF ANNUAL CAPS UNDER 2018
CITIC SPECIAL STEEL AGREEMENT**

We refer to the circular dated 29 June 2018 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings given to them in the Circular.

As we have no interests in the continuing connected transactions with Guangxi Dameng, we have been appointed by the Board as the Independent Board Committee to consider the terms of the 2018 Guangxi Dameng Agreements.

The Independent Board Committee has been formed to advise the Non Guangxi Dameng Independent Shareholders as to whether the terms of the 2018 Guangxi Dameng Agreements are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned.

Shinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Non Guangxi Dameng Independent Shareholders in this regard.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the “Letter from Shinco Capital” as set out on pages 42 to 89 of the Circular. We have considered the terms and conditions of the 2018 Guangxi Dameng Agreements, the advice of Shinco Capital and the other factors contained in the “Letter from the Board” as set out on pages 8 to 37 of the Circular.

Having taken into account the advice of Shinco Capital, we consider that the entering into of the 2018 Guangxi Dameng Agreements is in the ordinary and usual course of business of the Company on normal commercial terms and is in the interests of the Company and the Shareholders as a whole; and that the terms of the 2018 Guangxi Dameng Agreements are fair and reasonable so far as the Non Guangxi Dameng Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the 2018 Guangxi Dameng Agreements at the SGM.

Yours faithfully,

Independent Board Committee of
CITIC Dameng Holdings Limited
Lin Zhijun, Mo Shijian, Tan Zhuzhong
Independent Non-executive Directors



DAMENG

CITIC DAMENG HOLDINGS LIMITED

中信大錳控股有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 1091)

29 June 2018

To the Non CITIC Independent Shareholders

Dear Sir or Madam,

**(1) NEW CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(3) REVISION OF ANNUAL CAPS UNDER 2018
CITIC SPECIAL STEEL AGREEMENT**

We refer to the circular dated 29 June 2018 (the “**Circular**”) issued by the Company to the Shareholders of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings given to them in the Circular.

As we have no interests in the continuing connected transactions with CITIC Special Steel, we have been appointed by the Board as the Independent Board Committee to consider the terms of the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps.

The Independent Board Committee has been formed to advise the Non CITIC Independent Shareholders as to whether the terms of the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps are fair and reasonable so far as the Non CITIC Independent Shareholders are concerned.

Shinco Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Non CITIC Independent Shareholders in this regard.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We wish to draw your attention to the “Letter from Shinco Capital” as set out on pages 42 to 89 of the Circular. We have considered the terms and conditions of the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps, the advice of Shinco Capital and the other factors contained in the “Letter from the Board” as set out on pages 8 to 37 of the Circular.

Having taken into account the advice of Shinco Capital, we consider that the entering into of the 2018 CITIC Special Steel Agreement is in the ordinary and usual course of business of the Company on normal commercial terms and is in the interests of the Company and the Shareholders as a whole; and that the terms of the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps are fair and reasonable so far as the Non CITIC Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution approving the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps at the SGM.

Yours faithfully,

Independent Board Committee of
CITIC Dameng Holdings Limited
Lin Zhijun, Mo Shijian, Tan Zhuzhong
Independent Non-executive Directors

LETTER FROM SHINCO CAPITAL

The following is the text of the letter of advice from Shinco Capital to the Independent Board Committee, the Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders in respect of the continuing connected transactions prepared for the purpose of inclusion in this circular.



Room 1106, 11/F
Office Plus@Sheung Wan
No. 93 – 103 Wing Lok Street
Sheung Wan
Hong Kong

29 June 2018

To the Independent Board Committee, Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders of CITIC Dameng Holdings Limited (the “Company”)

Dear Sir or Madam,

**(1) NEW CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
(2) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH
GUANGXI DAMENG AND ITS SUBSIDIARIES
AND
(3) REVISION OF ANNUAL CAPS UNDER
2018 CITIC SPECIAL STEEL AGREEMENT**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to entering into of the 2018 Guangxi Dameng Agreements and the 2018 CITIC Special Steel Agreement and the transactions contemplated respectively thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company to the Shareholders dated 29 June 2018 (the “**Circular**”), of which this letter (the “**Letter**”) forms a part. Capitalised terms used in this Letter shall have the same meanings as those defined in the Circular unless otherwise specified.

On 21 June 2018, the Group entered into the 2018 Guangxi Dameng Agreements, three of which, namely the 2018 Guangxi Dameng Ore Agreement, the 2018 Guangxi Dameng EMM Agreement and the 2018 Guangxi Dameng Raw Materials Agreement are new continuing connected transactions, under which (i) pursuant to the 2018 Guangxi Dameng Ore Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries); (ii) pursuant to the 2018 Guangxi Dameng EMM Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase EMM from Guangxi Dameng (and/or its subsidiaries); and (iii) pursuant to the 2018 Guangxi Dameng Raw Materials Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to sell Raw Materials to Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to

LETTER FROM SHINCO CAPITAL

31 December 2020, respectively. The remaining three agreements under the 2018 Guangxi Dameng Agreements, namely the 2018 Integrated Services Framework Agreement, the 2018 Guangxi Liuzhou Agreement and the 2018 Nanning Battery Plant Agreement, are to renew certain existing continuing connected transactions with Guangxi Dameng, as the terms of the 2016 Guangxi Dameng Agreements and the annual caps will expire on 31 December 2018 and it is currently expected that the continuing connected transactions under the 2016 Guangxi Dameng Agreements except the 2016 Guangxi Dameng Tenancy Agreement will continue to be entered into on a recurring basis.

Also, on 21 June 2018, the Company entered into the 2018 CITIC Special Steel Agreement with CITIC Special Steel, pursuant to which the parties thereto agreed to revise the annual caps for the sales of manganese ferroalloy to CITIC Special Steel under the 2017 CITIC Special Steel Agreement for the three years ending 31 December 2020, which has been previously announced in the announcement of the Company dated 29 December 2017.

In respect to the new continuing connected transactions and the renewal of continuing connected transactions with Guangxi Dameng, as the highest applicable Percentage Ratio calculated with reference to the aggregate of the 2016 Guangxi Dameng Caps and the 2018 Guangxi Dameng Caps under the 2016 Guangxi Dameng Agreements and the 2018 Guangxi Dameng Agreements respectively is more than 5%, the transactions contemplated under the 2018 Guangxi Dameng Agreements are therefore subject to the reporting, annual review and announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In respect of the continuing connected transactions with CITIC Special Steel, as the highest applicable Percentage Ratio calculated with reference to the 2018 CITIC Special Steel Caps is more than 5%, the transactions contemplated under the 2018 CITIC Special Steel Agreement are therefore subject to the reporting, annual review and announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Independent Board Committee, comprising Mr. Lin Zhijun, Mr. Mo Shijian and Mr. Tan Zhuzhong, all being the independent non-executive Directors, has been established to give advice and recommendation to (i) Non Guangxi Dameng Independent Shareholders in respect of the terms of the 2018 Guangxi Dameng Agreements, the 2018 Guangxi Dameng Caps and the transactions contemplated thereunder; and (ii) Non CITIC Independent Shareholders in respect of the terms of the 2018 CITIC Special Steel Agreement, the 2018 CITIC Special Steel Caps and the transactions contemplated thereunder, respectively.

We, Shinco Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee, Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders as to whether the 2018 Guangxi Dameng Agreements, the 2018 Guangxi Dameng Caps and the transactions contemplated thereunder, as well as the 2018 CITIC Special Steel Agreement, the 2018 CITIC Special Steel Caps and the transactions contemplated thereunder are (i) fair and reasonable so far as Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders, respectively, are concerned; (ii) on normal commercial terms and in the ordinary and usual course of business of the Group; and (iii) in the interests of the Company and the Shareholders as a whole, and to advise Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders, respectively, on how to vote at the SGM.

LETTER FROM SHINCO CAPITAL

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, there was no engagement between the Group and Shinco Capital Limited. Apart from normal professional fee payable to us in connection with this appointment, no arrangements existed or remained in existence whereby we had received or will receive any fees or benefits from the Company or any other party related to the aforesaid transactions. Therefore, we consider we are independent pursuant to Rule 13.84 of the Listing Rules and are accordingly eligible to give independent advice in respect of the 2018 Guangxi Dameng Agreements and the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder.

BASIS OF OUR OPINION

In formulating our advice and recommendation, we have relied on the accuracy of the information and facts supplied, and the opinions expressed by the Company, the Directors and the management of the Company to us. We have assumed that all statements of belief and intention made by the Directors and the management of the Company in the Circular were made after due enquiries. We have also assumed that all information, representations and opinion made or referred to in the Circular are true, accurate, and complete at the time they were made and continued to be so at the Latest Practicable Date. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and the management of the Company, and have been advised by the Directors and the management of the Company that no material facts have been omitted from the information provided and referred to in the Circular.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this Letter.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs or future prospects of the Group, or their respective shareholders, subsidiaries or associates. Nothing contained in this Letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Where information in this Letter has been extracted from published or otherwise publicly available sources, we have ensured that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM SHINCO CAPITAL

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion in respect of the 2018 Guangxi Dameng Agreements and the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder, we have considered the following principal factors and reasons:

1. INFORMATION ON THE COMPANY, GUANGXI DAMENG AND CITIC SPECIAL STEEL

Information on the Company

The Company, a limited company incorporated in Bermuda, is a vertically integrated manganese producer that produces and sells manganese products. It has manganese mining, ore processing and downstream processing operations in the PRC as well as manganese mining and ore processing operations in Gabon.

As at the Latest Practicable Date, the controlling Shareholder of the Company is CITIC Limited, a company incorporated in Hong Kong with limited liability with its shares listed on the Main Board of the Stock Exchange (stock code: 267). The controlling shareholder of CITIC Limited is CITIC Group, a state-owned company established in the PRC in 1979.

Information on Guangxi Dameng, Guangxi Liuzhou and Nanning Battery Plant

Guangxi Dameng is a state-owned limited liability company established under the laws of the PRC and is indirectly wholly-owned by the government of Guangxi, the PRC. Guangxi Dameng, together with its subsidiaries, is principally engaged in manganese mining and processing, EMM production, battery production, mechanical engineering, accessories manufacturing and export trade, and other businesses. As at the Latest Practicable Date, Guangxi Dameng holds approximately 22.64% equity interest in the Company and therefore is a connected person of the Company. Guangxi Dameng wholly owns Guangxi Liuzhou and Nanning Battery Plant, thus Guangxi Liuzhou and Nanning Battery Plant are each a connected person of the Company.

Guangxi Liuzhou is a company incorporated under the laws of the PRC and is principally engaged in electrical and mechanical equipment manufacturing business.

Nanning Battery Plant is a company incorporated under the laws of the PRC and is principally engaged in battery manufacturing and accessories production (including plastic bags) businesses.

Information on CITIC Special Steel

CITIC Special Steel, a company incorporated under the laws of the PRC, is principally engaged in steel and ancillary products manufacturing and processing. CITIC Special Steel (together with its subsidiaries) is one of the market leaders in steel production in the PRC. As at the Latest Practicable Date, CITIC Special Steel is an indirect wholly owned subsidiary of CITIC Limited, which is in turn a subsidiary of CITIC Group. Therefore, CITIC Special Steel is a connected person of the Company.

LETTER FROM SHINCO CAPITAL

2. THE 2018 GUANGXI DAMENG AGREEMENTS AND THE 2018 GUANGXI DAMENG CAPS

As set out in the Letter from the Board, the 2018 Guangxi Dameng Agreements consists of (i) new continuing connected transactions contemplated under the 2018 Guangxi Dameng Ore Agreement, the 2018 Guangxi Dameng EMM Agreement and the 2018 Guangxi Dameng Raw Materials Agreement; and (ii) renewal of continuing connected transactions with Guangxi Dameng contemplated under the 2018 Integrated Services Framework Agreement, the 2018 Guangxi Liuzhou Agreement and the 2018 Nanning Battery Plant Agreement.

For details of the 2018 Guangxi Dameng Agreements, please refer to the disclosure set out in the Letter from the Board.

A. New continuing connected transactions with Guangxi Dameng and its subsidiaries

(1) 2018 Guangxi Dameng Ore Agreement

Item to be purchased

Pursuant to the 2018 Guangxi Dameng Ore Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase High Grade Manganese Ore (with manganese content of more than 30%) from Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020. Details of the 2018 Guangxi Dameng Ore Agreement are set out in the Letter from the Board.

