



9 May 2025

*To: The Independent Board Committee and the Independent Shareholders of
China Vanadium Titano-Magnetite Mining Company Limited*

Dear Sir or Madam,

**MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTION
AND
RENEWAL OF MASTER GUARANTEE AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the IBC and the Independent Shareholders with regard to the 2025 Master Guarantee Agreement (together with the Revised Guarantee Annual Cap(s) and the Annual Guarantee Fees Annual Caps) and the transactions contemplated 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 9 May 2025 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.



References are made to the circulars of the Company dated 10 June 2019 and 8 June 2022, and the announcements of the Company dated 30 July 2019, 16 May 2022, 28 March 2024, 19 June 2024, 19 August 2024, 21 August 2024, 15 November 2024, 23 December 2024, 11 February 2025, 4 March 2025 and 6 May 2025 in relation to the CVT Guarantees. Huili Caitong, the Company's former wholly-owned subsidiary, and Xiushuihe Mining, another former indirect subsidiary of the Company and a subsidiary of Huili Caitong, previously secured loan facilities from the Financial Institutions, in 2010, 2013 and 2014, and on which the Company has provided the CVT Guarantees in favour to each of the Financial Institutions with maximum guaranteed amounts of RMB730.0 million. Following the Disposal, the Company and Chengyu Vanadium entered into the 2019 Counter Indemnity for the provision of counter-indemnity by Chengyu Vanadium in favour of the Company in respect of the Company's contingent liabilities and potential claims under the CVT Guarantees. The 2019 Counter Indemnity remains effective until the date of actual release of the CVT Guarantees. Given that the CVT Guarantees are continuing in nature and will only be released by the Financial Institutions upon the full and final settlements are made, the Company had, on 16 May 2022, extended the CVT Guarantees by entering into the 2022 Master Guarantee Agreement and the 2022 Counter Indemnity with Chengyu Vanadium, which allows the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the provision of CVT Guarantees.

As disclosed in the Company's announcements dated 28 March 2024, 19 June 2024, 19 August 2024, 21 August 2024, 15 November 2024 and 23 December 2024, (i) CCB and ICBC had each taken legal actions against Huili Caitong and Xiushuihe Mining, respectively, in relation to the CCB-Caitong Indebtedness Amount, the ICBC-Caitong Indebtedness Amount and the ICBC-Xiushuihe Indebtedness Amount; and (ii) Cinda had issued a legal demand letter to Huili Caitong in relation to the Cinda-Caitong Indebtedness Amount, on which the Company had previously provided corporate guarantees prior to the Disposal. Under the CVT Guarantees, the Company shall fulfil its corporate guarantee obligations in relation to the Total Indebtedness Amounts.

As at the Latest Practicable Date, the maximum guaranteed amounts provided by the Company under the CVT Guarantees as at 31 December 2024 were RMB690.0 million, which are also the Scenario 1 Proposed Annual Cap. However, as stated in the Status Updates, the Huili Caitong Parties are still in discussions with the Financial Institutions as at the Latest Practicable Date, exploring potential options for settlement and/or debt restructuring (the **"Ongoing Discussions"**); and the outcomes of the Ongoing Discussions are likely to remain uncertain as at the date of the 2025 EGM.



Under such circumstances, assuming that there are no settlements, repayments and/or reductions in the principal amount of the Total Indebtedness Amounts, which may or may not occur during the Renewal Period as may arise from the Ongoing Discussions, the total maximum guaranteed amounts comprising (i) the principal amount of the Total Indebtedness Amounts; and (ii) the accumulated interests, penalties and other incidental expenses (the “**Scenario 2 Estimated Incidental Costs and Expenses**”), are estimated to be approximately RMB930.0 million by 31 December 2027, which are also the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap.

Given the above, on 11 February 2025, notwithstanding the maximum guaranteed amounts under the CVT Guarantees were RMB690.0 million as at 31 December 2024, the Company has entered into the 2025 Master Guarantee Agreement with the Borrowers and Chengyu Vanadium, pursuant to which the Company will continue to provide the CVT Guarantees based on the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap as illustrated and explained above, while Chengyu Vanadium will continue to provide the counter-indemnity in favour of the Company and the Borrowers will continue to pay annual guarantee fees to the Company, for a term of three years ending on 31 December 2027.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the maximum amount of the CVT Guarantees under the 2025 Master Guarantee Agreement exceed 25%, the 2025 Master Guarantee Agreement and the transactions contemplated thereunder (including but not limited to the receipt of guarantee management income) constitute a major transaction, which is subject to the reporting, announcement, circular and Shareholders’ approval requirements under Chapter 14 of the Listing Rules. (Note: the transactions contemplated herein are not an acquisition by the Company).

As at the Latest Practicable Date, the Relevant CVT Substantial Shareholders collectively hold more than 30% equity interests in Chengyu Vanadium. Xiushuihe Mining is owned as to 95% by Huili Caitong, which in turn is directly wholly owned by Chengyu Vanadium. Therefore, each of Chengyu Vanadium and the Borrowers is a connected person of the Company under Chapter 14A of the Listing Rules. As such, the transactions contemplated under the 2025 Master Guarantee Agreement also constitute a continuing connected transaction of the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For the annual guarantee fees, as one or more of the applicable percentage ratios (as defined under the Listing Rules) exceeds 5% but all of them are less than 25%, the annual guarantee fees constitute a discloseable transaction of the Company and is subject to the notification and announcement requirements but exempt from the Shareholders’ approval requirement under Chapter 14 of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios in respect of the annual guarantee fees exceeds 5%, the annual guarantee fees are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules. Hence, an ordinary resolution has also been added for the Independent Shareholders to consider and approve the annual guarantee fees at the 2025 EGM for the sake of clarity and transparency despite the fact that the annual guarantee fees are contemplated as part of the 2025 Master Guarantee Agreement.



None of the Directors has a material interest in the transactions contemplated under the 2025 Master Guarantee Agreement, and therefore no Director is required to abstain from voting on the resolution regarding such transactions at the board meeting. The IBC (comprising all independent non-executive Directors namely, Mr. Yu Haizong, Mr. Liu Yi, Mr. Wu Wen and Mdm. Tang Guoqiong) has been established to advise the Independent Shareholders on the 2025 Master Guarantee Agreement (together with the Revised Guarantee Annual Cap(s) and the Annual Guarantee Fees Annual Caps) and the transactions contemplated thereunder. We, Goldlink Capital (Corporate Finance) Limited, have been appointed as the independent financial adviser to advise the IBC and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationship with or interest in the Company and any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with this appointment as the IFA, no arrangement exists whereby we will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. During the past two years, we did not have any engagement with the Company or the Directors, chief executives and substantial shareholders of the Company or any of their associates. We therefore are independent of the Company pursuant to Rule 13.84 of the Listing Rules.

BASIS OF OUR OPINION

In arriving at our recommendations, we have relied on the statements, information and representations contained in the Circular and the information and representations provided to us by the Company, the Directors and the management of the Company. We have assumed that all information, representations and opinions contained or referred to in the Circular and all information and representations which have been provided by the Company, the Directors and the management of the Company for which they are solely and wholly responsible, are true and accurate at the time they were made and will continue to be accurate as 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 management of the Company.

