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China Vanadium Titano-Magnetite Mining Company Limited

中國鈮鈦磁鐵礦業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00893)

**SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO
THE ANNUAL RESULTS ANNOUNCEMENT AND
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023**

Reference is made to the announcement of China Vanadium Titano-Magnetite Mining Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 2 April 2024 in relation to the annual results of the Company (the “**Announcement**”) and annual report (the “**Annual Report**”) for the year ended 31 December 2023 (“**FY2023**”). Unless the context otherwise requires, capitalized terms used herein shall have the same meanings as those defined in the Annual Report and the Announcement.

The board of directors of the Company (the “**Board**”) would like to provide the following supplemental information regarding the addition of mining rights recorded under intangible assets in the Announcement and Annual Report.

BACKGROUND

Reference is made to the circular of the Company dated 30 November 2010. On 15 November 2010, the Group entered into the Aba Mining Acquisition Agreement (the “**2010 Agreement**”) with Sichuan Chuanwei Group Co., Ltd. to acquire the equity interest in Aba Mining which holds major assets of Maoling Mine (inclusive of Maoling Extended Exploration Area) and Yanglongshan Mine. The entry into the 2010 Agreement constituted a disclosable and connected transaction under Chapter 14 of the Rules Governing the Listing of Securities on the Main Board (the “**Listing Rules**”) of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”), which was approved by the independent shareholders of the Company (the “**Shareholders**”) in the extraordinary general meeting held on 16 December 2010 (the “**2010 EGM**”).

Reference is further made to the annual reports subsequent to the 2010 EGM. Upon completion of the 2010 Agreement, the Group held (i) mining permit of the Maoling Mine, (ii) exploration permit of the Maoling Extended Exploration Area, and (iii) exploration permit of the Yanglongshan Mine, all issued by the Department of Natural Resources of Sichuan Province (the “**DNRSP**”). In 2012, the Group applied to the DNRSP for regulatory approval to integrate the Maoling Mine and Yanglongshan Mine. The DNRSP subsequently approved its application and issued an exploration permit covering an exploration area within the combined Maoling-Yanglongshan Mine of approximately 11.6 sq. km. Both mines are located adjacent to each other and the combined Maoling-Yanglongshan Mine has been the Group’s existing key operations for the high-Fe mines since September 2012.

As previously disclosed, the Company completed the disposal of its low-Fe mines and operations on 30 July 2019, and cited the strategic importance of the high-Fe mines and operations which it intends to develop and further expand under the combined Maoling-Yanglongshan Mine. The Company had also previously provided several business updates in the announcements dated 13 August 2021, 14 March 2022, 15 August 2022, and 7 December 2023 regarding these strategic moves to expand and optimise operational efficiencies. The Company further disclosed that it has been progressively engaging in related mining engineering works to expand and optimise operational efficiencies, including evaluation of operational and production plans to integrate the mining resources of the Maoling-Yanglongshan Mine.

Consequently, the Group applied to the DNRSP for proposed modification of the existing mining area by approximately 0.8 sq. km., from 1.9 sq. km. to 2.7366 sq. km. (the “**Modified Mining Area**”), within the existing exploration area of 11.6 sq. km. Such an application would incur additional licensing fees and is a standard business practice in the mining industry in the PRC. For the avoidance of doubt, the Modified Mining Area (i) was included in and form part of the transaction contemplated under the 2010 Agreement, an acquisition which the Company obtained approval from independent Shareholders in the 2010 EGM; and (ii) is and has been within the same exploration area as covered under the exploration permit for the combined Maoling-Yanglongshan Mine, which DNRSP approved in September 2012.

On 6 May 2023, the DNRSP officially issued an updated mining permit under the same mining permit number (the “**Updated Mining Permit**”), to approve the Modified Mining Area, effective from 6 May 2023 until 28 October 2034. The Group incurred the Licensing Fees (as defined below) for the Modified Mining Area. As reiterated, there is and has been no change in the total area under exploration of 11.6 sq. km. since 2012.