Pricing terms and standards

As set out in the Letter from the Board, the transactions under the 2018 Guangxi Dameng Ore Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

Under the 2018 Guangxi Dameng Ore Agreement, the quantity of High Grade Manganese Ore to be purchased from Guangxi Dameng (and/or its subsidiaries) is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

LETTER FROM SHINCO CAPITAL

Also, as set out in the Letter from the Board under the heading “PRICING STANDARDS”, the purchase or selling prices (where applicable) in respect of the goods or products under the 2018 Guangxi Dameng Ore Agreement, the 2018 Guangxi Dameng EMM Agreement, the 2018 Guangxi Dameng Raw Materials Agreement, the 2018 Guangxi Liuzhou Agreement, the 2018 Nanning Battery Plant Agreement and the mining drawing service under the 2018 Integrated Services Framework Agreement will be determined with reference to:

- (1) the applicable state price in respect of the goods or products or services promulgated by local government of the PRC (if any);
- (2) if there is no applicable state price for such goods or products or services, the fair prices of the same or same type of goods or products or services provided by Independent Third Parties in the location of the Company or the nearby area, and the prevailing market price of the transaction. The Group will obtain relevant market price information through various channels, which include (i) considering at least two comparable transactions (if any) conducted by Independent Third Parties during the same period on such goods or products or services; (ii) communication and exchange of price information with at least two independent suppliers or customers by various means, including telephone conversations, emails and meetings, with peers and business partners within the same industry; and/or (iii) online information obtained from various websites from time to time like 華誠金屬網 (<http://www.hme01.com/information/>), 中國鐵合金在線 (<http://www.cnfeol.com/>) or other relevant websites. The Company will conclude the relevant market price by (i) at least two comparable transactions with Independent Third Parties; and (ii) the prices offered by such Independent Third Parties to set the fair price; or
- (3) where there are no available prevailing market prices or where it is impracticable to obtain the relevant market price information, the Group and Guangxi Dameng and/or its subsidiaries will determine the price after arm’s length negotiations with reference to (i) the previous same or same type of the transactions concluded by the Group with Guangxi Dameng and/or its subsidiaries; and/or (ii) previous same or same type of the transactions concluded by the Group with Independent Third Parties

(all together, the “**Pricing Standard**”).

LETTER FROM SHINCO CAPITAL

Also, as set out in the Letter from the Board, according to the internal control policy of the Group, there are at least two historical transactions and enquiries or at least two participants in the tender (if applicable) when determining the selling or purchase price for the goods or products or service fees and the Group will continue to strictly follow the abovementioned requirements.

With this regard, we have enquired and are given to understand from the management of the Company that there is currently no applicable state price for High Grade Manganese Ore, thus in the future if no state price is to be available, the Group will mainly make reference to at least 2 quotations from Independent Third Parties in determining the price and will also make a general reference to other market available information, such as 華誠金屬網 and 中國鐵合金在線 (the “**Reference Website(s)**”). The Company will ensure that the terms and conditions to be agreed between the Group and Guangxi Dameng will be no less favourable than those available from Independent Third Parties.

We have discussed and confirmed with the management of the Company that each of the Reference Websites is one of the key references to the industry in the PRC. We have also researched and noted that the Reference Websites are used by other natural resources mining and/or processing companies listed on the Stock Exchange, Shenzhen Stock Exchange or Shanghai Stock Exchange for the disclosure of the commodity market price as a reference, thus it would be appropriate for the Group to make reference to the Reference Websites in determining the price.

Having considered that (i) the price of High Grade Manganese Ore is not fixed but is to be determined in accordance with prevailing market prices and there is no minimum amount or any pre-defined quantity of High Grade Manganese Ore under the 2018 Guangxi Dameng Ore Agreement, the Group is not obliged to purchase any High Grade Manganese Ore if the price offered by Guangxi Dameng is not competitive than those of the Independent Third Parties; and (ii) the Company has in place an internal control system to govern the conduct of continuing connected transactions as discussed in the section headed “4. INTERNAL CONTROL MEASURES” in this Letter, we consider that the pricing terms and standards are fair and reasonable so far as Non Guangxi Dameng Independent Shareholders are concerned.

Reasons for entering into of the 2018 Guangxi Dameng Ore Agreement

High Grade Manganese Ore is an essential material for manganese ferroalloy production. As disclosed in the Letter from the Board, the Group has established a long term and good cooperation and working relationship with Guangxi Dameng and its subsidiaries, where Guangxi Dameng is one of the key manganese ore suppliers in the PRC and can offer High Grade Manganese Ore in large quantities at competitive prices.

LETTER FROM SHINCO CAPITAL

As disclosed in the website of PMG Mining (Pty) Limited (a subsidiary of Guangxi Dameng), Guangxi Dameng now operates Bishop Mine in South Africa with existing mining capacity of approximately 600,000 tonnes per annum and is now developing Paling Mine in South Africa, and the mining capacity of these two mines, in aggregate, will be further increased to approximately 1,200,000 tonnes per annum in year 2018. The measured and indicated manganese resources of Bishop Mine are approximately 10,084,800 tonnes with average manganese content of 34% and the manganese resources of Paling Mine are approximately 40,000,000 tonnes with average manganese content of 35%.

Proposed annual caps

Set out below are the annual caps proposed by the Company for the transactions contemplated under the 2018 Guangxi Dameng Ore Agreement:

	For the period from 26 July 2018 to 31 December 2018	For the year ending 31 December 2019 (Note)	For the year ending 31 December 2020
Purchase of High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries)	HK\$154,286,000 (equivalent to RMB123,429,000)	HK\$330,750,000 (equivalent to RMB264,600,000)	HK\$396,900,000 (equivalent to RMB317,520,000)

Note: As the annual cap of the 2018 Guangxi Dameng Ore Agreement for the year ending 31 December 2018 relates only to a shorter period from 26 July to 31 December 2018, there is a significant increase in the annual cap of the 2018 Guangxi Dameng Ore Agreement for the year ending 31 December 2019 over that of 2018.

Basis for the proposed annual caps

As set out in the Letter from the Board, the proposed annual caps in respect of the purchase of High Grade Manganese Ore from Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the Group's historical demand and purchase price of High Grade Manganese Ore for its manganese ferroalloy production for the two years and five months ended 31 May 2018; (ii) the estimated aggregate demand of High Grade Manganese Ore for the Group's manganese ferroalloy production and the resale to Dushan Jinmeng to meet its manganese ferroalloy production totaling approximately 137,100 tonnes, 280,000 tonnes and 320,000 tonnes for the period from 26 July 2018 to 31 December 2018 and the two years ending 31 December 2020 respectively; and (iii) the estimated purchase prices of High Grade Manganese Ore of RMB900 per tonne, RMB945 per tonne and RMB992 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

LETTER FROM SHINCO CAPITAL

Our view

- (i) The estimated demand for High Grade Manganese Ore in determining the proposed annual caps

As set out in the Letter from the Board, there are no purchases of High Grade Manganese Ore by the Group from Guangxi Dameng (and/or its subsidiaries) for the past two financial years ended 31 December 2017 and the five months ended 31 May 2018. As advised by the management of the Company, apart from purchasing High Grade Manganese Ore for the production of manganese ferroalloy of the Group, it also intends to purchase High Grade Manganese Ore and supply them to its associated company, namely Dushan Jinmeng for which the Group expects to realise reasonable amount of profit. As advised by the management of the Company, the Company's Qinzhou Ferroalloy Plant, which is located in Qinzhou City, Guangxi, the PRC, has an expected manganese ferroalloy production capacity of approximately 110,000 tonnes, 200,000 tonnes and 200,000 tonnes per annum for the three years ending 31 December 2020. Dushan Jinmeng has an estimated production capacity of approximately 500,000 tonnes, 500,000 tonnes and 500,000 tonnes per annum for the three years ending 31 December 2020. Based on the average utilisation rate of approximately 2.26 tonnes of High Grade Manganese Ore per tonne production of manganese ferroalloy, the estimated demand of the Group and Dushan Jinmeng for High Grade Manganese Ore, respectively, are as follows:

		For the period from 26 July 2018 to 31 December 2018 <i>(approximately)</i>	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>
Expected annual production capacity of Qinzhou Ferroalloy Plant (tonnes)	(A)	45,800*	200,000	200,000
Expected annual production capacity of Dushan Jinmeng (tonnes)	(B)	208,300*	500,000	500,000
Estimated aggregate demand of the Group and Dushan Jinmeng for High Grade Manganese Ore (tonnes)	(C)	574,300*	1,582,000	1,582,000

LETTER FROM SHINCO CAPITAL

		For the period from 26 July 2018 to 31 December 2018 <i>(approximately)</i>	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>
Estimated amount of High Grade Manganese Ore to be purchased from Guangxi Dameng (and/or its subsidiaries) by the Group (tonnes)	(D)	137,100	280,000	320,000
Percentage of the amount of High Grade Manganese Ore to be purchased from Guangxi Dameng (and/or its subsidiaries) by the Group to the estimated aggregate demand of the Group and Dushan Jinmeng for High Grade Manganese Ore	(D)/(C)	24%	18%	20%

(pro rata for 5 months)*

Having considered that (i) Guangxi Dameng is one of the key manganese ore suppliers in the PRC and High Grade Manganese Ore is an essential material for the Group's manganese ferroalloy production; and (ii) the amount of High Grade Manganese Ore to be purchased by the Group from Guangxi Dameng (and/or through its subsidiaries) represents approximately 18% to 24% of the total expected demand of the Group for High Grade Manganese Ore for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020, we consider that the estimated demand for High Grade Manganese Ore applied in determining the proposed annual caps for the transactions contemplated under the 2018 Guangxi Dameng Ore Agreement is fair and reasonable.

- (ii) The estimated purchase price of High Grade Manganese Ore in determining the proposed annual caps

We understand from the management of the Company that, in determining the proposed annual caps, the estimated purchase prices of RMB900 per tonne, RMB945 per tonne and RMB992 per tonne respectively for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 were determined with reference to the price of comparable manganese content of the manganese ore in (i) Bishop Mine, which is currently operated by Guangxi Dameng; and (ii) Paling Mine, which will come into operation at the year end of 2018 tentatively.

LETTER FROM SHINCO CAPITAL

In order to assess the estimated purchase price of High Grade Manganese Ore in determining the proposed annual caps, we have obtained and reviewed the recent market prices, on average, for the importation of High Grade Manganese Ore from the online information available to the public on the Reference Websites. Based upon information available on the Reference Websites, the average ex-tax market price of High Grade Manganese Ore for the period from January 2016 to May 2018 ranged from approximately RMB15.6 per dry metric tonne unit (“DMTU”) to approximately RMB44.4 per DMTU, with an average of approximately RMB30.0 per DMTU during the period. We discussed and confirmed with the management of the Company that the estimated ex-tax purchase prices of High Grade Manganese Ore would be equivalent to approximately RMB28.1 per DMTU, RMB29.5 per DMTU and RMB31.0 per DMTU respectively for the three years ending 31 December 2020. Based on the above, we note that the estimated purchase price of High Grade Manganese Ore is comparable to, and within the range of, the historical average ex-tax market price of High Grade Manganese Ore for the period from January 2016 to May 2018.

Having considered that the estimated purchase price of High Grade Manganese Ore applied in determining the proposed annual caps falls within the aforesaid market price range of High Grade Manganese Ore based on the estimated manganese content of the manganese ore from Guangxi Dameng, we consider such estimated purchase price is fair and reasonable.

Conclusion

Based on the above, we are of the view that the proposed annual caps under the 2018 Guangxi Dameng Ore Agreement are fair and reasonable.

(2) 2018 Guangxi Dameng EMM Agreement

Item to be purchased

Pursuant to the 2018 Guangxi Dameng EMM Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase EMM from Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020. Details of the 2018 Guangxi Dameng EMM Agreement are set out in the Letter from the Board.

LETTER FROM SHINCO CAPITAL

Pricing terms and standards

As set out in the Letter from the Board, the transactions under the 2018 Guangxi Dameng EMM Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

Under the 2018 Guangxi Dameng EMM Agreement, the quantity of EMM to be purchased from Guangxi Dameng (and/or its subsidiaries) is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of EMM from Guangxi Dameng (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed but are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner. The transactions under the 2018 Guangxi Dameng EMM Agreement will follow the Pricing Standard.

We have enquired and are given to understand from the management of the Company that there is currently no applicable state price for EMM, thus in the future if no state price is to be available, the Group will mainly make reference to at least 2 quotations from Independent Third Parties in determining the prices and will also make a general reference to other market available information, such as Reference Websites. The Company will ensure that the terms and conditions to be agreed between the Group and Guangxi Dameng will be no less favourable than those available from Independent Third Parties. Also, the Group will only choose to purchase EMM if there are orders from customers of the Group but the EMM produced by the Group is insufficient to meet its customers' demand and the intended selling price of EMM to the Group's customer is higher than the purchase price of EMM from Guangxi Dameng (and/or its subsidiaries).