The 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 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 therein or the document misleading.



We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any material facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs of the Group and any parties in relation to the 2025 Master Guarantee Agreement (together with the Revised Guarantee Annual Cap(s) and the Annual Guarantee Fees Annual Caps) and the transactions contemplated thereunder, in accordance with the Listing Rules.

This letter is issued for the information of the IBC and the Independent Shareholders solely in connection with their consideration of the 2025 Master Guarantee Agreement (together with the Revised Guarantee Annual Cap(s) and the Annual Guarantee Fees Annual Caps) and the transactions contemplated thereunder in accordance with the Listing Rules. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations, we have taken into consideration the following principal factors and reasons:

1. BACKGROUND INFORMATION OF THE GROUP

1.1 Background of the Group

The Group is principally engaged in mining and ore processing, sale of self-produced high-grade iron concentrates, trading of coals and steels, mining facilities management and management of strategic investments.



1.2 Financial performance of the Group

Set out below is a summary of the consolidated statements of profit or loss of the Group for each of the three years ended 31 December 2022 (“FY2022”), 31 December 2023 (“FY2023”) and 31 December 2024 (“FY2024”), which are extracted from the Company’s annual report for the year ended 31 December 2024 (“2024 Annual Report”) and the Company’s annual report for the year ended 31 December 2023 (“2023 Annual Report”), respectively.

	Year ended 31 December		
	2024	2023	2022
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Revenue	542,490	784,951	725,869
Gross profit	14,203	36,534	25,278
(Loss)/Profit for the year	(20,089)	9,080	1,038

For the year ended 31 December 2024

According to the 2024 Annual Report, revenue of the Group for FY2024 was approximately RMB542.5 million, representing a decrease of approximately 30.9% as compared to approximately RMB785.0 million for FY2023. Such decrease was mainly attributable to (i) the decrease in the production and sales volume of high-grade iron concentrates of approximately 44.9% and 48.3%, respectively; and (ii) the decrease in the steels trading volume of approximately 23.5% to approximately 148.9Kt in FY2024, with a decrease in average selling price of approximately 8.5%. The Group recorded a decrease in gross profit of approximately 61.1% from approximately RMB36.5 million for FY2023 to approximately RMB14.2 million for the FY2024, primarily due to the temporary suspension of operations at the Maoling-Yanglongshan Mine from July to November 2024 due to an incident involving a subcontractor (the “**Temporary Suspension**”), leading to a reduction in production volume and resulting in higher unit production costs, non-recurring production stoppage losses and lower economies of scale. Furthermore, following a reassessment of the production capacity and operational plans of the Maoling-Yanglongshan Mine after the Temporary Suspension, the Group recognised non-cash accounting impairment losses, including write-down of inventories totaling RMB13.8 million in accordance with applicable accounting standards.

As a result, the Group recorded a net loss attributable to owners of the Company of approximately RMB20.7 million for the FY2024 as compared to a net profit of approximately RMB9.7 million for FY2023.



For the year ended 31 December 2023

According to the 2023 Annual Report, the revenue of the Group for FY2023 was approximately RMB785.0 million, representing an increase of approximately 8.1% as compared to approximately RMB725.9 million for FY2022. Such increase was mainly attributable to the combined effect of (i) the increase in production volume of high-grade iron concentrates by approximately 55.3%; (ii) the increase in average selling price of high-grade iron concentrates by approximately 1.6%; and (iii) the increase in steels trading volume by approximately 8.5% to approximately 194.7Kt in the FY2023, despite a decrease in average selling price by approximately 7.0% due to weak market sentiment. Along with the increase in revenue, the Group recorded a higher gross profit of approximately RMB36.5 million for FY2023 as compared to approximately RMB25.3 million for FY2022.

During FY2023, the Group managed to restore its high-grade iron concentrates output that were comparable to pre-COVID levels, overcoming production constraints from the pandemic and the disruption of mine operations caused by mudslides and flash floods in Aba Prefecture, Sichuan Province in June 2023 despite persisting market price fluctuations amid challenging operational conditions. In addition, the full-year revenue contribution from the facility management segment, including higher revenues from expansion of its services scopes, had helped to diversify the Group's revenue stream. As a result, the Group's overall profitability improved, recording a net profit of approximately RMB9.1 million for FY2023, representing a significant increase of approximately 774.8% as compared to approximately RMB1.0 million for FY2022.

1.3 Financial position of the Group

	As at 31 December		
	2024	2023	2022
	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)
Non-current assets	1,063,267	1,062,481	961,450
Current assets	219,042	244,853	237,140
Current liabilities	216,779	241,632	231,931
Non-current liabilities	145,322	125,400	35,453
Equity attributable to owners of the Company	625,621	646,288	636,575



As at 31 December 2023, the total assets of the Group amounted to approximately RMB1.31 billion, representing an increase of approximately 9.2% from approximately RMB1.20 billion as at 31 December 2022. Such increase was mainly due to (i) the increase in prepayments, other receivables and other assets of approximately RMB90.1 million; (ii) the increase in property, plant and equipment as a result of the additions of property, plant and equipment for the year of approximately RMB36.3 million; and (iii) the increase in intangible assets due to amount paid and payable to the government associated with the resource integration process of the combined Maoling-Yanglongshan Mine for the year of approximately RMB90.5 million. As at 31 December 2024, total assets of the Group remained relatively stable at approximately RMB1.28 billion.

As at 31 December 2023, total liabilities of the Group amounted to RMB367.0 million, representing an increase of approximately 37.2% as compared to approximately RMB267.4 million as at 31 December 2022. The increase in total liabilities was mainly due to (i) the increase in trade payables of approximately RMB36.0 million which was in line with the increase of cost of sales; and (ii) the increase in contract liabilities as a result of the increase in advances received from customers in relation to the sale of self-produced high-grade iron concentrate at the end of the FY2023. As at 31 December 2024, total liabilities of the Group decreased slightly to approximately RMB362.1 million, which was mainly due to the combined effect of (i) the decrease in current liabilities of approximately RMB24.9 million; and (ii) the increase in non-current liabilities of approximately RMB19.9 million.

As a result of the foregoing, the total equity attributable to the owners of the Company as at 31 December 2022, 31 December 2023 and 31 December 2024 amounted to approximately RMB636.6 million, RMB646.3 million and RMB625.6 million, respectively.

1.4 Background information of Chengyu Vanadium

Chengyu Vanadium is a company established in the PRC which is effectively (i) 67.5% owned by the Relevant CVT Substantial Shareholders; (ii) 22.9% owned by 14 individuals; and (iii) 9.5% owned by one workers' union. As at the date of the Latest Practicable Date, save for the Relevant CVT Substantial Shareholders, none of the individuals and/or of the union, individually or together, effectively owns more than 10% of the equity interest in Chengyu Vanadium, and they are all independent third parties. As the Relevant CVT Substantial Shareholders collectively hold more than 30% equity interests in Chengyu Vanadium, Chengyu Vanadium is a connected person for the purposes of the transactions contemplated under the 2025 Master Guarantee Agreement. Chengyu Vanadium is principally engaged in the manufacturing, processing and sale of structural steels and other self-produced products such as vanadium pentoxide.