INTANGIBLE ASSETS AS AT 31 DECEMBER 2023

As disclosed in the Announcement and the Annual Report, the Group's intangible assets, which include concession rights of the combined Maoling-Yanglongshan Mine, increased to approximately RMB822.1 million as at 31 December 2023. Such increase was primarily attributable to amounts of approximately RMB98.2 million, paid and payable to the government associated with the resource integration process of the Group in relation to the combined Maoling-Yanglongshan Mine (the "**Licensing Fees**"). Of this amount, the Group had paid an accumulated amount of approximately RMB48.3 million to the government during the FY2023 (of which RMB42.0 million was paid in 1H2023 and disclosed in the interim results announcement), with the remaining balance scheduled to be paid over 8 annual instalments up to 31 December 2031.

Basis of determination of the Licensing Fees

The Licensing Fees were determined by DNRSP which took into consideration the following:–

- (a) Estimated resource volume: the additional volume of iron raw ore (being the primary raw material in producing iron concentrates from which the Group's revenues are derived) of approximately 25.8 million tonnes, as may be extracted from the Modified Mining Area, estimated and verified by the Sichuan Province Mineral Resources Reserves Evaluation Centre, according to a set of related technical parameters that were acceptable to the government agency solely for the purpose of price determination;
- (b) Pre-determined unit price: the unit price of iron raw ore of RMB3.51 per tonne, adopted by the government of Aba Prefecture during the assessment period; and
- (c) Independent valuation: the independent valuation conducted by the panel valuer engaged by DNRSP, who took account, among other factors, the expected present value of future operating cash flows which may be derived from future sales of those iron concentrates, as may be produced from the Modified Mining Area.

Accounting treatments for the Licensing Fees

Given the above, the Group recorded and capitalised approximately RMB90.5 million as intangible assets as at 31 December 2023, which comprised (i) RMB86.6 million (being the present value of the total Licensing Fees of approximately RMB98.2 million), paid and payable to the government associated with the resource integration process of the combined Maoling-Yanglongshan Mine; and (ii) direct cost incidental to the integration process amounting to RMB3.9 million.

In accordance with the IFRS Accounting Standards:–

- (a) the Licensing Fees (paid and payable to DNRSP in accordance with the government industrial policies) were capitalised as intangible assets and represents a deferred revenue expenditure as at 31 December 2023; and
- (b) given the revenue nature of the Licensing Fees, the related amounts will progressively be included as part of the direct manufacturing costs (i.e. cost of goods sold) for producing iron concentrates in matching with the corresponding revenues for the future financial periods; or alternatively, the related amounts will be recorded as inventories, pending production and shipments of finished goods stock (the “**Matching Principle in Accounting**”).

THE COMPANY’S VIEWS AS TO WHETHER THE INCURRENCE OF THE LICENCING FEES IN CONNECTION WITH THE MODIFIED MINING AREA CONSTITUTED A NOTIFIABLE TRANSACTION AND/OR CONNECTION TRANSACTIONS UNDER CHAPTERS 14 AND 14A OF THE LISTING RULES

The Company, in relation to the Modified Mining Area, have considered the following:–

- (a) there has been no change in the total area under exploration of 11.6 sq. km. since September 2012 and the Modified Mining Area was not tantamount to an acquisition of new mining rights, because the Modified Mining Area was (i) included as part of the transaction contemplated under the 2010 Agreement, an acquisition which the Company obtained approval from independent Shareholders in the 2010 EGM; and (ii) has been within the same exploration area as covered under the exploration permit for the combined Maoling-Yanglongshan Mine, which DNRSP approved in September 2012.
- (b) the related administrative details of the Modified Mining Area were updated under the same mining permit number issued by the DNRSP in May 2023, in accordance with the applicable rules and regulations of the PRC; and no new mining permit was issued for the Modified Mining Area relating to acquisition of new mining rights;
- (c) the amount of the Licensing Fees had been determined solely and strictly by the government agencies, namely the DNRSP, Sichuan Province Mineral Resources Reserves Evaluation Centre, and the government of Aba Prefecture according to a set of related technical parameters that were acceptable to such government agencies;
- (d) the revenue nature of the Licensing Fees, as evaluated and recognised in accordance with IFRS Accounting Standards, that the Licensing Fees had been capitalised as intangible assets which represent a deferred revenue expenditure and as such, the Matching Principle in Accounting will apply to subsequent financial reporting periods; and
- (e) the principal activities of the Group are iron ore mining, iron ore beneficiation and sales of self-produced products. As such, the Modified Mining Area forms part of the continuous expansion of the Group’s integrated upstream operations, which spells the Group’s key growth initiatives in supporting its supply chain, supplying inventories, and increasing revenues within its ordinary and usual course of business.