Having considered that (i) the price of EMM is not fixed but is to be determined in accordance with prevailing market prices and there is no minimum amount or any pre-defined quantity of EMM under the 2018 Guangxi Dameng EMM Agreement, therefore the Group is not obliged to purchase any EMM if the price offered by Guangxi Dameng is not competitive than those of the Independent Third Parties; (ii) the Group will only purchase EMM from Guangxi Dameng where there is existing order(s) from its customer(s) with higher selling price than the purchase price with Guangxi Dameng, such that the Group would not result in loss making from trading of EMM with Guangxi Dameng; and (iii) the Company has in place an internal control system to govern the conduct of continuing connected transaction(s) as discussed in the section headed "4. INTERNAL CONTROL MEASURES" in this Letter, we consider that the pricing terms and standards are fair and reasonable.

LETTER FROM SHINCO CAPITAL

Reasons for entering into the 2018 Guangxi Dameng EMM Agreement

The Group is one of the leading EMM producers in the PRC for production and sales of EMM, which is highly demanded by its customers. Meanwhile, Guangxi Dameng (together with its subsidiaries) is one of the leading EMM producers in Guangxi, the PRC, which also produces EMM at competitive prices with high quality that could supplement the aforesaid demand of the Group's customers from time to time and to enlarge the Group's market share and maintain the Group's market leadership in the region. In addition, the collaboration with Guangxi Dameng can ensure a more orderly market in the local region and enhance the Group's economies of scales and sales bargaining power in negotiating commercial terms with their common customers. The Group expects that such trading of EMM could provide an additional profit to the Group.

Proposed annual caps

Set out below are the annual caps proposed by the Company for the transactions contemplated under the 2018 Guangxi Dameng EMM Agreement:

	For the period from 26 July 2018 to 31 December 2018	For the year ending 31 December 2019 (Note)	For the year ending 31 December 2020
Purchase of EMM from Guangxi Dameng (and/or its subsidiaries)	HK\$115,500,000 (equivalent to RMB92,400,000)	HK\$257,250,000 (equivalent to RMB205,800,000)	HK\$351,146,000 (equivalent to RMB280,917,000)

Note: As the annual cap of the 2018 Guangxi Dameng EMM Agreement for the year ending 31 December 2018 relates only to a shorter period from 26 July to 31 December 2018, there is a significant increase in the annual cap of the 2018 Guangxi Dameng EMM Agreement for the year ending 31 December 2019 over that of 2018.

LETTER FROM SHINCO CAPITAL

Basis for the proposed annual caps

As set out in the Letter from the Board, the proposed annual caps in respect of the purchase of EMM from Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the historical production of EMM by Guangxi Dameng (and/or its subsidiaries) and historical sales of EMM of the Group for the two years and five months ended 31 May 2018; (ii) the estimated quantity of EMM to be purchased from Guangxi Dameng (and/or its subsidiaries) of approximately 9,400 tonnes, 20,000 tonnes and 26,000 tonnes for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated purchase prices of EMM of RMB9,800 per tonne, RMB10,290 per tonne and RMB10,805 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

Our view

- (i) The estimated quantity of EMM in determining the proposed annual caps

As advised by the management of the Company, the Group has not purchased any EMM from Guangxi Dameng (and/or its subsidiaries) in the past, and the estimated quantity of EMM in determining the proposed annual caps is based on the estimated EMM production of Guangxi Dameng of approximately 25,000 tonnes, 30,000 tonnes and 30,000 tonnes per annum for the three years ending 31 December 2020 respectively:

		For the period from 26 July 2018 to 31 December 2018 <i>(approximately)</i>	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>
Estimated annual EMM production capacity of Guangxi Dameng (tonnes)	(A)	10,400*	30,000	30,000
Estimated amount of EMM to be purchased from Guangxi Dameng (and/or its subsidiaries) (tonnes)	(B)	9,400	20,000	26,000
Annual EMM production capacity of the Group (tonnes)	(C)	83,300*	200,000	200,000

LETTER FROM SHINCO CAPITAL

		For the period from 26 July 2018 to 31 December 2018 <i>(approximately)</i>	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>
Percentage of the estimated amount of EMM to be purchased from Guangxi Dameng to the estimated annual EMM production capacity of Guangxi Dameng	(B)/(A)	90%	67%	87%
Percentage of the amount of EMM to be purchased from Guangxi Dameng to overall current annual EMM production capacity of the Group	(B)/(C)	11%	10%	13%

(pro rata for 5 months)*

As illustrated in the above table, the estimated amount of EMM to be purchased by the Group from Guangxi Dameng accounts for approximately 67% to approximately 90% of the expected production of EMM by Guangxi Dameng for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020. Having considered that (i) the Group's estimated amount of EMM to be purchased from Guangxi Dameng is within the current EMM production capacity of Guangxi Dameng (i.e., the percentage calculated above is less than 100%) and provides flexibility to the Group to decide whether it would purchase EMM from Guangxi Dameng when there are extra demands from the Group's customers for EMM; and (ii) such quantity is not material to the overall current EMM production capacity of the Group of approximately 200,000 tonnes per annum, we consider that the estimated quantity of EMM to be applied in determining the proposed annual caps for the transactions contemplated under the 2018 Guangxi Dameng EMM Agreement is fair and reasonable.

LETTER FROM SHINCO CAPITAL

- (ii) The estimated purchase price of EMM in determining the proposed annual caps

As set out in the annual results of the Group for the year ended 31 December 2017, for the year ended 31 December 2017, the Group recorded sales volume of EMM of approximately 141,629 tonnes (representing an increase of approximately 10.55% compared to approximately 128,109 tonnes for the year ended 31 December 2016). The average selling prices of EMM for the year ended 31 December 2016 and 31 December 2017 were approximately HK\$10,763 per tonne and HK\$12,040 per tonne (i.e., equivalent to approximately RMB9,202 per tonne at the rate of RMB1=HK\$1.1696 for 2016 and approximately RMB10,441 per tonne at the rate of RMB1=HK\$1.1531 for 2017) respectively.

Furthermore, in order to assess the estimated purchase price of EMM in determining the proposed annual caps, we have obtained and reviewed the recent market prices, on average, of EMM from the online information available to the public on the Reference Websites. Based upon information available on the Reference Websites, the average ex-tax market price of EMM for the period from January 2016 to May 2018 ranged from approximately RMB8,402 per tonne to approximately RMB13,885 per tonne, with an average of approximately RMB9,934 per tonne during the period.

As the estimated purchase price of EMM of RMB9,800 per tonne, RMB10,290 per tonne and RMB10,805 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 used in determining the proposed annual caps under the 2018 Guangxi Dameng EMM Agreement is comparable to the historical selling price of EMM of the Group for the two years ended 31 December 2017 and is comparable to, and within the range of, the historical average ex-tax market price of EMM for the period from January 2016 to May 2018, we consider that the estimated purchase price of EMM applied in determining the proposed annual caps is fair and reasonable.

Conclusion

Based on the above, we are of the view that the proposed annual caps under the 2018 Guangxi Dameng EMM Agreement are fair and reasonable.

LETTER FROM SHINCO CAPITAL

(3) 2018 Guangxi Dameng Raw Materials Agreement

Items to be sold

Pursuant to the 2018 Guangxi Dameng Raw Materials Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to sell Raw Materials, including (i) Low Grade Manganese Ore; (ii) sulfuric acid; and (iii) selenium dioxide, to Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020. Details of the 2018 Guangxi Dameng Raw Materials Agreement are set out in the Letter from the Board.

Pricing terms and standards

As set out in the Letter from the Board, the transactions under the 2018 Guangxi Dameng Raw Materials Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available to Independent Third Parties.

Under the 2018 Guangxi Dameng Raw Materials Agreement, the quantity of Raw Materials to be sold to Guangxi Dameng (and/or its subsidiaries) is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to sell a minimum amount or any pre-defined quantity of Raw Materials to Guangxi Dameng (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed but are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner. The transactions under the 2018 Guangxi Dameng Raw Materials Agreement will follow the Pricing Standard.

LETTER FROM SHINCO CAPITAL

We have enquired and are given to understand from the management of the Company that the Company purchases Raw Materials for its EMM production and the Company intends to sell some of the Raw Materials to Guangxi Dameng under the 2018 Guangxi Dameng Raw Materials Agreement. We have enquired and are given to understand from the management of the Company that there is currently no applicable state price, thus in the future if no state price is to be available, the Group will make reference to at least 2 quotations from Independent Third Parties in determining the prices and will ensure such selling prices to Guangxi Dameng will not be lower than the purchase costs of the Group and will also make a general reference to market available information, such as Reference Websites. The Company will also ensure that the terms and conditions to be agreed between the Group and Guangxi Dameng will be no less favourable than those available to Independent Third Parties.

Having considered that the price of Raw Materials is not fixed but is to be determined in accordance with prevailing market prices and there is no minimum amount or any pre-defined quantity of Raw Materials under the 2018 Guangxi Dameng Raw Materials Agreement, therefore the Group is not obliged to sell any Raw Materials if the selling prices offered to Guangxi Dameng cannot compensate the costs of the Group and thus resulting in potential loss, we consider that the pricing terms and standards are fair and reasonable.

Reasons for entering into the 2018 Guangxi Dameng Raw Materials Agreement

As set out in the Letter from the Board, the Group is one of the largest EMM producers in the southern PRC and therefore the Group can purchase Raw Materials at competitive prices which can be resold to Guangxi Dameng (and/or its subsidiaries) for their EMM production. Therefore, the Company considers that trading with Guangxi Dameng (and/or its subsidiaries) could increase the Group's economies of scales and strengthen the Group's bargaining power in price and other commercial terms negotiation with its Raw Materials suppliers and is beneficial to the continuing operations and business of the Group.

Also, as advised by the management of the Company, and we concur, that, (i) the supply of Raw Materials would facilitate Guangxi Dameng's production and supply of EMM under the 2018 Guangxi Dameng EMM Agreement; and (ii) it is not obliged for the Group and Guangxi Dameng to have actual trading under the 2018 Guangxi Dameng EMM Agreement if the terms of trading would not be agreed in future, the Group would sell Raw Materials only if the selling prices of Raw Materials to Guangxi Dameng were higher than the purchase costs of the Group so that the Group would not incur loss. In view of the above, we consider the reasons for the entering into of the 2018 Guangxi Dameng Raw Materials Agreement are justifiable.

LETTER FROM SHINCO CAPITAL

Proposed annual caps

Set out below are the annual caps proposed by the Company for the transactions contemplated under the 2018 Guangxi Dameng Raw Materials Agreement:

	For the period from 26 July 2018 to 31 December 2018	For the year ending 31 December 2019 (Note)	For the year ending 31 December 2020
Sale of Raw Materials to Guangxi Dameng (and/or its subsidiaries)			
(i) Low Grade Manganese Ore	HK\$11,571,000 (equivalent to RMB9,257,000)	HK\$18,900,000 (equivalent to RMB15,120,000)	HK\$19,845,000 (equivalent to RMB15,876,000)
(ii) sulfuric acid	HK\$10,000,000 (equivalent to RMB8,000,000)	HK\$27,563,000 (equivalent to RMB22,050,000)	HK\$28,941,000 (equivalent to RMB23,153,000)
(iii) selenium dioxide	HK\$3,834,000 (equivalent to RMB3,067,000)	HK\$9,975,000 (equivalent to RMB7,980,000)	HK\$10,474,000 (equivalent to RMB8,379,000)

Note: As the annual caps of the 2018 Guangxi Dameng Raw Materials Agreement for the year ending 31 December 2018 relate only to a shorter period from 26 July to 31 December 2018, there are significant increases in the annual caps of the 2018 Guangxi Dameng Raw Materials Agreement for the year ending 31 December 2019 over that of 2018.

Basis for the proposed annual caps

As set out in the Letter from the Board, the proposed annual caps for the sale of Low Grade Manganese Ore to Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the Group's historical demand for Low Grade Manganese Ore for EMM production for the two years and five months ended 31 May 2018; (ii) the estimated sales quantity of Low Grade Manganese Ore to Guangxi Dameng (and/or its subsidiaries) of approximately 25,700 tonnes, 40,000 tonnes and 40,000 tonnes for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated average selling price of Low Grade Manganese Ore of RMB360 per tonne, RMB378 per tonne and RMB397 per tonne for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

LETTER FROM SHINCO CAPITAL

As set out in the Letter from the Board, the proposed annual caps for the sale of sulfuric acid to Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the Group's historical demand and purchase price of sulfuric acid for EMM production for the two years and five months ended 31 May 2018; (ii) the estimated sales of sulfuric acid to Guangxi Dameng (and/or its subsidiaries) of approximately 22,900 tonnes, 60,000 tonnes and 60,000 tonnes for the period from 26 July 2018 to 31 December 2018 and the two years ending 31 December 2020 respectively; and (iii) the estimated average selling price of sulfuric acid of RMB350 per tonne, RMB368 per tonne and RMB386 per tonne for the period from 26 July 2018 to 31 December 2018 and the two years ending 31 December 2020 respectively.