1.5 Background information of the Borrowers

Huili Caitong

Huili Caitong is a company established in the PRC with limited liability which is principally engaged in iron ore mining, iron ore beneficiation and sale of self-produced products. As at the Latest Practicable Date, Huili Caitong is wholly owned by Chengyu Vanadium, which is effectively (i) 67.5% owned by the Relevant CVT Substantial Shareholders; and (ii) 32.5% owned by 14 individuals and one union. As at the Latest Practicable Date, none of such 14 individuals and/or union effectively owns more than 30% of the equity interests in Chengyu Vanadium and thus, they are all independent third parties. Huili Caitong was formerly an indirect wholly-owned subsidiary of the Company before the completion of the Disposal on 30 July 2019.

Xiushuihe Mining

Xiushuihe Mining is a company established in the PRC with limited liability which is principally engaged in iron ore mining, iron ore beneficiation and sale of self-produced products. As at the Latest Practicable Date, Xiushuihe Mining is 95% and 5% owned by Huili Caitong and Xichang Vanadium and Titanium Products Co., Ltd* (西昌釩鈦製品有限公司), respectively; and the latter is ultimately controlled by the Relevant CVT Substantial Shareholders. It was formerly an indirect subsidiary of the Company which was held as to 95.0% by Huili Caitong (a then indirect wholly-owned subsidiary of the Company before the completion of the Disposal on 30 July 2019).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Financial Institutions and its ultimate beneficial owners is a third party independent of the Company and its connected persons.

2. THE 2025 MASTER GUARANTEE AGREEMENT

2.1 *Background of the 2025 Master Guarantee Agreement*

Huili Caitong, the Company's former wholly-owned subsidiary, and Xiushuihe Mining, another former indirect subsidiary of the Company and a subsidiary of Huili Caitong, previously secured loan facilities from the Financial Institutions on which the Company has provided the CVT Guarantees in favour to each of the Financial Institutions with maximum guaranteed amounts of RMB730.0 million. Following the Disposal, the Company and Chengyu Vanadium entered into the 2019 Counter Indemnity for the provision of counter-indemnity by Chengyu Vanadium in favour of the Company in respect of the Company's contingent liabilities and potential claims under the CVT Guarantees. The 2019 Counter Indemnity remains effective until the date of actual release of the CVT Guarantees. Given that the CVT Guarantees are continuing in nature and will only be released by the Financial Institutions upon the full and final settlement are made, the Company had, on 16 May 2022, extended the CVT Guarantees by entering into the 2022 Master Guarantee Agreement and the 2022 Counter Indemnity with Chengyu Vanadium, which allowed the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the provision of CVT Guarantees.

According to the Company's announcements dated 28 March 2024, 19 June 2024, 19 August 2024, 21 August 2024, 15 November 2024 and 23 December 2024, (i) CCB and ICBC had each taken legal actions against Huili Caitong and Xiushuihe Mining, respectively, in relation to the CCB-Caitong Indebtedness Amount, the ICBC-Caitong Indebtedness Amount and the ICBC-Xiushuihe Indebtedness Amount; and (ii) Cinda had issued a legal demand letter to Huili Caitong in relation to the Cinda-Caitong Indebtedness Amount, on which the Company had previously provided corporate guarantees prior to the Disposal, details of which have been disclosed in the Circulars. Under the CVT Guarantees, the Company shall fulfil its corporate guarantee obligations in relation to the Total Indebtedness Amounts.



A summary of the Indebtedness Claims as at the Latest Practicable Date is as follows:

No.	Borrowers	Financial Institutions	Year of inception of the loan	Principal amount involved in the Indebtedness Claims (RMB'000)	Status as at the Latest Practicable Date (the "Status Updates")
1	Huili Caitong	Cinda ¹	2014	140,975	Huili Caitong had received a legal demand letter from Cinda and has since initiated discussions with Cinda to explore potential settlement options and/or debt restructuring arrangements, as previously announced on 15 November 2024.
2	Huili Caitong	ICBC	2013	69,715	Separate litigations have been commenced against Huili Caitong and Xiushuihe Mining and the Huili Caitong Parties are in discussions with ICBC to explore potential options for settlement and/or debt restructuring, as previously announced on 19 August 2024 and 21 August 2024.
3	Xiushuihe Mining	ICBC	2013	19,000	
4	Huili Caitong	CCB	2010	276,929	Huili Caitong has received Judgements, and the Judgements also set out that the Company is required to fulfil its corporate guarantee obligations under the CVT Guarantees. The Huili Caitong Parties are in discussion with CCB to explore potential options for settlement and/or debt restructuring, as previously announced on 29 March 2024 and 19 June 2024.
				<u>506,619</u>	

¹ As disclosed in the Company's circular dated 8 June 2022, the Company was informed of the assignment by CMB of all its rights in the credit agreement and the guarantee in favour of Cinda.



As at the Latest Practicable Date, the maximum guaranteed amounts provided by the Company under the CVT Guarantees as at 31 December 2024 were RMB690.0 million, which are also the Scenario 1 Proposed Annual Cap. However, as stated in the Status Updates, the Huili Caitong Parties are still in discussions with the Financial Institutions as at the Latest Practicable Date, exploring potential options for settlement and/or debt restructuring (the “Ongoing Discussions”); and the outcomes of the Ongoing Discussions are likely to remain uncertain as at the date of the 2025 EGM.

Under such circumstances, assuming that there are no settlements, repayments and/or reductions in the principal amount of the Total Indebtedness Amounts, which may or may not occur during the Renewal Period as may arise from the Ongoing Discussions, the total maximum guaranteed amounts comprising (i) the principal amount of the Total Indebtedness Amounts; and (ii) the Scenario 2 Estimated Incidental Costs and Expenses, are estimated to be approximately RMB930.0 million by 31 December 2027, which is also the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap.

The details of the Scenario 2 Proposed Annual Cap, which takes into consideration the Scenario 2 Estimated Incidental Costs and Expenses are set out as follows:

Financial year	Scenario 2 Proposed Annual Cap (RMB'000)
FY2025	792,000
FY2026	859,000
FY2027	930,000

On 11 February 2025, notwithstanding the maximum guaranteed amounts under the CVT Guarantees were RMB690.0 million as at 31 December 2024, the Company, the Borrowers and Chengyu Vanadium have entered into the 2025 Master Guarantee Agreement, pursuant to which (i) the Company will continue to provide the CVT Guarantees based on the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap as illustrated and explained above; (ii) Chengyu Vanadium will continue to provide the counter-indemnity in favour of the Company; and (iii) the Borrowers will continue to pay annual guarantee fees to the Company, for a term of three years ending on 31 December 2027.

