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## **China Vanadium Titano-Magnetite Mining Company Limited**

**中國鈦鈷磁鐵礦業有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00893)**

### **PROFIT WARNING AND BUSINESS UPDATE**

This announcement is made by China Vanadium Titano-Magnetite Mining Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong).

#### **PROFIT WARNING**

The board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to inform the shareholders of the Company and potential investors that based on the preliminary review of the Group’s unaudited consolidated management accounts for the six months ended 30 June 2018 (“**1H2018**”), the Group is expected:

- to record a loss for its operating mines of low-grade or low Fe iron concentrates as a result of (i) significantly lower selling prices (which fell by 16% to 22% on average as compared to the six months ended 30 June 2017 (“**1H2017**”)) due to falling demand and destocking; and (ii) impairment losses as assessed in accordance with the Group’s accounting policies given lower-than-expected utilisation rates and the status of suspended production facilities and inactive mines (“**Low Fe and Inactive Mines**”); and
- to record a cash profit and positive operating cash flows for its operating mines of high-grade iron concentrates as a result of higher selling prices and focused strategies to improve efficiencies for production of high-grade iron concentrates (“**High Fe Mines**”).

However, the Group’s loss, including impairment losses recorded for Low Fe and Inactive Mines, is expected to outpace the profit derived from High Fe Mines. As a result, the Group is expected to record a loss before tax, including impairment losses of not more than RMB400.0 million (1H2017: RMB113.6 million).

The above financial results is only estimated based on the preliminary assessment by the management of the Group with reference to the unaudited consolidated management accounts of the Group for 1H2018 which have not been reviewed or audited by the Company's auditor. Shareholders of the Company and potential investors are advised to read carefully the interim results announcement of the Company for 1H2018, which is expected to be published by the end of August 2018.

## **BUSINESS UPDATE**

### **Shifting in Demand for Iron Ore**

The government initiatives in environmental protection are definite, decisive and firm. The Chinese government has taken drastic measures, imposed stringent requirements and flagged serious concerns in order to rein in pollution, which requires steel mills to meet anti-smog and low emission targets. Arising from which, there seems to be a significant impact on demand and pricing for iron ore. Specifically, the Group observed that:

- the demand and price for higher-grade ore (above 62% Fe) ("**High-grade Ore**") have surged whereas the same for the lower-grade ore (below 62% Fe) ("**Low-grade Ore**") have fallen;
- the fall in demand and price for Low-grade Ore was obvious and the gap has widened over the last 12 months, putting production for Low-grade Ore under intense pressure comparing to that of High-grade Ore; and
- this sudden shift in demand in China has fragmented the iron ore market, resulting in deep discount for Low-grade Ore and huge premium for High-grade Ore.

The shift in demand and change in prices have affected many industry players and they are revamping strategies in response. There is no exception to the Group's business units during the period under review. The Low Fe and Inactive Mines for the Group reported operating losses and recorded assets impairment whereas the High Fe Mines did well in generating positive cash flows for the Group.

### **Low Fe and Inactive Mines**

The operations for the Low Fe and Inactive Mines have been under constant and significant pressure to upgrade for environmental compliance while struggling to be profitable over the last few years. The recent shift in demand further burdened the operations of the Low Fe and Inactive Mines. The Group's discretionary decisions to progressively reduce capacity for Low Fe Mines and to continually suspend the Inactive Mines over the last 12 months made commercial sense. There were impairment losses recorded during the period under review as a result of (i) the 'lower-than-optimal' utilisation rates; and (ii) 'suspended and inactive' status of the mines. However, had the Low Fe and Inactive Mines not been streamlined, higher operating losses would have been incurred by the Group under such operating environment and circumstances.

Given so, there are neither obvious commercial reasons nor justifiable technical grounds for the Group to resume its suspended production facilities and to start production of the inactive mines. The Group will continue to update its operational reviews for the operations of the Low Fe Mines with a core objective of minimising any future impairment risks.

### **High Fe Mines**

The Group has seen increasingly higher demand for its high-grade iron concentrates under the China's blue-sky policy and there was a significant price premium for the high-grade iron concentrates over the standard or low-grade iron concentrates as well. It is likely that this demand and price trend will continue, albeit a moderate pace. The Group's focused strategies in improving efficiencies for its High Fe Mines helped to boost part of the Group's operating cash flows and there were no impairment losses recorded for the High Fe Mines during the period under review.

Going forward, the Group will conduct a strategic review on the High Fe Mines with a view to potentially upgrade and expand the operations for the High Fe Mines as its core mining assets while monitoring the market condition closely as it is likely to remain volatile.

The Company will update shareholders of the Company in due course if there is any significant development in relation to the Group's business and corporate strategies.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.**

Yours faithfully,  
For and on behalf of the Board  
**China Vanadium Titano-Magnetite Mining Company Limited**  
**Teh Wing Kwan**  
*Chairman*

Hong Kong, 16 August 2018

*As at the date of this announcement, the Board comprises Mr. Teh Wing Kwan (Chairman) as non-executive Director; Mr. Jiang Zhong Ping (Chief Executive Officer), Mr. Hao Xiemin (Financial Controller) and Mr. Wang Hu as executive Directors; Mr. Yu Haizong, Mr. Wu Wen and Mr. Liu Yi as independent non-executive Directors.*

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