As set out in the Letter from the Board, the proposed annual caps for the sale of selenium dioxide to Guangxi Dameng (and/or its subsidiaries) were determined with reference to, inter alia, (i) the Group's historical demand and purchase price of selenium dioxide for EMM production for the two years and five months ended 31 May 2018; (ii) the estimated sales quantity of selenium dioxide to Guangxi Dameng (and/or its subsidiaries) of approximately 16,100kg, 40,000kg and 40,000kg for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively; and (iii) the estimated average selling price of selenium dioxide of RMB190 per kg, RMB200 per kg and RMB209 per kg for the period from 26 July 2018 to 31 December 2018 and two years ending 31 December 2020 respectively.

Our view

- (i) The estimated sales of Raw Materials in determining the proposed annual caps

We have enquired and understand from the management of the Company that the Group has not sold any Raw Materials to Guangxi Dameng nor other Independent Third Parties in the past. We understand that the estimated sales quantity of Raw Materials to Guangxi Dameng is based on (i) the estimated EMM production of Guangxi Dameng of approximately 25,000 tonnes, 30,000 tonnes and 30,000 tonnes per annum respectively for the three year ending 31 December 2020; and (ii) the expected demand for Raw Materials at such production schedule based on the average utilisation rate of approximately 7.22 tonnes of Low Grade

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Manganese Ore, approximately 2.22 tonnes of sulfuric acid and approximately 1.55kg of selenium dioxide per tonne of EMM production by the Group. Set out below are the Group's estimations:

		For the period from 26 July 2018 to 31 December 2018 (approximately)	For the year ending 31 December 2019 (approximately)	For the year ending 31 December 2020 (approximately)
(i) Low Grade Manganese Ore				
Total estimated demand of Guangxi Dameng for Low Grade Manganese Ore based on its estimated annual EMM production (tonnes)	(A)	75,200*	216,600	216,600
The estimated amount of Low Grade Manganese Ore to be sold by the Group to Guangxi Dameng (and/or its subsidiaries) (tonnes)	(B)	25,700	40,000	40,000
Total estimated demand of the Group for Low Grade Manganese Ore based on its overall current EMM production capacity of approximately 200,000 tonnes per annum (tonnes)	(C)	601,700*	1,444,000	1,444,000
Percentage of the estimated amount of Low Grade Manganese Ore to be sold to the total estimated demand of Guangxi Dameng for Low Grade Manganese Ore	(B)/(A)	34%	18%	18%
Percentage of the estimated amount of Low Grade Manganese Ore to be sold by the Group to the total estimated demand of the Group for Low Grade Manganese Ore	(B)/(C)	4.3%	2.8%	2.8%
(ii) Sulfuric acid				
Total estimated demand of Guangxi Dameng for sulfuric acid based on its estimated annual EMM production (tonnes)	(A)	23,100*	66,600	66,600
The estimated amount of sulfuric acid to be sold by the Group to Guangxi Dameng (and/or its subsidiaries) (tonnes)	(B)	22,900	60,000	60,000
Total estimated demand of the Group of sulfuric acid based on its overall current EMM production capacity of approximately 200,000 tonnes per annum (tonnes)	(C)	185,000*	444,000	444,000

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		For the period from 26 July 2018 to 31 December 2018 <i>(approximately)</i>	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>
Percentage of the estimated amount of sulfuric acid to be sold by the Group to the total estimated demand of Guangxi Dameng for sulfuric acid	(B)/(A)	99%	90%	90%
Percentage of the estimated amount of sulfuric acid to be sold by the Group to the total estimated demand of the Group for sulfuric acid	(B)/(C)	12.4%	13.5%	13.5%
(iii) Selenium dioxide				
Total estimated demand of Guangxi Dameng for selenium dioxide based on its estimated EMM production (kg)	(A)	16,100*	46,500	46,500
The estimated amount of selenium dioxide to be sold by the Group to Guangxi Dameng (and/or its subsidiaries) (kg)	(B)	16,100	40,000	40,000
Total estimated demand of the Group for selenium dioxide based on its overall current EMM production capacity of approximately 200,000 tonnes per annum (kg)	(C)	129,200*	310,000	310,000
Percentage of the estimated amount of selenium dioxide to be sold to the total estimated demand of Guangxi Dameng	(B)/(A)	100%	86%	86%
Percentage of the estimated amount of selenium dioxide to be sold by the Group to the total estimated demand of the Group	(B)/(C)	12.5%	12.9%	12.9%
<i>(* pro rata for 5 months)</i>				

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As noted from the above table,

- (i) the percentage of the estimated amount of Low Grade Manganese Ore to be sold to Guangxi Dameng to the total estimated demand of Guangxi Dameng for it is approximately 18% to approximately 34%;
- (ii) the percentage of the estimated amount of sulfuric acid to be sold to Guangxi Dameng to the total estimated demand of Guangxi Dameng for it is approximately 90% to approximately 99%; and
- (iii) the percentage of the estimated amount of selenium dioxide to be sold to Guangxi Dameng to the total estimated demand of Guangxi Dameng for it is approximately 86% to approximately 100%.

As the total estimated amount of Raw Materials to be sold to Guangxi Dameng (and/or its subsidiaries) for the period from 26 July 2018 to 31 December 2020 does not exceed the total estimated demand of Guangxi Dameng (and/or its subsidiaries) for Raw Materials based on its estimated EMM production for the same period/year, we consider the estimated sales of Raw Materials to be applied in determining the proposed annual caps for the transactions contemplated under the 2018 Guangxi Dameng Raw Materials Agreement are fair and reasonable.

- (ii) Estimated selling prices of Raw Materials in determining the proposed annual caps

As stated above, the Group has not sold any Raw Materials to any parties, therefore in determining the estimated selling prices of Raw Materials used for the proposed annual caps, the Company makes reference to the market prices of Raw Materials.

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In order to assess the estimated selling prices of Raw Materials in determining the proposed annual caps, we have obtained and reviewed the recent market prices, on average, of Raw Materials from the online information available to the public on the Reference Websites. Based upon information available on the Reference Websites, for the period from the January 2016 to May 2018, (i) the average ex-tax market price of Low Grade Manganese Ore ranged from approximately RMB290.6 per tonne to approximately RMB495.7 per tonne, with an average of approximately RMB371.5 per tonne during the period (for the average ex-tax market price of Low Grade Manganese Ore, we only used the market price information from 中國鐵合金在線 as our reference, as only market prices of the similar products to Low Grade Manganese Ore were available in 華誠金屬網, but not Low Grade Manganese Ore which would serve for comparison); (ii) the average ex-tax market price of sulfuric acid ranged from approximately RMB119.7 per tonne to approximately RMB448.7 per tonne, with an average of approximately RMB280.4 per tonne during the period; and (iii) the average ex-tax market price of selenium dioxide ranged from approximately RMB49.7 per kg to approximately RMB236.8 per kg, with an average of approximately RMB133.4 per kg during the period. Based on the above, we note that the estimated selling prices of Raw Materials are comparable to the average ex-tax market prices of Raw Materials.

In the view that the Company has appropriately made reference to the historical market prices of Raw Materials in determining the proposed annual caps for the transactions contemplated under the 2018 Guangxi Dameng Raw Materials Agreement and such estimated prices are comparable to the average ex-tax market prices of Raw Materials, we consider the estimated prices of Raw Materials are fair and reasonable.

Conclusion

Based on the above, we are of the view that the proposed annual caps for the transactions contemplated under the 2018 Guangxi Dameng Raw Materials Agreement are fair and reasonable.

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B. Renewal of continuing connected transactions with Guangxi Dameng and its subsidiaries

(1) 2018 Integrated Services Framework Agreement

Services

Pursuant to the 2018 Integrated Services Framework Agreement, Guangxi Dameng agreed to provide Integrated Services and mining drawing services to the Group. Integrated Services refers to the provision of social facilities (including but not limited to housing, schools, hospitals, recreational facilities) by Guangxi Dameng to the Group at Daxin Mine for the three years ending 31 December 2021.

Pricing terms and standards

The transactions under the 2018 Integrated Services Framework Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and conditions and such terms and conditions will be no less favourable than those available from Independent Third Parties.

(i) Integrated Services

Fees charged by Guangxi Dameng to the Company in relation to the provision of the Integrated Services are based on the costs incurred by Guangxi Dameng and to be agreed between the parties. The fees for the provision of the Integrated Services by Guangxi Dameng will be charged to the Group at the rate of HK\$339,583 (equivalent to RMB271,666) per month for each of the three years ending 31 December 2021.

As set out in the Letter from the Board, the proposed annual caps for the Integrated Services to be paid to Guangxi Dameng (and/or its subsidiaries) were a matter of commercial negotiation between the parties with reference to (i) the historical fees paid to Guangxi Dameng for the Integrated Services of approximately RMB3,120,000, RMB3,240,000 and RMB1,400,000 by the Group for the two years ended 31 December 2017 and for the five months ended 31 May 2018; and (ii) the estimated market rental of RMB12.8 per meter² per annum in respect of the land area used for provision of social facilities (including but not

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limited to housing, schools, hospitals, recreational facilities) by Guangxi Dameng to the Group at Daxin Mine for the three years ending 31 December 2021. The agreed service fee for the provision of Integrated Services by Guangxi Dameng under the 2016 Integrated Services Framework Agreement for the year ending 31 December 2018 is RMB3,360,000.

In respect of the pricing standards of the Integrated Services contemplated under the 2018 Integrated Services Framework Agreement, Daxin Mine is located in a remotely isolated area of Guangxi, the PRC, where the social welfare and recreational facilities in Daxin Mine have not been transferred to the Group. Historically, Guangxi Dameng has developed and operated various basic social facilities for the Group's employees, thus the provision of Integrated Services by Guangxi Dameng enables employees of the Group to continue to enjoy the basic and necessary living and social welfare facilities at Daxin Mine. The Group is not able to find the same or similar living and social welfare facilities provided by other Independent Third Parties nearby Daxin Mine. Given such historical and geographical background, no quotation and tender in respect of the provision of Integrated Services is obtained.

We have obtained and reviewed the 2016 Integrated Services Framework Agreement and compared to the 2018 Integrated Services Framework Agreement, we note and also have discussed and confirmed with the management of the Company that the scope of the provision of Integrated Services by Guangxi Dameng pursuant to the 2018 Integrated Services Framework Agreement will be similar to those under the 2016 Integrated Services Framework Agreement.

(ii) Mining drawing services

The fees for the provision of mining drawing services to be charged by Guangxi Dameng to the Group are not fixed but are to be determined in accordance with prevailing market prices (including with reference to quotations of the same services issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner.

As set out in the Letter from the Board, the proposed annual caps for the mining drawing services to be paid to Guangxi Dameng (and/or its subsidiaries) were a matter of commercial negotiation with reference to (i) the historical fees paid to Guangxi Dameng for the mining drawing services of approximately RMB600,000, RMB566,000 and RMB236,000 for the two years ended 31 December 2017 and for the five months ended 31 May 2018 respectively; and (ii) the estimated mining drawing services provided by Guangxi Dameng to CITIC Dameng Mining for the three years ending 31 December 2021. The agreed fee for the provision of mining drawing services by Guangxi Dameng under the 2016 Integrated Services Framework Agreement for the year ending 31 December 2018 is RMB600,000.

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We have obtained and reviewed the 2016 Integrated Services Framework Agreement and compared to the 2018 Integrated Services Framework Agreement, we note and also have discussed and confirmed with the management of the Company that the scope of mining drawing services to be provided by Guangxi Dameng pursuant to the 2018 Integrated Services Framework Agreement will be similar to those under the 2016 Integrated Services Framework Agreement.

Having considered that (i) the provision of Integrated Services is unique due to its geographical location and no quotation or tender could be done, and the pricing of it (i.e., with the similar scope of social facilities to be provided by Guangxi Dameng) is at the same level to that pursuant to the 2016 Integrated Services Framework Agreement; and (ii) the pricing of the mining drawing services will be determined in accordance with prevailing market prices (including with reference to quotations of the same services issued by no less than two Independent Third Parties) and through arm's length negotiation and will be in a fair and reasonable manner, we consider that the pricing terms and standards are fair and reasonable.

Reasons for the entering into of the 2018 Integrated Services Framework Agreement

Given (i) the remote location of Daxin Mine; (ii) as aforesaid, social welfare and recreational facilities in Daxin Mine have not been transferred to the Group and the Group is not able to find the same or similar living and social welfare facilities provided by other Independent Third Parties nearby Daxin Mine; and (iii) Guangxi Dameng has developed and operated various basic social facilities for the Group's employees in Daxin Mine, the entering into of the 2018 Integrated Services Framework Agreement for the provision of Integrated Services by Guangxi Dameng enables employees of the Group to continue to enjoy the basic and necessary living and social welfare facilities at Daxin Mine.