2.2 Reasons for and benefits of the entering into the 2025 Master Guarantee Agreement

In order to assess whether the entering into the 2025 Master Guarantee Agreement is in ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole, we have discussed with the management of the Company and considered the followings:

- (i) *the Company will have to fulfil its corporate guarantee obligations under the CVT Guarantees in relation to the Total Indebtedness Amounts*

As set out in the paragraph headed “2.1 Background of the 2025 Master Guarantee Agreement” above, the CVT Guarantees are continuing in nature and will only be released by the Financial Institutions upon full and final settlements are made. The extension of CVT Guarantees by entering into the 2025 Master Guarantee Agreement and the 2025 Counter Indemnity with Chengyu Vanadium, would allow the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the provision of CVT Guarantees under the 2025 Master Guarantee Agreement and to continue pledging Chengyu Vanadium’s Pledged Assets as security for such counter-indemnity.

Based on our discussion with the management of the Company and pursuant to the terms of the 2025 Master Guarantee Agreement, we are given to understand that the transactions contemplated under the 2025 Master Guarantee Agreement will only cover the Total Indebtedness Amounts and hence no guarantees will be provided in favour of the Borrowers by the Group in addition to the CVT Guarantees under the 2025 Master Guarantee Agreement that the pertinent terms and conditions in relation to the credit exposure under the existing CVT Guarantees shall remain unchanged and remain effective until the CVT Guarantees are fully released and officially discharged by the respective Financial Institutions. As such, the management of the Company considers that the entering into the 2025 Master Guarantee Agreement aims to facilitate administration and execution with reference to the continuation of the CVT Guarantees, which allow the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the provision of CVT Guarantees under the 2025 Master Guarantee Agreement and to continue pledging Chengyu Vanadium’s Pledged Assets as security for such counter-indemnity.



- (ii) *the 2025 Master Guarantee Agreement continue to safeguard the interests of the Company and the Shareholders*

As advised by the management of the Company, given that the CVT Guarantees will only be released until the full and final settlement are made and officially discharged by the respective Financial Institutions, it is the Company's intention, when negotiating the terms of the 2025 Master Guarantee Agreement, to extend the CVT Guarantees, to request from the Borrowers to continue to pay the annual guarantee fees to the Company, calculated at 1.25% of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap. The annual guarantee fees shall start to accrue from 1 January 2025 and the Borrowers shall pay such annual guarantee fees within 30 days after end of each calendar quarter, subject to compliance with applicable laws, regulations, and the Listing Rules. The annual guarantee fees are to be paid to the Company as additional income in order to cover part of its corporate overheads in administering the 2025 Master Guarantee Agreement as an independent third-party guarantor with an aim to further safeguard the interests of the Company and the Shareholders as a whole.

Set out the table below summarise the existing arrangement under the CVT Guarantees and the key terms of the 2025 Master Guarantee Agreement:

	Existing arrangement under the CVT Guarantees	The 2025 Master Guarantee Agreement
Maximum contingent liabilities and potential claims under the CVT Guarantees	RMB730.0 million	RMB930.0 million
Guarantee fee	1.25% per annum on the maximum guaranteed amounts	1.25% per annum on the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap



	Existing arrangement under the CVT Guarantees	The 2025 Master Guarantee Agreement
Pledges under the respective counter indemnity	Structural steel and iron ore with market value sufficiently cover the maximum guaranteed amounts, with the market value of not less than 1.25 times of the maximum guaranteed amounts	Industrial materials, machinery and equipment with market value sufficiently cover the maximum guaranteed amounts, with the market value of not less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap

Based on the table above, we note that under the 2025 Master Guarantee Agreement, (i) the pertinent terms and conditions in relation to the credit exposure under the existing CVT Guarantees shall remain unchanged and remain effective until the CVT Guarantees are fully released and officially discharged by the respective Financial Institutions; (ii) the Group will continue to receive the annual guarantee fees as additional income from the Borrowers to cover part of its corporate overheads in administering the 2025 Master Guarantee Agreement (the fairness and reasonableness of which are discussed in the paragraph headed “2.4 Fairness and reasonableness on the terms of the 2025 Master Guarantee Agreement” below); and (iii) the Borrowers will continue to pledge its inventories (mainly comprising industrial materials) and any other assets (mainly comprising machinery and equipment) as approved by the Company (the “**Pledged Assets**”) as security with the market value of such Pledged Assets not less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap for the respective year within the period from 2025 to 2027.



After taking into consideration that (i) the Financial Institutions are only willing to release the CVT Guarantees in the event that the total amounts owing by the Borrowers to the Financial Institutions are fully repaid; and (ii) the entering into the 2025 Master Guarantee Agreement is to facilitate administration and execution with reference to the continuation of the CVT Guarantees, and allow the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the provision of CVT Guarantees under the 2025 Master Guarantee Agreement and to continue pledging Chengyu Vanadium's Pledged Assets as security for such counter-indemnity, we concur with the Directors' view that although the entering into of the 2025 Master Guarantee Agreement is not in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

2.3 Major terms of the 2025 Master Guarantee Agreement

Set out below are the major terms of the 2025 Master Guarantee Agreement. For details, please refer to the Letter from the Board.

Date : 11 February 2025 (after trading hours)

Parties : (i) the Company;
(ii) Huili Caitong;
(iii) Xiushuihe Mining; and
(iv) Chengyu Vanadium

Period : Commencing from the Effective Date to 31 December 2027

Major Terms

1. The Company shall continue to provide the CVT Guarantees in favour of the Financial Institutions for a term commencing from the Effective Date to 31 December 2027 (the "Renewal Period"), subject to the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap of not more than RMB930.0 million.



2. The CVT Guarantees shall continue to be provided under the 2025 Master Guarantee Agreement and shall cover:
 - (a) the Total Indebtedness Amounts owing by the Borrowers to the Financial Institutions under the CVT Guarantees;
 - (b) any loans approved by the Financial Institutions resulting from rollover, extension, refinancing, or restructuring of the indebtedness set out in (a) above from time to time; and
 - (c) costs of enforcing the indebtedness set out in (a) above against the Borrowers incurred by the Financial Institutions, including the estimated amounts under the Scenario 2 Estimated Incidental Costs and Expenses.
3. During the term of extension of the CVT Guarantees, the Borrowers shall:
 - (a) continue to pay the annual guarantee fees to the Company, calculated at 1.25% of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap, in accordance with the terms of the 2025 Master Guarantee Agreement. The annual guarantee fees shall start to accrue from 1 January 2025 and the Borrowers shall pay such annual guarantee fees within 30 days after the end of each calendar quarter, subject to compliance with applicable laws, regulations, and the Listing Rules.

The rate of the annual guarantee fees has been determined based on arm's length negotiations between the Company and the Borrowers having considered (i) the market rates generally payable for the provision of corporate guarantees by publicly listed companies in Hong Kong; (ii) the quantum of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap; and (iii) the basis of which the annual guarantee fees for the past three years ended 31 December 2024 had been determined; and

- (b) continue to fulfil their obligations under the 2025 Master Guarantee Agreement until the obligations of the Company under the CVT Guarantees are fully released and officially discharged by the respective Financial Institutions or until the Borrowers and the Company reach a new replacement agreement in writing.