Given the above, the Company respectfully submits that:

- (a) the incurrence of the Licensing Fees in connection with the Modified Mining Area is considered a deferred revenue expenditure for the Company's upstream mining operations, which was not tantamount to a new acquisition of mining asset. As such, the Company did not consider it a transaction under Chapter 14 of the Listing Rules; and
- (b) the Licensing Fees were paid and payable to the PRC government who is not a connected person to the Company. As such, it did not constitute a connected transaction under Chapter 14A of the Listing Rules.

The Board and the management of the Company (the "**Management**") would like to assure the Shareholders that the Company:

- (a) has taken its corporate decision-making, disclosure policies; and Listing Rules and regulatory compliance conscientiously. The above viewpoints were adopted after deliberate consideration of the background and circumstances which incurred the Licensing Fees for the Company's operations;
- (b) had taken necessary diligent steps in evaluating the characteristic of the payment obligations, including discussions with the operational and technical teams. The Company had also put in place necessary internal controls and performed risk management assessment prior to approving the subject matter;
- (c) is committed to providing Shareholders with regular corporate updates in relation to material development of the Company's business operations on a voluntary basis. Shareholders might have noted that the Company had previously released several corporate updates in August 2021, March 2022, August 2022 and December 2023, relating to the Group's strategic moves to expand and optimise operational efficiencies of the combined Maoling-Yanglongshan Mine; and
- (d) is of the opinion that the decision in relation to the incurrence of the Licensing Fees for the Modified Mining Area was taken in the best interest of the Shareholders.

THE HONG KONG STOCK EXCHANGE'S VIEWS

The Company was however advised by the Hong Kong Stock Exchange that the incurrence of the Licensing Fees was to be considered as a notifiable transaction under Chapter 14 of the Listing Rules, and thus Chapter 14 of the Listing Rules was to be complied with.

The Company respectfully acknowledges the Hong Kong Stock Exchange's view in the above matter and the Company is thus publishing this announcement to ensure that all relevant and material information pertaining to the incurrence of the Licensing Fees, including the Company's internal assessment and views thereof.

LISTING RULES IMPLICATIONS

To the extent that the incurrence of the Licensing Fees in connection with the Modified Mining Area was to be assessed under Chapter 14 of the Listing Rules, the relevant percentage ratio in respect of the amount of the total Licensing Fees would exceed 25% but would be less than 100%, which would constitute a major transaction for the Company and would require Shareholders' approval under Chapter 14 of the Listing Rules.

CONSULTATION ON SIMILAR TRANSACTIONS

The Company appreciates the Hong Kong Stock Exchange's advice and is respectful of the Hong Kong Stock Exchange's view in this matter despite the Company's detailed internal assessment on the background and circumstances as elaborated above.

To prevent potential divergence of views in the future, the Company will endeavour to consult with the Hong Kong Stock Exchange, if necessary, should similar circumstances arise on grounds of prudence. More specifically, if similar circumstances or events arise in the future which may possibly cause the Company to potentially incur and/or commit in any major expenditures into matter in capital or revenue nature in relation to the integration, modification, addition, alterations and/or other variations to be performed on the combined Maoling-Yanglongshan Mine; and if applicable, the Company will comply with the relevant requirements of Chapter 14 of the Listing Rules for such transactions.

Taking into consideration that, (i) the details of the Modified Mining Area have already been recorded as intangible assets with pertinent details disclosed in the periodic result announcements, interim report for FY2023 and the Annual Report, (ii) the Updated Mining Permit for the Modified Mining Area of the combined Maoling-Yanglongshan Mine has already been issued and effected, and (iii) all material information regarding the abovementioned has been set out in this announcement, no circular will be sent to the Shareholders. However, in view of good corporate governance, the Board intends to hold a dialogue with Shareholders such that the Board and Management could further clarify and/or address related queries from Shareholders pertaining to this matter, if any. The Company will announce the details of this dialogue in due course.

By order of the Board
China Vanadium Titano-Magnetite Mining Company Limited
Teh Wing Kwan
Chairman

Hong Kong, 21 June 2024

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