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Furthermore, we understand that Guangxi Dameng has been providing drawing services of Daxin Mine since 2013 and has proven to be reliable. As discussed and confirmed with the management of the Company, given (i) the long term business relationship with Guangxi Dameng, existing staffs of Guangxi Dameng possess requisite certification and relevant experience and expertise in providing the mining drawing services to the satisfaction of the Group; (ii) Guangxi Dameng is the previous owner of Daxin Mine, which is well acquainted and familiar with the geological structure and geomorphology of Daxin Mine; and (iii) Guangxi Dameng, being a subsidiary of state owned enterprise, is familiar with the local government and regulatory bodies, including Ministry of Land and Resources, Guangxi Zhuang Autonomous Region, the PRC and therefore is experienced to prepare all necessary mining drawings and other related information to meet the requirements and standards set by the local government and regulatory bodies from time to time, the Company is of the view, and we concur, that Guangxi Dameng is a suitable and capable business partner for the continuation of the provision of mining drawing services to the Group.

In view of the above, we consider it to be reasonable for the Group to enter into the 2018 Integrated Services Framework Agreement.

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Proposed annual caps

Set out below are the (i) annual caps and the historical amounts for the provision of Integrated Services and mining drawing services by Guangxi Dameng under the 2016 Integrated Services Framework for the three years ending 31 December 2018; and (ii) annual caps for the provision of Integrated Services and mining drawing services by Guangxi Dameng proposed by the Company for the transactions contemplated under the 2018 Integrated Services Framework Agreement for the three years ending 31 December 2021:

		For the year ended 31 December 2016 <i>(approximately)</i>	For the year ended 31 December 2017 <i>(approximately)</i>	For the year ending 31 December 2018 <i>(approximately)</i>
(i) 2016 Integrated Services Framework Agreement				
<i>Provision of Integrated Services by Guangxi Dameng</i>				
Annual caps	(A1)	HK\$3,737,000 (equivalent to RMB3,120,000)	HK\$3,881,000 (equivalent to RMB3,240,000)	HK\$4,024,000 (equivalent to RMB3,360,000)
Historical amounts	(B1)	HK\$3,649,000 (equivalent to RMB3,120,000)	HK\$3,736,000 (equivalent to RMB3,240,000)	HK\$1,750,000 [#] (equivalent to RMB1,400,000)
Percentage of the historical amounts to the annual caps (in terms of RMB)	(B1)/(A1)	100%	100%	42% [#]
<i>Provision of mining drawing services by Guangxi Dameng</i>				
Annual caps	(A2)	HK\$838,000 (equivalent to RMB700,000)	HK\$838,000 (equivalent to RMB700,000)	HK\$838,000 (equivalent to RMB700,000)
Historical amounts	(B2)	HK\$702,000 (equivalent to RMB600,000)	HK\$653,000 (equivalent to RMB566,000)	HK\$295,000 [#] (equivalent to RMB236,000)
Percentage of the historical amounts to the annual caps (in terms of RMB)	(B2)/(A2)	86%	81%	34% [#]

[#] for the five months ended 31 May 2018)

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	For the year ending 31 December 2019	For the year ending 31 December 2020	For the year ending 31 December 2021
<i>(ii) 2018 Integrated Services Framework Agreement</i>			
Proposed annual caps for the provision of Integrated Services by Guangxi Dameng	HK\$4,075,000 (equivalent to RMB3,260,000)	HK\$4,075,000 (equivalent to RMB3,260,000)	HK\$4,075,000 (equivalent to RMB3,260,000)
Proposed annual caps for the provision of mining drawing services by Guangxi Dameng	HK\$875,000 (equivalent to RMB700,000)	HK\$875,000 (equivalent to RMB700,000)	HK\$875,000 (equivalent to RMB700,000)

As at the Latest Practicable Date, the annual caps for the 2016 Integrated Services Framework Agreement for the year ending 31 December 2018 have not been, nor expected to be, exceeded. The proposed annual caps under the 2018 Integrated Services Framework Agreement are comparable to the annual caps and the historical fees under the 2016 Integrated Services Framework Agreement.

Conclusion

Based on the above, we are of the view that the proposed annual caps under the 2018 Integrated Services Framework Agreement are fair and reasonable.

(2) 2018 Guangxi Liuzhou Agreement

Items

Pursuant to the 2018 Guangxi Liuzhou Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase vertical mill(s) and accessories from Guangxi Liuzhou.

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Pricing terms and standards

As set out in the Letter from the Board, the transactions under the 2018 Guangxi Liuzhou Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

Under the 2018 Guangxi Liuzhou Agreement, the quantity of vertical mill(s) and accessories to be purchased from Guangxi Liuzhou is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of vertical mill(s) and accessories from Guangxi Liuzhou during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with the prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner. The transactions under the 2018 Guangxi Liuzhou Agreement will follow the Pricing Standard.

We understand from the management of the Company that the previous acquisition of vertical mill(s) and accessories by the Group took place in the financial year ended 31 December 2016, for which the Group has undergone a tender process and the winner of the tender was awarded to Guangxi Liuzhou. Also, as advised by the management of the Company, the Group may undergo a tender process for the next purchase of vertical mill(s) and accessories. Hence, we have obtained and reviewed the previous tender document regarding the sales and purchases of vertical mill(s) and accessories in 2016 to understand how the tender process was conducted and complied with general principals under the Pricing Standard. We reviewed the previous tender document and noted that the tender took place during April 2015 to May 2015, which was operated by a tendering agency, an Independent Third Party. In addition, (i) in order to evaluate tenderers and their respective proposals, a tender evaluation committee was formed, which comprised five committee members, one of whom was from the Group and the remaining were randomly selected from the expert pool of the aforesaid tendering agency; and (ii) tenderers and their respective proposals were assessed based on a list of criteria, including (a) basic background of tenderers, such as business and amount of the registered capital, (b) technical evaluation regarding, including but not limited to, capacity and safety of the equipment, (c) commercial evaluation regarding, including but not limited to, after-sales services and business reputation and (d) tender price evaluation regarding the comparison of each tenderers' bid price against the standard tender price as set by the Company. Under the tender, four proposals from tenderers (including Guangxi Liuzhou and three Independent Third Parties) were received and reviewed and appraised by the tender evaluation committee.

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We note that Guangxi Liuzhou rated the highest score in such tendering competition and won the tender. Having considered that the Company has compared Guangxi Liuzhou and its proposal with other tenderers (i.e., Independent Third Parties) and their respective proposals regarding pricing, capacity of the equipment, reputation of each tenders, after-sales services, etc., we are of the view that the previous tender has gone through proper procedures to protect the Company's interest and such tendering process is in line with the principles under the Pricing Standard.

In view of the above and having considered that (i) the purchase price of the vertical mill(s) and accessories is not fixed and whether there will be purchase of vertical mill(s) and accessories from Guangxi Liuzhou depends on whether Guangxi Liuzhou will win the tender (if the Group consider to process through tender) under which different factors (including the qualification, price and other terms, etc.) are considered; (ii) if no tender is to be conducted, the Group will also follow the Pricing Standard in determining the purchase price of the vertical mill(s) and accessories; and (iii) there is no minimum amount or any pre-defined quantity of vertical mill(s) and accessories under the 2018 Guangxi Liuzhou Agreement, therefore the Group is not obliged to purchase any vertical mill(s) and accessories if Guangxi Liuzhou does not win a tender in the future (if the Group consider to process through tender), we consider that the pricing terms and standards are fair and reasonable.

Reasons for entering into the 2018 Guangxi Liuzhou Agreement

As discussed and confirmed with the management of the Company, given the geographical location of Guangxi Liuzhou, it was able to make timely delivery of quality vertical mill(s) and accessories and given the working relationship established over the past years, Guangxi Liuzhou is willing to accommodate the Company's orders of specific quantity and specifications where the Group's needs for such equipment arise. The Directors believe that continued purchases of electrical and mechanical equipment (i.e., vertical mill(s) and accessories) from Guangxi Liuzhou will be of benefit to business operations of the Group.

LETTER FROM SHINCO CAPITAL

Proposed annual caps

Set out below are the annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou (i) under the 2016 Guangxi Liuzhou Agreement for the three years ending 31 December 2018; and (ii) proposed by the Company for the 2018 Guangxi Liuzhou Agreement for the three years ending 31 December 2021:

		For the year ended 31 December 2016 <i>(approximately)</i>	For the year ended 31 December 2017 <i>(approximately)</i>	For the year ending 31 December 2018 <i>(approximately)</i>
<i>2016 Guangxi Liuzhou Agreement</i>				
Annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou	(A)	HK\$15,569,000 (equivalent to RMB13,000,000)	Nil	Nil
Historical amounts of the purchase of vertical mill(s) and accessories from Guangxi Liuzhou	(B)	HK\$12,868,000 (equivalent to RMB11,002,000)	Nil	Nil [#]
Percentage of the historical amount of the purchase of vertical mill(s) and accessories from Guangxi Liuzhou to the annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou pursuant to the 2016 Guangxi Liuzhou Agreement (in terms of RMB)	(B)/(A)	85%	N/A	N/A [#]

([#] for the five months ended 31 May 2018)

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	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>	For the year ending 31 December 2021 <i>(approximately)</i>
<i>2018 Guangxi Liuzhou Agreement</i>			
Proposed annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou	HK\$32,500,000 (equivalent to RMB26,000,000)	Nil	Nil

As set out above, the Group has purchased vertical mill(s) and accessories from Guangxi Liuzhou in the amount of RMB11,002,000 during the year ended 31 December 2016, represented approximately 85% of the annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou for the year ended 31 December 2016 under the 2016 Guangxi Liuzhou Agreement.

Basis for the proposed annual caps

As set out in the Letter from the Board, the proposed annual caps for the purchase of vertical mill(s) and accessories from Guangxi Liuzhou were determined primarily based on (i) the historical transaction of vertical mill(s) and accessories between the Group and Guangxi Liuzhou for the two years and five months ended 31 May 2018; (ii) the estimated demand of the Group for vertical mill(s) and accessories of one unit, nil and nil for each of the three years ending 31 December 2021 respectively; and (iii) the estimated purchase price of vertical mill(s) and accessories of RMB26,000,000 per unit during the three years ending 31 December 2021.

Our view

Vertical mill(s) and accessories sourced from Guangxi Liuzhou are a type of grinding equipment mainly used for the Group's production purposes, specifically for the production of manganese powder.

We have discussed and understand from the management of the Company that the Group's preliminary specific requirements regarding the vertical mill(s) include but not limited to (i) the greater expected production capacity of the vertical mill(s); and (ii) the greater expected grinding table diameter of the vertical mill(s). Given the greater expected production capacity and grinding table diameter of the vertical mill(s) as compared to the current vertical mill(s) (i.e., with production capacity of 35 tonnes per hour and with the grinding table diameter of 1,700 millimeters) purchased in 2016 in respect of the 2016 Guangxi Liuzhou Agreement, the Directors believe, and we concur, that the expected purchase price of vertical mill(s) and accessories from Guangxi Liuzhou will at a higher level than that in 2016.

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Conclusion

Based on the above, we are of the view that the proposed annual caps with respect to the 2018 Guangxi Liuzhou Agreement are fair and reasonable.

(3) 2018 Nanning Battery Plant Agreement

Items

Pursuant to the 2018 Nanning Battery Plant Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to purchase packaging bags produced by Nanning Battery Plant.

Pricing terms and standards

As set out in the Letter from the Board, the transactions under the 2018 Nanning Battery Plant Agreement will be conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions will be no less favourable than those available from Independent Third Parties.

Under the 2018 Nanning Battery Plant Agreement, the quantity of packaging bags to be purchased by the Group is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to purchase a minimum amount or any pre-defined quantity of packaging bags from Nanning Battery Plant during the term of the agreement. In addition, the prices are not fixed and are to be determined in accordance with prevailing market prices (including with reference to quotations of the same products issued by no less than two Independent Third Parties), and through arm's length negotiation and in a fair and reasonable manner. The transactions under the 2018 Nanning Battery Agreement will follow the Pricing Standard.

With this regard, we have enquired and are given to understand from the management of the Company that there is currently no applicable state price for packaging bags, thus in the future if no state price is to be available, the Group will mainly make reference to not less than 2 quotations from Independent Third Parties in determining the price and will also make a general reference to market available information. The Company will ensure that the terms and conditions to be agreed between the Group and Nanning Battery Plant will be no less favourable than those available from Independent Third Parties.

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Furthermore, we have obtained and reviewed the transaction records regarding the Group's purchases of packaging bags from Nanning Battery Plant and other Independent Third Parties, and we note that the historical selling price of packaging bags on average in 2017 offered by Nanning Battery Plant was no less favourable to the Group than those offered by the Independent Third Parties for the same specification of packaging bags.

Having considered that (i) the price of the packaging bags is not fixed but is to be determined in accordance with prevailing market prices and there is no minimum amount or any pre-defined quantity of packaging bags under the 2018 Nanning Battery Plant Agreement, therefore the Group is not obliged to purchase any packaging bags if the price offered by Nanning Battery Plant is not competitive; (ii) the historical purchases of packaging bags from Nanning Battery Plant for the year ended 31 December 2017 are conducted in accordance with the pricing standard under the internal control procedures on the continuing connected transactions and the transacted amounts are within the previous approved caps under the 2016 Guangxi Dameng Caps; and (iii) the Company has in place an internal control system to govern the conduct of continuing connected transactions as discussed in the section headed "4. INTERNAL CONTROL MEASURES" in this Letter, we consider that the pricing terms and standards are fair and reasonable.