4. During the term of extension of the CVT Guarantees, Chengyu Vanadium shall:
- (a) continue to pledge its inventories (mainly comprising industrial materials), and any other assets (mainly comprising machinery and equipment) as approved by the Company (the “Pledged Assets”) as security for such counter-indemnity. The market value of such Pledged Assets shall not be less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap for the respective year within the period from 2025 to 2027;
 - (b) continue to provide a several and joint liability guarantee which allows the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the CVT Guarantees; and
 - (c) continue to fulfil its obligations under the 2025 Master Guarantee Agreement and 2025 Counter Indemnity until the Company’s obligations under the CVT Guarantees are fully released or officially discharged by the respective Financial Institutions or until the Borrowers and the Company reach a new replacement agreement in writing.

In this connection, Chengyu Vanadium has entered into the 2025 Counter Indemnity to cover the Company’s contingent liabilities and potential claims under the 2025 Master Guarantee Agreement and to continue to pledge Chengyu Vanadium’s Pledged Assets as security for such counter-indemnity. The 2025 Counter Indemnity shall take effect from the Effective Date.



Valuation Methodologies and Principal Assumptions of Pledged Assets

The Pledged Assets mainly comprise inventories and machineries and equipment (the “M&E”). In particular:

(i) Inventories

The inventories comprise more than 40 types of industrial materials, which include vanadium titanium concentrate, laterite nickel ore, Brazilian coarse powder, mika powder, etc., as well as sulfur coking coals, secondary metallurgical coke, blast furnace anthracite, among others. Notably, the independent valuer adopted the market approach, assessing value by comparing recent transaction prices of identical or similar inventories in the market excluding relevant disposal taxes and fees. Independent valuer is also of the view that the cost and income approaches were deemed unsuitable as they do not accurately reflect inventories value and the inventories do not generate independent future income.

The formula of the market approach: appraised value = (Quantity of raw materials × Market price of raw materials excluding tax) - Related disposal taxes and fees

(ii) M&E

The M&E comprise over 1,100 items, including boilers, steam turbines, drum mixers, stone and ore crushers, magnetic separators, vehicles among others. Independent valuer has adopted cost and market approaches which generally based on the market price or replacement cost of a comparable M&E and adjusted for allowance for depreciation or loss of value arising from condition, utility, age, wear and tear, and obsolescence, taking into consideration past and present maintenance policy, and rebuilding history, if any, and current utilisation.

The formula for the cost approach: appraised value = full replacement price × newness rate

(a) Full replacement price

Where full replacement price = purchase price of equipment + transportation and incidental cost + equipment foundation cost + installation cost + other costs + capital cost – deductible input VAT.

Purchase price: for equipment that is still in circulation on the market is determined directly by its prevailing market price, or by referring to the contract prices of similar equipment around the same date. For smaller equipment, the acquisition price is mainly determined by referencing market quotations.

For equipment where current prices cannot be obtained, if comparable assets are available, the cost approach is used by adjusting the price of similar equipment to determine the acquisition cost (updated replacement cost). If both the current price of the equipment and comparables cannot be sourced, the price index approach (restored replacement cost) is applied. This involves using the original purchase price of the equipment and adjusting it based on the price inflation index for similar assets to determine the acquisition cost.

Transportation and incidental cost: refer to the costs incurred during the transportation of equipment, including shipping fees, loading and unloading charges, and other related miscellaneous expenses. The transportation and incidental charges rate is determined based on the region and the distance from the nearest station or dock, and is calculated according to the rates specified in the relevant industry guidelines. The calculation formula is as follows:

Transportation and incidental charges = Equipment purchase price × Transportation and incidental charge rate

Installation and testing cost: the equipment installation fee rate is calculated based on the rates specified in the relevant industry estimation guidelines. The calculation formula is as follows:

Equipment installation fee = Equipment purchase cost × Equipment installation fee rate

Equipment foundation cost: is determined based on the rates specified in the relevant industry estimation guidelines. The calculation formula is as follows:

Equipment foundation cost = Equipment purchase cost × Equipment foundation fee rate

Other costs: calculated based on the investment amount of the project owner, in accordance with the fee standards set by industry, national, or local government regulations.

Capital costs: calculated based on the reasonable construction period of the project held by the property owner. The calculation is referenced from the benchmark interest rate for RMB loans published by the People's Bank of China on the valuation reference date. The total costs, including the equipment purchase price, transportation and incidental charges, installation fees, other costs, are used as the base, with capital costs applied based on the assumption of uniform capital input.

Deductible input VAT: related costs \times VAT rate/(1 + VAT rate), where the applicable rates are (i) equipment purchase: 13%; (ii) transportation, installation cost and foundation fees: 9%; and (iii) other charges which is non-administrative and non-public service: 6%.

(b) Newness rate

The newness rate is determined by adopting the weighted average method and the formula is: newness rate ("N") = theoretical newness rate ("N1") \times 40% + on-site surveyed newness rate ("N2") \times 60%, where:

Theoretical newness rate: obtained the relevant information to determine the used life, the economic useful life and the remaining useful life exceeding the economic useful life of the machinery and equipment with following formula:

For equipment within its economic useful life: $N1 = (1 - \text{used life/economic useful life}) \times 100\%$

For equipment beyond its economic useful life: $N2 = (\text{remaining useful life}/(\text{used life} + \text{remaining useful life})) \times 100\%$

On-site surveyed newness rate: through on-site survey of the status of the equipment and access to relevant operation and management information, on-site survey of each component of the equipment is carried out to determine its on-site surveyed newness rate.

Based on the aforesaid valuation approaches, the value of the inventories was approximately RMB310.1 million; while value of the M&E was approximately RMB697.7 million, as at 31 December 2024. Consequently, the total value of the Pledged Assets was approximately RMB1.008 billion, as at 31 December 2024.



Pricing Source

The independent valuer has referenced the following reliable and authoritative sources in conducting the evaluation:

- Market price information gathered by the independent valuer, including direct inquiries made with key manufacturers to obtain up-to-date pricing information;
- MySteel (我的鋼鐵網), a major steel industry pricing data platform;
- Tonghuashun iFind, an institutional-level financial data platform;
- Online commerce B2B marketplace such as Baidu's "Aicagou" and Alibaba, which provide current pricing data and insights from a range of suppliers and manufacturers;
- Macroeconomic and industry statistic and reports from reputable sources, including the National Bureau of Statistics, covering macroeconomic trends, industry-specific developments, and regional market dynamics; and
- Other available databases.

Conditions Precedent

The 2025 Master Guarantee Agreement shall be conditional upon the approval of the Independent Shareholders at the 2025 EGM in accordance with the Listing Rules.

2.4 Fairness and reasonableness on the terms of the 2025 Master Guarantee Agreement

Obligation of the Group under the 2025 Master Guarantee Agreement

Pursuant to the terms of the 2025 Master Guarantee Agreement, the Company shall continue to provide the CVT Guarantees to the Financial Institutions in favour of the Borrowers during the Renewal Period and the CVT Guarantees continued by the 2025 Master Guarantee Agreement shall guarantee the Total Indebtedness Amounts until the CVT Guarantees are fully released and officially discharged by the respective Financial Institutions.