Reasons for entering into the 2018 Nanning Battery Plant Agreement

The Company purchases packaging bags from Nanning Battery Plant for packing its manganese products. As discussed and confirmed with the management of the Company, given the geographical location of Nanning Battery Plant, it was able to make timely delivery of quality packaging bags and given the working relationship established over the past years, Nanning Battery Plant is willing to accommodate the Company's orders of specific quantity and specifications. The Directors believe that continued purchases of packaging bags from Nanning Battery Plant will be of benefit to business operations of the Group.

LETTER FROM SHINCO CAPITAL

Proposed annual caps

Set out below are the annual caps for the purchase of packaging bags from Nanning Battery Plant (i) under the 2016 Nanning Battery Plant Agreement for the three years ending 31 December 2018; and (ii) proposed by the Company for the 2018 Nanning Battery Plant Agreement for the three years ending 31 December 2021:

		For the year ended 31 December 2016 <i>(approximately)</i>	For the year ended 31 December 2017 <i>(approximately)</i>	For the year ending 31 December 2018 <i>(approximately)</i>
<i>(i) 2016 Nanning Battery Plant Agreement</i>				
Annual caps for the purchase of packaging bags from Nanning Battery Plant	(A)	HK\$6,012,000 (equivalent to RMB5,020,000)	HK\$6,012,000 (equivalent to RMB5,020,000)	HK\$6,012,000 (equivalent to RMB5,020,000)
Historical amounts of the purchase of packaging bags from Nanning Battery Plant	(B)	HK\$4,718,000 (equivalent to RMB4,034,000)	HK\$5,710,000 (equivalent to RMB4,952,000)	HK\$2,758,000 [#] (equivalent to RMB2,206,000)
Percentage of the historical amounts of the purchase of packaging bags from Nanning Battery Plant to the annual caps for the purchase of packaging bags from Nanning Battery Plant (in terms of RMB)	(B)/(A)	80%	99%	44% [#]

([#] for the five months ended 31 May 2018)

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	For the year ending 31 December 2019 <i>(approximately)</i>	For the year ending 31 December 2020 <i>(approximately)</i>	For the year ending 31 December 2021 <i>(approximately)</i>
<i>(ii) 2018 Nanning Battery Plant Agreement</i>			
Proposed annual caps for the purchase of packaging bags from Nanning Battery Plant	HK\$6,275,000 (equivalent to RMB5,020,000)	HK\$6,275,000 (equivalent to RMB5,020,000)	HK\$6,275,000 (equivalent to RMB5,020,000)

The above table shows that the proposed annual caps in respect of the 2018 Nanning Battery Plant Agreement are RMB5,020,000 for the three years ending 31 December 2021, which are the same as the annual caps pursuant to the 2016 Nanning Battery Plant Agreement for the three years ended 31 December 2018 (in RMB).

Basis for the proposed annual caps

As set out in the Letter from the Board, the proposed annual caps for the purchase of packaging bags from Nanning Battery Plant were determined primarily based on (i) the Group's historical demand for and purchase price of packaging bags for the two years and five months ended 31 May 2018; (ii) the estimated demand in number of packaging bags by the Group of approximately 321,000 for each of the three years ending 31 December 2021; and (iii) the estimated average selling price of packaging bags of RMB15.6 per unit during the three years ending 31 December 2021.

Our view

- (i) The estimated demand in number of packaging bags in determining the proposed annual caps

In order to assess the estimated demand in number of packaging bags regarding the proposed annual caps, we have considered (i) the planned production volume of manganese products of the Group for the three years ending 31 December 2021; and (ii) the historical transaction values.

For the years ended 31 December 2016 and 2017, the historical purchase of packaging bags from Nanning Battery Plant amounted to approximately RMB4.03 million and approximately RMB4.95 million respectively, representing approximately 80% and approximately 99% of the annual caps for the years ended 31 December 2016 and 2017 respectively under the 2016 Nanning Battery Plant Agreement (in RMB).

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Given (i) high utilisation of the historical annual caps; and (ii) the Group's projected production of manganese products in the coming years will be no less than the current level, we are of the view that the number of packaging bags estimated by the Group in determining the proposed annual caps for the transactions contemplated under the 2018 Nanning Battery Plant Agreement is fair and reasonable.

- (ii) The estimated average selling price of packaging bags in determining the proposed annual caps

In order to assess the estimated average selling price of packaging bags regarding the proposed annual caps, we have obtained and reviewed the historical purchase of packaging bags of the Group for the financial year ended 31 December 2017. It is noted that the Company has purchased different types of packaging bags from different suppliers, with an average cost per packaging bag of approximately RMB15.6.

Therefore, we consider the use of the estimated cost of RMB15.6 per packaging bag, which is the same as the historical cost of the packaging bags on average in 2017, as a reference to determine the proposed annual caps is fair and reasonable.

Conclusion

Based on the above, we are of the view that the proposed annual caps with respect to the 2018 Nanning Battery Plant Agreement are fair and reasonable.

3. REVISION OF ANNUAL CAPS UNDER THE 2018 CITIC SPECIAL STEEL AGREEMENT

Background

On 29 December 2017, the Company entered into the 2017 CITIC Special Steel Agreement with CITIC Special Steel. Pursuant to the 2017 CITIC Special Steel Agreement, the Group agreed to sell manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) for the period from 1 January 2018 to 31 December 2020. The Company, as part of internal control procedures, regularly keeps reviewing the existing annual caps and updated accumulated transactions of various continuing connected transactions including particularly those under the 2017 CITIC Special Steel Agreement for the three years ending 31 December 2020. In April 2018, the management of the Company, based on the significant increase of historical transactions under the 2017 CITIC Special Steel Agreement for the first quarter of 2018 and the expected increase of production volume of Qinzhou Ferroalloy Plant and the gradual completion of the commercial production by Dushan Jinmeng as detailed in the section headed "Reasons for Entering Into 2018 CITIC Special Steel Agreement" in the Letter from the Board, reported to the Board members of the expected significant increase of transactions thereunder and suggested the Board to initiate compliance procedures for revising the annual caps. On 21 June 2018, the Company (for itself and on behalf of its subsidiaries) entered into the 2018 CITIC Special Steel Agreement with CITIC Special Steel to revise the annual caps under the 2017 CITIC Special Steel Agreement.

LETTER FROM SHINCO CAPITAL

Details of the 2017 CITIC Special Steel Agreement and the 2017 CITIC Special Steel Caps are set out in the announcement of the Company dated 29 December 2017, and details of the 2018 CITIC Special Steel Agreement are set out in the Letter from the Board.

Item sold

Pursuant to the 2017 CITIC Special Steel Agreement, the Company (for itself and on behalf of its subsidiaries) agreed to sell manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries).

Pricing terms and standards

As set out in the Letter from the Board, the transactions under the 2017 CITIC Special Steel Agreement are conducted in ordinary and usual course of business and on normal commercial terms and such terms and conditions are no less favourable than those available from Independent Third Parties.

Under the 2017 CITIC Special Steel Agreement, the quantity of manganese ferroalloy to be sold by the Group is not fixed but is to be determined and agreed between the parties from time to time. The Group is not required to sell a minimum amount or any pre-defined quantity of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) during the term of the agreement. In addition, the prices are not fixed but are to be determined in accordance with prevailing market prices and to be agreed between the parties.

As set out in the Letter from the Board, the selling prices in respect of the manganese ferroalloy under the 2017 CITIC Special Steel Agreement are determined with reference to:

- (1) the applicable state price in respect of the manganese ferroalloy issued by local government of the PRC (if any);
- (2) if there is no applicable state price for manganese ferroalloy, the fair prices of the same or same type of manganese ferroalloy provided by Independent Third Parties in the location of the Company or the nearby area, and the prevailing market price of the transaction. The Group will obtain relevant market price information through various channels, which include (i) considering at least two comparable transactions (if any) conducted by Independent Third Parties during the same period on such manganese ferroalloy; (ii) communication and exchange of price information with at least two independent customers by various means, including telephone conversations, emails and meetings, with peers and business partners within the manganese ferroalloy production industry; and (iii) online information obtained from various websites from time to time such as the Reference Websites or other relevant websites. The Company will conclude the relevant market price by (i) at least two comparable transactions with Independent Third Parties; and (ii) the prices offered by at least two independent suppliers to set the fair price; or

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- (3) where there are no available prevailing market prices or where it is impracticable to obtain the relevant market price information, the Group and CITIC Special Steel and/or its subsidiaries will determine the price after arm's length negotiations with reference to (i) the previous same or same type of the transactions concluded by the Group with CITIC Special Steel and/or its subsidiaries; and/or (ii) previous same or same type of the transactions concluded by the Group with independent third parties.

According to the internal control policy of the Group, there are at least two historical transactions and enquiries or at least two participants in the tender (if applicable) when determining the price of manganese ferroalloy and the Group will continue to strictly follow the abovementioned requirements.

We have enquired and understand from the management of the Company that the customers for the manganese ferroalloy are mainly steel production companies in the PRC, which consume manganese ferroalloy for the steel production, and it is a market practice that the steel production companies undergo a tender process in selecting the supplier for each order. In agreeing the terms of the sales of manganese ferroalloy, especially the bid price to offer, the Company will make reference to the then market price of manganese ferroalloy. As advised by the management of the Company, it is expected that all future transactions with CITIC Special Steel will undergo the same tender procedures and if the Group wins the tender, a separate sales and purchase contract will be entered.

Reasons for entering into the 2018 CITIC Special Steel Agreement

As set out in the Letter from the Board, since 2014, the selling price for manganese alloy experienced a continuous rebound following numerous years' fluctuation. The stabilisation and continuous rebound in selling price served to release the pended-up demand for manganese ferroalloy production, with the Group's sales to CITIC Special Steel (and/or its subsidiaries) for the first quarter of 2018 having surged by more than 212% as compared with the same period in 2017. The 2017 CITIC Special Steel Agreement has an unexpired period of more than two years and that the Company expects that the manganese ferroalloy market will continue to improve.

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In addition, Dushan Jinneng commenced its first phase of commercial production in the late 2017, which upon completion of the whole project scheduled to be around the end of the year 2018 will have an annual production capacity of 500,000 tonnes manganese ferroalloy in Guizhou province, the PRC and the Group intends to purchase the manganese ferroalloy from it and resell to the Group's customers (including CITIC Special Steel (and/or its subsidiaries)). Furthermore, it is expected that the Group's Qinzhou Ferroalloy Plant through leasing or subcontracting the surrounding manganese ferroalloy production plants will increase its manganese ferroalloy production capacity from 60,000 tonnes per annum to approximately 110,000 tonnes per annum on or before July 2018 and approximately 200,000 tonnes per annum on or before the year end of 2018, which further enhancing manganese ferroalloy production of the Group in a significant manner.

The intended sales of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) therefore will only account for approximately 23.1%, 27.1% and 26.2% of the total sales of the Group's manganese ferroalloy respectively for the three years ending 31 December 2020 with the remaining sales to independent third parties.

At the same time, the Group plans to grasp the continued improving market environment of the manganese ferroalloy business and the scale advantages of the Group in the manganese ferroalloy, so as to further develop the manganese ferroalloy trading business.

With the steady growth in selling price for manganese ferroalloy, the surge in new orders and the gradual commercial production by Dushan Jinneng, which coupled with the Group's business plan of expanding its trading business, the Company expects that the annual transaction amount by the Group will exceed the 2017 CITIC Special Steel Caps based on the business projections.

In addition, CITIC Special Steel (together with its subsidiaries) is one of the market leaders in steel production in the PRC which purchases manganese ferroalloy in large quantities and at a competitive price and, as disclosed in the 2017 annual report of CITIC Limited, CITIC Special Steel (and its subsidiaries) is the largest dedicated manufacturer of special steel in the PRC with a total production capacity of approximately 12 million tonnes per annum and therefore has a huge and constant demand of manganese ferroalloy to satisfy its special steel production, therefore sales of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) can expand the Group's customer portfolio and increase the Group's sales network, which is beneficial to the Group's continuing operations and business.

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Proposed annual caps

Set out below are the annual caps proposed by the Company for the transactions contemplated under the 2018 CITIC Special Steel Agreement for the three years ending 31 December 2020:

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
Proposed annual caps for the sale of manganese ferroalloy to CITIC Special Steel and/or its subsidiaries	HK\$383,979,000 (equivalent to RMB307,183,000)	HK\$862,785,000 (equivalent to RMB690,228,000)	HK\$905,962,000 (equivalent to RMB724,769,000)

The historical sales of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) amounted to RMB40,725,000 and RMB70,790,000 respectively for the two years ended 31 December 2017 and amounted to RMB36,498,000 for the period from 1 January 2018 to the Latest Practicable Date.