During the term of the Renewal Period, the maximum guaranteed amounts are estimated to be approximately RMB930.0 million by 31 December 2027, which are also the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap, after taking into account the followings: (i) the total amount outstanding under the CVT Guarantees as at 31 December 2024, the historical maximum guaranteed amounts mandated under the CVT Guarantees, and that the CVT Guarantees have not been released by the Financial Institutions as at the date of the 2025 Master Guarantee Agreement; and (ii) as the outcomes of the Ongoing Discussions are likely to remain uncertain as at the date of the 2025 EGM, the maximum guaranteed amounts estimated for the Renewal Period under the Scenario 2 Proposed Annual Cap, taking into consideration the Scenario 2 Estimated Incidental Costs and Expenses, have been estimated based on hypothetical assumptions that, which may or may not occur, there are no settlements, repayments and/or reductions in the principal amount of the Total Indebtedness Amounts even though such amounts may not necessarily be crystallised in full if progressive repayments could be made by the Borrowers once the outcomes of the Ongoing Discussions can be concluded during the Renewal Period. Based on the above, we consider that the inclusion of such cap to restrict balance of the maximum guaranteed amounts is justifiable and in the interests of the Company and the Shareholders as a whole.

The 2025 Counter Indemnity

As part of the 2025 Master Guarantee Agreement, Chengyu Vanadium shall provide the 2025 Counter Indemnity in favour of the Company which includes (i) continuing to pledge its inventories (mainly comprising industrial materials) and any other assets (mainly comprising M&E) as approved by the Company as security for such counter-indemnity. The market value of such Pledged Assets shall not be less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap for the respective year within the period from 2025 to 2027.; (ii) continuing to provide a several and joint liability guarantee which allows the Company to claim against Chengyu Vanadium directly for any payments, losses and expenses incurred as a result of the CVT Guarantees; and (iii) continuing to fulfil its obligations under the 2025 Master Guarantee Agreement and 2025 Counter Indemnity until the Company's obligations under the CVT Guarantees are fully released and officially discharged by the respective Financial Institutions or until the Borrowers and the Company reach a new replacement agreement in writing.

In respect of the market value of the Pledged Assets of not less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap, we have discussed with the management of the Company and understand that the 1.25 multiple used for calculating the market value of the Pledged Assets is determined based on management judgement and after commercial negotiation to provide a reasonable buffer for potential risks associated with asset depreciation and market volatility. We also note that the Pledged Assets by Chengyu Vanadium in favour of the Company was approximately RMB1.008 billion as at 31 December 2024, which is (i) 1.99 times of the principal amount of the Total Indebtedness Amounts of approximately RMB506.6 million as at the Latest Practicable Date; and (ii) 1.27 times of the maximum guaranteed amount of RMB792.0 million estimated under Scenario 2 Proposed Annual Cap for the year 2025. As such, we are of the view that the 1.25 multiple used for calculating the market value of the Pledged Assets is on normal commercial terms and the 1.25 multiple is determined on fair and reasonable basis so far as the Independent Shareholders are concerned.

In respect of the pledge of Chengyu Vanadium's assets as security under the 2025 Counter Indemnity, we understand that should the 2025 Counter Indemnity is enforced, the Company will claim against Chengyu Vanadium for any loss sustained and sell the Pledged Assets under the 2025 Counter Indemnity for settlement of its payment obligations under the CVT Guarantees. We note that Chengyu Vanadium has total assets of approximately RMB19.8 billion and net assets of approximately RMB2.1 billion, with a cash inflow from operating activities amounting to approximately RMB664.8 million as at 31 December 2024. The net assets represents approximately (i) 414.5% of the principal amount of the Total Indebtedness Amount of approximately RMB506.6 million as at the Latest Practicable Date, owed by the Borrowers to the Financial Institutions; and (ii) 304.3% of the maximum guaranteed amount of approximately RMB690.0 million as at the Latest Practicable Date, which demonstrate that Chengyu Vanadium has the financial ability to allow the Company to claim against it for any losses and expenses incurred from the CVT Guarantees. Further, we have obtained and reviewed the register of charge extracted from Credit Reference Center of the PRC, a directly affiliated institution of the People's Bank of China which is mainly responsible for the construction, operation and management of the basic financial credit information databases, the unified movable financing registry system and the account receivables financing service platform according to the Regulation on the Administration of Credit Reporting Industry, the Decision of the State Council on the Implementation of Unified Registration for Pledge of Movable Property and Rights, and other national laws and regulations and the rules of the People's Bank of China. We have also reviewed (a) the valuation report of the inventories and noted that the assumption and key input of the valuation included, among others, (i) an open market is fully developed; (ii) a

competitive market in which buyers and sellers are equal with sufficiently available market information. We understand that the independent valuer has adopted the market approach to value the inventories, assessing value by comparing recent transaction prices of identical or similar inventories in the market excluding relevant disposal taxes and fees. We are of the view that it is a common approach for inventories that have an active market allowing for reliable comparison to market data; and (b) the valuation reports for M&E and noted that the assumption and key input of the valuation included, among others, (i) the assets under appraisal will continue to be used in accordance with their intended use; and (ii) the relevant price standards and market prices of the assets under appraisal will not change significantly during the validity period of the appraisal result. We understand that the independent valuer has adopted the cost approach to value M&E (except vehicles), assessing value by reference to (i) full replacement cost, including factors, among others, purchase price of equipment, transportation and incidental cost, equipment foundation cost, installation cost; and (ii) newness rate. We are of the view that it is a common practice used to value assets that can be easily replaced, such as property, plant and equipment. The independent valuer has adopted the market approach to value vehicles given the second-hand vehicles market is relatively active and open, allowing for reliable comparison to market data. According to the valuation reports, the value of the inventories was approximately RMB310.1 million; while value of the M&E was RMB697.7 million as at 31 December 2024. The total value of the Pledged Assets was approximately RMB1.008 billion as at 31 December 2024, which are at least 1.25 times the maximum guarantee amounts of RMB792.0 million for the year 2025.

Taking into consideration that (i) the CVT Guarantees will be covered by the 2025 Counter Indemnity with an amount not be less than 1.25 times of the maximum guaranteed amounts, the 1.25 multiple used for calculating the market value of the Pledged Assets is determined based on management judgement and after commercial negotiation to provide a reasonable buffer for potential risks associated with asset depreciation and market volatility; (ii) should the 2025 Counter Indemnity is enforced, the Company will claim against Chengyu Vanadium for any loss sustained and sell the Pledged Assets under the 2025 Counter Indemnity for settlement of its payment obligations under the CVT Guarantees; (iii) the financial ability of Chengyu Vanadium and the pledge of Chengyu Vanadium's assets as security under the 2025 Counter Indemnity; and (iv) a several and joint liability guarantee which allows the Company to claim against Chengyu Vanadium directly for any losses and expenses incurred as a result of the CVT Guarantees, based on the above, we are of the view that the 2025 Counter Indemnity can cover the Company's contingent liabilities and potential claims under the 2025 Master Guarantee Agreement and the continuing pledge of Chengyu Vanadium's Pledged Assets as security for such counter-



indemnity which can safeguard the interests of the Company and the Shareholders, and hence is fair and reasonable so far as the Independent Shareholders are concerned.