As set out in the Letter from the Board, (i) the original annual caps for the sale of manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) for each of the three years ending 31 December 2020 under the 2017 CITIC Special Steel Agreement are HK\$75,000,000 (equivalent to RMB63,025,000); and (ii) the historical amount of the sale of manganese ferroalloy to CITIC Special Steel and/or its subsidiaries from 1 January 2018 to the Latest Practicable Date amounted to approximately HK\$45,623,000 (equivalent to RMB36,498,000), representing approximately 61% to the aforesaid original annual caps for the year ending 31 December 2018 under the 2017 CITIC Special Steel Agreement.

Basis for the proposed annual caps

As set out in the Letter from the Board, the proposed annual caps for the sale of the manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) are determined primarily based on (i) the historical production and sales price of manganese ferroalloy by the Group for the two years and five months ended 31 May 2018; (ii) the estimated sale of the manganese ferroalloy to CITIC Special Steel (and/or its subsidiaries) by the Group of approximately 46,500 tonnes, 99,600 tonnes and 99,600 tonnes for each of the three years ending 31 December 2020 respectively, as further explained in the paragraph headed “Reasons for Entering Into 2018 CITIC Special Steel Agreement” in the Letter of the Board. Nevertheless, the Group currently does not have any significant committed orders from CITIC Special Steel (and/or its subsidiaries); and (iii) the estimated selling price of manganese ferroalloy of RMB6,600 per tonne, RMB6,930 per tonne and RMB7,277 per tonne for each of the three years ending 31 December 2020 respectively.

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Our view

(i) *The estimated quantity of manganese ferroalloy in determining the proposed annual caps*

As advised by the management of the Group that Dushan Jinmeng commenced its first phase of commercial production in the late 2017 and will increase to 500,000 tonnes by the end of 2018. Based on the above and the expected production of the Group's plant, the total production capacity of the Group together with Dushan Jinmeng will be reached to approximately 610,000 tonnes per annum in 2018 and approximately 700,000 tonnes per annum in 2019.

The Group estimates the estimated sale of the manganese ferroalloy production to CITIC Special Steel (and/or its subsidiaries) by the Group and Dushan Jinmeng would be approximately 46,500 tonnes, 99,600 tonnes and 99,600 tonnes for the three years ending 31 December 2020, thus this will represent approximately 7.6%, 14.2% and 14.2% of the total expected production of the manganese ferroalloy of the Group and Dushan Jinmeng. As advised by the management of the Company, as there is no obligation of sale committed to other customers of the Group of manganese ferroalloy for the three years ending 31 December 2020, the current production capacity of the Group is expected to be sufficient to meet the potential demand of CITIC Special Steel. Therefore, we concur with the management of the Company that the level of the proposed annual caps is appropriate and allows the Group to take up the potential demand.

(ii) *The estimate selling price of manganese ferroalloy in determining the proposed annual caps*

As set out in the annual result of the Group for the year ended 31 December 2017, for the year ended 31 December 2017, the Group recorded sales volume of approximately 49,392 tonnes of silico manganese alloy (an increase of approximately 51.94% compared to that for the year ended 31 December 2016) at an average selling price of HK\$7,229 (i.e., equivalent to approximately RMB6,269 at the rate of RMB1=HK\$1.1531). We have also obtained the full list of the sales of manganese ferroalloy of the Group for the year ended 31 December 2017 and for the five months ended 31 May 2018. We note that the transaction price of the Group for manganese ferroalloy during 2017 and for the five months ended 31 May 2018 ranged from approximately RMB5,300 per tonne to approximately RMB9,200 per tonne.

Furthermore, in order to assess the estimated selling price of manganese ferroalloy in determining the proposed annual caps, we have obtained and reviewed the recent market prices, on average, of manganese ferroalloy from the online information available to the public on the Reference Websites. Based upon information available on the Reference Websites, the average ex-tax market price of manganese ferroalloy for the period from January 2016 to May 2018 ranged from approximately RMB3,648.2 per tonne to approximately RMB7,307.7 per tonne, with an average of approximately 5,741.8 per tonne. We note that (i) the movement of the average ex-tax market price of manganese ferroalloy was fluctuated; and (ii) estimated selling price of manganese ferroalloy is comparable to the average historical ex-tax market price of manganese ferroalloy.

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Therefore, we consider the estimated selling price of manganese ferroalloy of RMB6,600 per tonne, RMB6,930 per tonne and RMB7,277 per tonne for the three years ending 31 December 2020 as a reference to determine the proposed annual caps is fair and reasonable.

We have also obtained the list of historical transaction records of the sales of manganese ferroalloy by the Group for the financial year ended 31 December 2017 and for the five months ended 31 May 2018 and we have obtained all the sales and purchases agreements with CITIC Special Steel during the said period and other sample sales and purchase agreements with other Independent Third Parties. We have conducted sample check on the terms of the sales transactions with CITIC Special Steel against other sales transactions with other Independent Third Parties at a similar time of execution, we do not note any material differences of the selling price of manganese ferroalloy to CITIC Special Steel and that to other Independent Third Parties for transactions at similar time during the period.

Conclusion

Based on the above, we are of the view that the proposed annual caps for the transactions contemplated under the 2018 CITIC Special Steel Agreement are fair and reasonable.

4. INTERNAL CONTROL MEASURES

As set out in the Letter from the Board, the Company has established various internal control measures to monitor the transactions contemplated under the 2016 Guangxi Dameng Agreements, the 2018 Guangxi Dameng Agreements and the 2018 CITIC Special Steel Agreement (and, where applicable, other continuing connected transactions of the Group) (“CCTs”). The internal control measures include, among others:

- (i) In order to ensure that the terms of individual transactions between the Company and Guangxi Dameng (and/or its subsidiaries) or CITIC Special Steel (and/or its subsidiaries) are fair and reasonable and in accordance with market practice, the Company will continue to adopt the below internal control procedures in relation to the transactions contemplated under the 2016 Guangxi Dameng Agreements, the 2018 Guangxi Dameng Agreements and the 2018 CITIC Special Steel Agreement:
 - (a) the Company will have regular and close contact and dialogue with a wide range of suppliers and customers in order to keep abreast of market trends and sale and purchase terms in the market throughout each year; and
 - (b) consideration of market intelligence provided to the Company through subscription to a range of market analysis publications and reports covering supply and demand and prevailing price of the raw materials and products.

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- (ii) The Audit and Compliance Department of the Company (“**CA Department**”) is responsible for overall daily monitoring and control of the ongoing compliance of the CCTs. In addition, a designated staff in each of the Group’s subsidiaries is responsible for handling the compliance procedures for CCTs at the subsidiary level.
- (iii) CA Department is responsible for ensuring that all the CCTs comply with connected transaction management regulation (《關連交易管理制度》). In particular, the regulation requires CCTs to be carried out in accordance with terms which are not less stringent than the Listing Rules. An extract of the regulation is set out below:
 - (a) a list of the Group’s “connected persons” is updated from time to time and in any event, not less than once per year;
 - (b) all relevant information regarding the CCTs (including the background, term, annual cap, pricing basis, relationship with the connected persons) have to be reviewed on a periodic basis;
 - (c) a monthly review report in respect of the CCTs (“**Monthly CCTs Report(s)**”) are prepared on a monthly basis; and
 - (d) all relevant information regarding new CCTs, if any, have to be approved by the independent non-executive Directors on Audit Committee (“**AC**”) and subsequently by the Board at the board meetings before their implementation.
- (iv) Internal Audit Department (“**IA Department**”) reports directly to the AC which comprises all three independent non-executive Directors. IA Department has built in review of CCTs in its annual work plan as a continuous process. Its review includes testing of CCTs samples to ensure that the pricing mechanism is in accordance with the relevant framework agreements, including vouching on a test basis against third party quotations for fairness. IA Department also reviews the Monthly CCTs Report(s) prepared by CA Department. Roughly on a quarterly basis, IA Department reports in writing to the AC in advance of each AC meeting. IA Department is also invited to join each AC meeting during which it reports directly to the AC detailing its findings of review. In the AC meeting which review the annual accounts, IA Department summarises and consolidates their review work and findings on CCTs carried out during the year covered by the annual report. In addition, AC meets with the auditors and discusses particularly any findings on their review of CCTs. AC in turn reports to the Board for any of their reportable findings and get the approval/endorsement of AC’s findings and recommendation.
- (v) The Monthly CCTs Report(s) prepared by CA Department includes extrapolation of the actual figures of each category of CCTs accumulated to date to an annualised figure. Such annualised figure is compared to the annual cap. If the annualised figure may exceed the annual cap, CA department will alert the Company Secretary and Finance Department who together with the relevant personnel, will estimate the transactions in the remaining period through the year end in a more precise manner. Appropriate actions will be taken (if necessary) including amongst others (a) limiting further transactions or (b) considering compliance procedures to increase the annual cap, will be taken to ensure that the annual cap will not be exceeded.

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As set out in the Letter from the Board, the Board is of the view that the above measures can ensure that the pricing and other contract terms for the Group's continuing connected transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and that the continuing connected transactions are conducted as agreed in the relevant agreements governing them and in compliance with the relevant Listing Rule requirements.

In respect of the above internal procedures, we have obtained and reviewed the connected transaction management regulation (《關連交易管理制度》) and understand that the Company has set out systematic management of internal control steps including (i) the recognition of connected persons and connected transactions; (ii) pricing requirements for the continuing connected transactions; (iii) the approval flow of the continuing connected transactions; and (iv) the annual review of the continuing connected transactions. We have also obtained the list of the Group's "connected persons" and sample on the Monthly CCTs Report(s) to ensure that such procedures are in place.

We also understand that the Company has engaged auditors to report on the Group's historical continuing connected transactions for the two financial years ended 31 December 2016 and 2017 and that nothing has come to their attention that caused them to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policy of the Group and that the annual caps set by the Company have been exceeded.

As discussed and confirmed with the management of the Company, the Company will engage auditors to report on the Group's proposed continuing connected transactions in relation to the 2018 Guangxi Dameng Agreements and the 2018 CITIC Special Steel Agreement for complying the provisions of the Listing Rules and its internal controls and procedures as described above. Furthermore, as stated above, we have reviewed the historical continuing connected transactions of the Group with Guangxi Dameng and CITIC Special Steel (and/or their respective subsidiaries) and we are of the view that these historical continuing transactions are conducted in accordance with the internal control in place that the Company has obtained independent quote and/or undergo tender process so as to ensure that the price is no less favourable to the Group.

Taking into account (i) the above internal control measures, in particular, the ongoing monitoring and internal evaluation on the pricing terms to ensure that the prices set will be no less favourable to the Company than those offered to/by Independent Third Parties; (ii) the respective annual review by the external auditors of the Company and the independent non-executive Directors regarding the compliance of the terms, which are commonly adopted by companies listed on the Stock Exchange in carrying out continuing transactions with connected person(s); and (iii) the ongoing review and the restriction of the value of the continuing connected transactions by way of the annual caps, we are of the view that appropriate and adequate internal control measures will continue to be in place to ensure compliance with the terms in order to safeguard the interest of the Independent Shareholders, and such measures can ensure that the aforesaid continuing connected transactions will continue to be conducted in the ordinary and usual course of business of the Company on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

LETTER FROM SHINCO CAPITAL

RECOMMENDATIONS

Having considered the principal factors and reasons described above, we are of the opinion that (i) the 2018 Guangxi Dameng Agreements, the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole; (ii) the terms of the 2018 Guangxi Dameng Agreements and the 2018 Guangxi Dameng Caps are fair and reasonable so far as Non Guangxi Dameng Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole; and (iii) the terms of the 2018 CITIC Special Steel Agreement and the 2018 CITIC Special Steel Caps are fair and reasonable so far as Non CITIC Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders, as well as advise the Independent Board Committee to recommend Non Guangxi Dameng Independent Shareholders and Non CITIC Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the SGM to approve the 2018 Guangxi Dameng Agreements, the 2018 Guangxi Dameng Caps and the transactions contemplated thereunder, as well as the 2018 CITIC Special Steel Agreement, the 2018 CITIC Special Steel Caps and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Shinco Capital Limited
Bobby Chow **Teresa Tsang**
Managing Director *Director*

Mr. Bobby Chow is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

Ms. Teresa Tsang is a licensed person registered with the Securities and Futures Commission to carry out Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance and has over 10 years of experience in corporate finance industry.