Based on the above, in particular, (i) the maximum guaranteed amounts are limited to not more than RMB930.0 million, after taking into account the followings: (a) the total amount outstanding under the CVT Guarantees as at 31 December 2024; and (b) the Scenario 2 Estimated Incidental Costs and Expenses payable by the Borrowers during the Renewal Period; and (ii) the 2025 Counter Indemnity provided by Chengyu Vanadium can cover the Company's contingent liabilities and potential claims under the 2025 Master Guarantee Agreement and the continuing pledge of Chengyu Vanadium's Pledged Assets as security for such counter-indemnity can safeguard the interests of the Company and the Shareholders, we concur with the view of the Directors that the terms of the 2025 Master Guarantee Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

2.5 Proposed Revised Guarantee Annual Caps and Proposed Annual Guarantee Fees Annual Caps

2.5.1 Proposed Revised Guarantee Annual Caps

The table below set out (i) the Existing Guarantee Annual Caps; (ii) the Group's historical maximum guaranteed amounts under the CVT Guarantees for the three years ended 31 December 2024; and (iii) the Revised Guarantee Annual Caps for the three years ending 31 December 2027:

	For the year ended 31 December		
	2022	2023	2024
	RMB' million	RMB' million	RMB' million
Existing Guarantee Annual Caps	730.0	730.0	730.0
Historical maximum guaranteed amounts	690.0	690.0	690.0
	For the year ending 31 December		
	2025	2026	2027
	RMB' million	RMB' million	RMB' million
Revised Guarantee Annual Caps	930.0	930.0	930.0



The above proposed Revised Guarantee Annual Caps have been determined after taking into account the followings:

1. the total amount outstanding under the CVT Guarantees as at 31 December 2024, the historical maximum guaranteed amounts mandated under the CVT Guarantees, and that the CVT Guarantees have not been released by the Financial Institutions as at the Latest Practicable Date; and
2. as the outcomes of the Ongoing Discussions are likely to remain uncertain as at the date of the 2025 EGM, the maximum guaranteed amounts estimated for the Renewal Period under the Scenario 2 Proposed Annual Cap, taking into consideration the Scenario 2 Estimated Incidental Costs and Expenses, have been estimated based on hypothetical assumptions that, which may or may not occur, there are no settlements, repayments and/or reductions in the principal amount of the Total Indebtedness Amounts even though such amounts may not necessarily be crystallised in full if progressive repayments could be made by the Borrowers once the outcomes of the Ongoing Discussions can be concluded during the Renewal Period.

We have discussed with the management of the Company and note that the Scenario 2 Estimated Incidental Costs and Expenses consist of legal and other professional fees related to ongoing litigation initiated by CCB and ICBC against Huili Caitong and Xiushuihe Mining, as well as potential legal proceedings by Cinda. We understand from the management of the Company that they estimate such expenses to be approximately 0.6% of the Total Indebtedness Amounts by making reference to the identified expenditures as incurred in the litigation with CCB. We have reviewed the calculation of the Scenario 2 Proposed Annual Cap and note that the calculation of the Scenario 2 Estimated Incidental Costs and Expenses is based on approximately 0.6% of the Total Indebtedness Amounts which is in line with the ratio of the identified expenditures as incurred in the litigation with CCB. As such, we concur with the view of the Directors that the estimation of the Scenario 2 Estimated Incident Costs and Expenses is fair and reasonable.



As discussed above in paragraph “2.2 Reasons for and benefits of the entering into the 2025 Master Guarantee Agreement” above, the Financial Institutions require the total amounts owing by the Borrowers to be fully repaid prior to releasing the CVT Guarantees. We are given to understand that the extension of CVT Guarantees by entering into the 2025 Master Guarantee Agreement and the 2025 Counter Indemnity with Chengyu Vanadium, would allow the Company to cover the Company’s contingent liabilities and potential claims under the 2025 Master Guarantee Agreement and to continue to pledge Chengyu Vanadium’s Pledged Assets as security for such counter-indemnity. As such, the Group is required to provide the CVT Guarantees with the maximum guaranteed amounts of RMB930.0 million, which take into account accumulated interests, penalties and other incidental expenses based on hypothetical assumptions that there are no settlements, repayments and/or reductions in the principal amount of the Total Indebtedness Amounts.

2.5.2 Proposed Annual Guarantee Fees Annual Caps

The proposed Annual Guarantee Fees Annual Caps are as follows:

	For the year ending 31 December		
	2025	2026	2027
	RMB' million	RMB' million	RMB' million
Proposed Annual Guarantee Fees			
Annual Caps	11.625	11.625	11.625

The above proposed Annual Guarantee Fees Annual Caps have been determined after taking into account the followings:

1. the Group will receive not more than approximately RMB11.625 million per annum as guarantee fee income assuming the maximum guarantee amounts estimated under the Scenario 2 Proposed Annual Cap is to remain at RMB930.0 million during the Renewal Period; and

2. the annual rate of the guarantee fees has been determined based on arm's length negotiations between the Company and the Borrowers, having considered (i) the market rates generally payable for the provision of corporate guarantees by publicly listed companies in Hong Kong; (ii) the quantum of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Caps; and (iii) the basis which the annual guarantee fees for the past three years ended 31 December 2024 had been determined.

We have discussed with the management of the Company and reviewed the terms of the 2025 Master Guarantee Agreement, and understand that during the Renewal Period, the proposed Annual Guarantee Fees Annual Caps are calculated at 1.25% of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap. The annual guarantee fees shall start to accrue from 1 January 2025 and the Borrowers shall pay such annual guarantee fees within 30 days after end of each calendar quarter from the effective date of the 2025 Master Guarantee Agreement.

In order to assess the fairness and reasonableness of the proposed Annual Guarantee Fees Annual Caps, we have conducted search over the website of the Stock Exchange and reviewed the transactions involving the provision of guarantees entered into by other companies listed on the Stock Exchange as announced within six months prior to and including 11 February 2025, being the date of the 2025 Master Guarantee Agreement (the “Comparable Guarantees”). We consider that the basis of selecting the Comparable Guarantees with the criteria of transactions announced within six months prior to and including the date of the 2025 Master Guarantee Agreement is fair and reasonable given that (i) such criteria and period is sufficiently recent to demonstrate the prevailing market practices which are approved by the regulators; and (ii) we were able to identify sufficient relevant transactions for comparison within such period.



We have, on a best effort basis, identified an exhaustive list of 15 Comparable Guarantees. Based on the above criteria, we consider these Comparable Guarantees can provide a reference point on the recent transactions involving the provision of guarantees, and they are a fair and representative sample for the purpose of our analysis. On a separate note, the Shareholders should note that the businesses, operations and prospects of the Group are not the same as those of the companies providing the Comparable Guarantees, therefore, the Comparable Guarantees are only used to provide a general reference for the common market practice in similar guarantee arrangements. Details of the Comparable Guarantees are summarised as follows:

	Date of announcement	Company name	Guarantee amount	Guarantee fees	Connected transactions (Y/N)
1	17/01/2025	E-Commodities Holdings Limited (1733.HK)	USD3,773,000	nil	Y
2	17/01/2025	Jiangsi Copper Company Limited (358.HK)	RMB161,700,000	nil	Y
3	23/12/2024	Zall Smart Commerce Group Ltd. (2098.HK)	RMB2,900,000,000	2.00%	N
4	18/12/2024	GoFintech Innovation Limited (290.HK)	RMB293,200,000 in aggregate	nil	N
5	09/12/2024	Shanxi Installation Group Co., Ltd. (2520.HK)	HKD301,146,412 in aggregate	nil	Y
6	04/12/2024	China Risun Group Limited (1907.HK)	USD13,000,000	nil	N
7	20/11/2024	Beijing Capital Grand Limited (1329.HK)	RMB1,025,100,000	0.70%	Y
8	11/11/2024	Multifield International Holdings Limited (898.HK)	RMB520,000,000 in aggregate	nil	N
9	29/10/2024	CSSC (Hong Kong) Shipping Company Limited (3877.HK)	RM69,090,000	nil	N
10	25/10/2024	E-Commodities Holdings Limited (1733.HK)	USD101,150,000	nil	Y
11	23/10/2024	Seacon Shipping Group Holdings Limited (2409.HK)	RMB107,800,000 in aggregate	nil	N
12	10/17/2024	UNQ Holdings Limited (2177.HK)	USD79,000,000 in aggregate	nil	N
13	27/09/2024	Livzon Pharmaceutical Group Inc. (1513.HK)	RMB48,000,000	nil	Y
14	28/08/2024	Ubtech Robotics Corp Ltd. (9880.HK)	RMB2,100,000,000	nil	N
15	26/08/2024	Concord New Energy Group Limited (182.HK)	RMB490,000,000 in aggregate	1.50%	Y
			Average	0.28%	
			Max	2.00%	
			Min	nil	
		Company	Maximum of RMB930.0 million	1.25% per annum of the maximum guaranteed amounts	

As illustrated in the table above, the guarantee fees charged on the amount guaranteed by the Comparable Guarantees ranged from nil to 2.0% per annum, with an average guarantee fee rate of approximately 0.28% per annum. We note that the guarantee fee rate of 1.25% per annum entitled by the Group is within the range of that of the Comparable Guarantees and is higher than the average of the Comparable Guarantees. We therefore consider the proposed Annual Guarantee Fees Annual Caps charged by the Company for the provision of the CVT Guarantees is fair and reasonable.

In light of the above, we are of the view that the Revised Guarantee Annual Caps and proposed Annual Guarantee Fees Annual Caps are determined based on reasonable estimation and after due and careful consideration and they are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

2.6 Internal Control Policies

We have obtained and reviewed the Company's internal control measures for the purpose of the 2025 Master Guarantee Agreement. Set out below are the internal control measures imposed by the Group in order to safeguard the interests of the Independent Shareholders and to ensure that the proposed Revised Guarantee Annual Caps and the proposed Annual Guarantee Fees Annual Caps will not be exceeded. The Company has formulated and will continue to follow internal control measures relating to the transactions contemplated under the 2025 Master Guarantee Agreement and the 2025 Counter Indemnity, which include the following:

- (i) the Borrowers will submit all the related loan details to the Company on a monthly basis and the Borrowers will have to follow up on the Status Updates; and the compliance department of the Company will report to the management of the Company in the event that there is any deviation from the basis as set out in the 2025 Master Guarantee Agreement, the management will then report to the Board;
- (ii) the Pledged Assets will be stored at a designated location agreed by the Company or its designated third party, and shall not be replaced by Chengyu Vanadium with other Pledged Assets of equal value as substitute without the Company's prior consent;

- (iii) the Company will engage an independent professional valuer to perform physical sighting and to ascertain the market value of the Pledged Assets under the 2025 Counter Indemnity at the end of each financial year and to ensure that such market value shall not be less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap. In addition, the Company will perform physical sighting on the Pledged Assets, and procure the independent professional valuer to update the valuation of the Pledged Assets on monthly basis. In the event that the value of the Pledged Assets is found to have fallen below 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap, the Company will require Chengyu Vanadium to pledge further assets to the Company to meet the aforesaid requisite level of value;
- (iv) the independent non-executive Directors have reviewed and will continue to review the connected transaction agreements to ensure that such agreements, if applicable, are entered on normal commercial terms, fair and reasonable, and carried out pursuant to the terms thereof; and
- (v) the Company's external auditor has reviewed the CVT Guarantees on annual basis since 2019 and will continue to conduct an annual review of the transactions entered into under the 2025 Master Guarantee Agreement (including the annual guarantee fees) and to ensure that, among other, such connected transactions are entered into in accordance with the terms set out in the 2025 Master Guarantee Agreement.

We have (i) obtained and reviewed one set of related loan details submitted by the Borrowers and noted that the relevant documents have been reviewed by the responsible departments and personnel accordingly; (ii) obtained and reviewed the valuation report of the Pledged Assets as at 31 December 2024 and noted that the value of the Pledged Assets is higher than the maximum guaranteed amounts under the CVT Guarantees (i.e. RMB930.0 million); and (iii) reviewed the 2023 Annual Report and noted that the Company's external auditor has confirmed that the execution and performance of the CVT Guarantees during the year ended 31 December 2023 were entered into in accordance with the terms set out in the CVT Guarantees.



In light of the above internal control measures, we are of the view that (i) the Borrowers submitting all the related loan details to the Company on a monthly basis allow the Board to identify deviations from the basis as set out in the 2025 Master Guarantee Agreement on a timely basis; (ii) the Pledged Assets to be stored at a designated location by the Company or its designated third party could prevent Chengyu Vanadium from replacing the Pledged Assets with other Pledged Assets of equal value as substitute without the Company's prior consent, which could safeguard the interest of the Company; and (iii) engaging an independent professional valuer to perform physical sighting and to ascertain the market value of the Pledged Assets under the 2025 Counter Indemnity at end of each financial year could ensure the market value of the Pledged Assets is not less than 1.25 times of the maximum guaranteed amounts estimated under the Scenario 2 Proposed Annual Cap for the respective year within the period from 2025 to 2027.


Based on the above, we concur with the Directors' view that the internal control measures are sufficient and effectively implemented in place to ensure the transactions contemplated under the 2025 Master Guarantee Agreement will be conducted on normal commercial terms.

RECOMMENDATION

Having taken into account the above-mentioned principal factors and reasons, we are of the view that although the entering into of the 2025 Master Guarantee Agreement is not in the ordinary and usual course of business of the Group, it is in the interests on the Company and the Shareholders as a whole, and the terms of the 2025 Master Guarantee Agreement (together with the Revised Guarantee Annual Cap(s) and the Annual Guarantee Fees Annual Caps) and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders, as well as the IBC to recommend the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the 2025 Master Guarantee Agreement (together with the Revised Guarantee Annual Cap(s) and the Annual Guarantee Fees Annual Caps) and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Goldlink Capital (Corporate Finance) Limited



Vincent Cheung
Managing Director

Mr. Vincent Cheung is a licensed person registered with the Securities and Futures Commission and regarded as a responsible officer of Goldlink Capital (Corporate Finance) Limited to carry out type 6 (advising on corporate finance) regulated activities under the SFO. Mr. Cheung has over 15 years of experience in corporate finance industry.