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

(a) Directors' interests

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules, and which have been notified to the Company and the Stock Exchange are as follows:

Interests in the Shares and underlying Shares

Name of Director/ chief executive	Shares/equity derivatives	Capacity	Number of Equity derivatives held	Approximate percentage of the issued share capital of the Company
Mr. Li Weijian	Share options	Directly beneficially owned	15,000,000	0.44%
Mr. Chen Jiqu	Share options	Directly beneficially owned	9,000,000	0.26%
Mr. Mo Shijian	Share options	Directly beneficially owned	1,000,000	0.03%
Mr. Tan Zhuzhong	Share options	Directly beneficially owned	1,000,000	0.03%

Mr. Suo Zhengang is the Vice Chairman, Chief Executive Officer and executive director of CITIC Resources Holdings Limited (Stock Code: 1205) (“**CITIC Resources**”). CITIC Resources is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, and oil exploration, development and production. Further details of the nature, scope and size of the businesses of CITIC Resources as well as its management can be found in the latest annual report of CITIC Resources. In the event that there are transactions between CITIC Resources and the Company, Mr. Suo will abstain from voting.

Mr. Lyu Yanzheng is the vice Chairman of CITIC Jinzhou Ferroalloy Co., Ltd. (“**CITIC Jinzhou**”). CITIC Jinzhou carries on metallurgic business focusing on the production of middle carbon ferromanganese, chromium metal, titanium metal, vanadium pentoxide, zirconium products and silicon manganese alloy. In the event that there are transactions between the Company and CITIC Jinzhou, Mr. Lyu will abstain from voting.

Pursuant to the deed of non-compete undertaking entered into between CITIC Resources and the Company dated 3 November 2010, CITIC Resources has given a non-compete undertaking in favour of the Company pursuant to which CITIC Resources has undertaken with the Company that it will not, and will procure that its subsidiaries will not, subject to certain exceptions, either on its own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise) in any business which competes or may compete with the relevant business.

Pursuant to the right of first refusal agreement dated 3 November 2010, Guangxi Dameng granted the right of first refusal to the Company to acquire all the equity interest it holds in Rainbow Minerals Pte. Limited which in turn holds certain manganese and iron mines in South Africa.

Save as disclosed herein, each of the Directors is not directly or indirectly interested in any business that constitutes or may constitute a competing business of the Company.

Save as disclosed herein and so far as is known to the Directors, as at 31 December 2017, none of the Directors or their respective associates was materially interested in any contract or arrangement which is significant in relation to the businesses of the Group taken as a whole.

Save as disclosed herein, Mr. Suo and Mr. Lyu are not directly or indirectly interested in any business that constitutes or may constitute a competing business of the Company.

Save as disclosed herein and so far as is known to the Directors, as at the Latest Practicable Date:

- (i) none of the Directors or chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and

- (ii) none of the Directors or their respective associates was materially interested in any subsisting contract or arrangement which is significant in relation to the businesses of the Group taken as a whole.

Save as disclosed herein and in the section headed “Substantial shareholders and other person’s interests” below and so far as is known to the Directors, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Substantial shareholders’ and other persons’ interests

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a 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 were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

Substantial Shareholders’ and Other Persons’ Interests in Shares and Underlying Shares

As at 31 December 2017, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a 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 were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital are as follows:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held (a)	Approximate percentage the Company’s issued share capital	Number of share options held
CITIC Group Corporation	(b)	Through a controlled corporation	1,490,026,000 (L)	43.46	–
CITIC Limited	(b)	Through a controlled corporation	1,490,026,000 (L)	43.46	–
CITIC Corporation Limited	(b)	Through a controlled corporation	1,490,026,000 (L)	43.46	–
CITIC Projects Management (HK) Limited	(b)	Through a controlled corporation	1,179,000,000 (L)	34.39	–
Keentech Group Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	34.39	–
CITIC Resources Holdings Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	34.39	–
Starbest Venture Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	34.39	–
Group Smart Resources Limited	(c)	Through a controlled corporation	1,179,000,000 (L)	34.39	–

Name	Notes	Capacity and nature of interest	Number of ordinary shares held (a)	Approximate percentage the Company's issued share capital	Number of share options held
Highkeen Resources Limited	(c)	Directly beneficially interested	1,179,000,000 (L)	34.39	–
Metal and Mining Link Limited	(d)	Through a controlled corporation	311,026,000 (L)	9.07	–
CITIC Metal Group Limited	(d)	Through a controlled corporation	311,026,000 (L)	9.07	–
Apexhill Investments Limited	(d)	Directly beneficially interested	311,026,000 (L)	9.07	–
Guangxi Dameng Manganese Industrial Co., Ltd	(e)	Through a controlled corporation	776,250,000 (L)	22.64	–
			776,250,000 (S)	22.64	–
Huanan Dameng Investments Limited	(e)	Through a controlled corporation	776,250,000 (L)	22.64	–
			776,250,000 (S)	22.64	–
Guinan Dameng International Resources Limited	(e)	Directly beneficially interested	776,250,000 (L)	22.64	–
			776,250,000 (S)	22.64	–
China Minsheng Banking Corporation Limited		Directly beneficially interested	776,250,000 (L)	22.64	–
Gaoling Fund, L.P.	(f)	Through a controlled corporation	225,794,000 (L)	6.59	–
Hillhouse Capital Management, Ltd.	(f)	Directly beneficially interested	225,794,000 (L)	6.59	–

Notes:

- (a) The letter “L” denotes the long position in such Shares and the letter “S” denotes the short position in such Shares.
- (b) CITIC Projects Management (HK) Limited (“**CITIC Projects**”) is wholly owned by CITIC Corporation Limited (“**CITIC Corporation**”). CITIC Corporation is wholly owned by CITIC Limited (Stock Code: 267), which is owned as to 25.60% by CITIC Glory Limited and as to 32.53% by CITIC Polaris Limited. CITIC Glory Limited and CITIC Polaris Limited are wholly owned by CITIC Group Corporation. CITIC Group Corporation is a company established in the PRC.
- (c) Highkeen Resources Limited is wholly owned by Group Smart Resources Limited (“**Group Smart**”), which is in turn wholly owned by Starbest Venture Limited (“**Starbest Venture**”). Starbest Venture is wholly owned by CITIC Resources, which is in turn owned as to 49.57% by Keentech Group Limited (“**Keentech**”). Keentech is wholly owned by CITIC Projects.
- (d) Apexhill Investments Limited (“**Apexhill**”) wholly owned by CITIC Metal Group Limited (“**CITIC Metal**”), which is in turn wholly owned by Metal and Mining Link Limited (“**MML**”). MML is wholly owned by CITIC Corporation.
- (e) Guinan Dameng International Resources Limited is wholly owned by Huanan Dameng Investments Limited (“**Huanan Dameng**”), which is in turn wholly owned by Guangxi Dameng.
- (f) Hillhouse Capital Management, Ltd. is wholly owned by Gaoling Fund, L.P. Gaoling Fund, L.P. is a company incorporated under the laws of Cayman Islands.

Save as disclosed above, as at the Latest Practicable Date, the Company has not been notified by any persons who had interests or short positions 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 which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

3. SERVICE CONTRACTS OF THE DIRECTORS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

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 audited financial statements of the Company were made up.

6. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

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

As at the Latest Practicable Date, Shinco Capital does not have:

- (a) 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 Group 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; and
- (b) any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Shinco Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and reference to its name in the form and context in which it appears.

7. DIRECTORS' INTERESTS IN CONTRACT AND ASSETS

As at the Latest Practicable Date, save as those disclosed in the section headed "Directors' Interests" above, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2017 (being the date to which the latest published audited financial statements of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

8. MATERIAL CONTRACT(S)

The following contracts, not being contracts entered into in the ordinary course of business, had been entered into by the Group within the two years preceding the Latest Practicable Date and which are or may be material:

- (i) The finance lease cooperation framework agreement dated 22 December 2017 entered into between CITIC Dameng Mining and 平安國際融資租賃有限公司 (Ping An International Financial Leasing Co., Ltd.); and
- (ii) The limited partnership agreement dated 15 June 2018 entered into between 中信大鎔(廣西)礦業投資有限責任公司 (CITIC Dameng (Guangxi) Mining Investment Limited) (an indirect wholly owned subsidiary of the Company), China Cinda Asset Management Co., Limited and Cinda International (Shanghai) Investment Consulting Co., Limited.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of following documents will be available for inspection at the registered office of the Company at 23/F, 28 Hennessy Road, Wanchai, Hong Kong during normal business hours on any Business Day from the date of this circular up to and including the date of the SGM:

- (i) 2016 Integrated Services Framework Agreement;
- (ii) 2016 Guangxi Liuzhou Agreement;
- (iii) 2016 Nanning Battery Plant Agreement;
- (iv) 2016 Guangxi Dameng Tenancy Agreement;
- (v) 2017 CITIC Special Steel Agreement;
- (vi) 2018 Guangxi Dameng Ore Agreement;
- (vii) 2018 Guangxi Dameng EMM Agreement;

- (viii) 2018 Guangxi Dameng Raw Materials Agreement;
- (ix) 2018 Integrated Services Framework Agreement;
- (x) 2018 Guangxi Liuzhou Agreement;
- (xi) 2018 Nanning Battery Plant Agreement; and
- (xii) 2018 CITIC Special Steel Agreement.

NOTICE OF SGM



DAMENG

CITIC DAMENG HOLDINGS LIMITED

中信大鋁控股有限公司 *

(incorporated in Bermuda with limited liability)

(Stock Code: 1091)

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of CITIC Dameng Holdings Limited (the “Company”) will be convened and held at Room 1, United Conference Centre Limited, 10th Floor, United Centre, 95 Queensway, Hong Kong on Wednesday, 25 July 2018, at 9:30 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolutions and a special resolution. Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the circular of the Company dated 29 June 2018:

ORDINARY RESOLUTIONS

1. the 2018 Guangxi Dameng Ore Agreement and the transactions contemplated thereunder for the period from 26 July 2018 to 31 December 2020 and all matters incidental thereto be and are hereby approved, confirmed and ratified;
2. the 2018 Guangxi Dameng EMM Agreement and the transactions contemplated thereunder for the period from 26 July 2018 to 31 December 2020 and all matters incidental thereto be and are hereby approved, confirmed and ratified;
3. the 2018 Guangxi Dameng Raw Materials Agreement and the transactions contemplated thereunder for the period from 26 July 2018 to 31 December 2020 and all matters incidental thereto be and are hereby approved, confirmed and ratified;
4. the 2018 Integrated Services Framework Agreement and the transactions contemplated thereunder for the three years ending 31 December 2021 and all matters incidental thereto be and are hereby approved, confirmed and ratified;
5. the 2018 Guangxi Liuzhou Agreement and the transactions contemplated thereunder for the three years ending 31 December 2021 and all matters incidental thereto be and are hereby approved, confirmed and ratified;

* For identification purpose only

NOTICE OF SGM

6. the 2018 Nanning Battery Plant Agreement and the transactions contemplated thereunder for the three years ending 31 December 2021 and all matters incidental thereto be and are hereby approved, confirmed and ratified; and
7. the 2018 CITIC Special Steel Agreement and the transactions contemplated thereunder for the period from 26 June 2018 to 31 December 2020 and all matters incidental thereto be and are hereby approved, confirmed and ratified.

SPECIAL RESOLUTION

8. As special business to consider and, if thought fit, pass with or without amendment, the following resolution as a special resolution of the Company:

“THAT conditional upon compliance with the requirements of section 46(2) of the Companies Act 1981 of Bermuda to effect the cancellation of share premium referred to below, and with effect immediately upon the passing of this special resolution:

- (a) an amount of HK\$3,352,902,000 standing to the credit of the share premium account of the Company be cancelled, and HK\$700,000,000 of the credit arising from such cancellation be applied towards offsetting the accumulated losses of the Company and the remaining balance of HK\$2,652,902,000 of the credit arising from such cancellation be transferred to the contributed surplus account of the Company;
- (b) the directors of the Company be and are authorised to apply the entire amount standing to the credit of the contributed surplus account of the Company in such manner as they consider appropriate from time to time; and
- (c) the directors of the Company be and are hereby authorised generally to do all acts and things, and to approve, sign and execute any documents, which in their opinion may be necessary, desirable or expedient to implement or to give effect to the foregoing.”

By order of the Board
CITIC DAMENG HOLDINGS LIMITED
Yin Bo
Chairman

Hong Kong, 29 June 2018

NOTICE OF SGM

As at the date of this announcement, the executive Directors are Mr. Yin Bo and Mr. Li Weijian; the non-executive Directors are Mr. Suo Zhengang, Mr. Lyu Yanzheng and Mr. Chen Jiqui; and the independent non-executive Directors are Mr. Lin Zhijun, Mr. Mo Shijian and Mr. Tan Zhuzhong.

Notes:

- (1) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (2) A form of proxy for use at the Meeting is enclosed.
- (3) To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be returned to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 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.
- (4) The transfer books and register of members will be closed from Friday, 20 July 2018 to Wednesday, 25 July 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the SGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 19 July 2018.
- (5) If there are joint registered holders of a share in the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the Meeting personally or by proxy, that one of the joint holders so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (6) In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the above resolutions will be taken by poll.