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**JINCHUAN 金川**

**JINCHUAN GROUP INTERNATIONAL RESOURCES CO. LTD**

**金川集團國際資源有限公司**

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

**(Stock Code: 2362)**

**PROPOSED REVISED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS**

On 5 June 2019 (after trading hours), the Company and JCG entered into the 2019 CCT Agreement which, if approved by the Independent Shareholders at the EGM, will replace the 2016 CCT Agreement (as supplemented by the 2018 CCT Supplemental Agreement) in relation to the continuing connected transactions for the trading of Mineral and Metal Products between the Group and JCG Group and the 2018 Cobalt Agreement in relation to the sale and purchase of cobalt hydroxide produced by Ruashi.

As at the date of this announcement, through its wholly-owned subsidiaries, JCG indirectly owns 7,567,325,857 Shares, representing approximately 60.01% of the issued share capital of the Company. Accordingly, JCG is a connected person of the Company under Chapter 14A of the Listing Rules and the Continuing Connected Transactions constitute continuing connected transactions of the Company.

Since one or more of the applicable percentage ratios of the Proposed Revised Annual Caps as calculated in accordance with Rule 14.07 of the Listing Rules exceeds 5%, the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Board will seek the approval of the Independent Shareholders, among other things, to approve the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps. JCG and its associates will abstain from voting on the resolution(s) to be passed at the EGM.

The Company has established the Independent Board Committee to advise the Independent Shareholders in connection with the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps. The Company has appointed Altus as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2019 CCT Agreement and transactions contemplated thereunder including the Proposed Revised Annual Caps.

A circular of the EGM containing, among others, (i) further details of the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps; (ii) the advice and recommendations from the Independent Board Committee in respect of the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps; and (iv) a notice of the EGM will be dispatched to the Shareholders on or before 5 June 2019.

Reference is made to the announcement and the circular in relation to, among others, the continuing connected transactions under the 2016 CCT Agreement (as supplemented by the 2018 CCT Supplemental Agreement) and 2018 Cobalt Agreement published by the Company on 6 April 2018 and 9 May 2018, respectively.

## **RELATIONSHIP BETWEEN THE GROUP AND JCG GROUP**

The Company was acquired by JCG Group in November 2010 and since then has been serving as the flagship and listed international base metals platform of JCG Group for undertaking overseas operations in the exploration and exploitation of mining assets and related trading of raw materials and products of non-ferrous metal including, copper and cobalt, while it continues to leverage on the background and expertise of JCG Group to pursue mining investment opportunities.

As at the date of this announcement, through its wholly-owned subsidiaries, JCG indirectly owns 7,567,325,857 Shares, representing approximately 60.01% of the issued share capital of the Company. Accordingly, JCG is a connected person of the Company under Chapter 14A of the Listing Rules and the Continuing Connected Transactions constitute continuing connected transactions of the Company.

## **BACKGROUND**

On 6 April 2018, (1) the Company and JCG entered into the 2018 CCT Supplemental Agreement to revise the term as well as the annual caps of the continuing connected transactions between the Group and JCG Group contemplated under the 2016 CCT Agreement; and (2) GHJ and Lanzhou Jinchuan entered into the 2018 Cobalt Agreement to revise the terms relating to the sale and purchase of the cobalt hydroxide. The 2018 CCT Supplemental Agreement (for the avoidance of doubt, including the 2018 Cobalt Agreement) and the Original Annual Caps were approved by Independent Shareholders at the extraordinary general meeting of the Company held on 25 May 2018.

On 5 June 2019 (after trading hours), the Company and JCG entered into the 2019 CCT Agreement which will replace the 2016 CCT Agreement (as supplemented by the 2018 CCT Supplemental Agreement) and the 2018 Cobalt Agreement. The 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps are conditional upon the approval of the Independent Shareholders at the EGM.

## **2019 CCT AGREEMENT**

On 5 June 2019 (after trading hours), the Company and JCG entered into the 2019 CCT Agreement which, if approved by the Independent Shareholders at the EGM, will replace the (i) 2016 CCT Agreement (as supplemented by the 2018 CCT Supplemental Agreement) in relation to the continuing connected transactions for the trading of Mineral and Metal Products between the Group and JCG Group; and (ii) the 2018 Cobalt Agreement in relation to the sale and purchase of cobalt hydroxide produced by Ruashi.

The principal terms of the 2019 CCT Agreement are as follows:

### **Date**

5 June 2019

### **Parties**

- (i) the Company (as seller); and
- (ii) JCG (as buyer)

### **Term**

Subject to the fulfilment of the conditions precedent, the 2019 CCT Agreement shall replace the 2016 CCT Agreement (as supplemented by the 2018 CCT Supplemental Agreement) and the 2018 Cobalt Agreement and shall commence retrospectively from 1 June 2019 to 31 May 2022. Subject to compliance with the Listing Rules, the parties shall be entitled to re-negotiate the terms for the sale and purchase of the Mineral and Metal Products upon expiry of the 2019 CCT Agreement.

### **Subject Matter**

Pursuant to the 2019 CCT Agreement, the Company has agreed to cause the Group to sell to JCG Group, and JCG has agreed to cause JCG Group (for the purpose of this announcement, excluding the Group) to purchase from the Group, the Mineral and Metal Products that the Group may source from third parties or produce by the mines of the Group during the term of the 2019 CCT Agreement.

The quantity of each type of Mineral and Metal Products to be sold to JCG Group is not fixed under the terms of the 2019 CCT Agreement but is to be determined and agreed between the relevant parties from time to time.

## **Conditions Precedent**

The undertaking of the Continuing Connected Transactions is conditional upon the Company having obtained the Independent Shareholders' approval at the EGM for the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps.

## **General transaction principles**

The Continuing Connected Transactions should be conducted in accordance with the following general principles:

- (i) the Mineral and Metal Products provided by the Group should be of good quality and at fair and reasonable prices;
- (ii) the Group and JCG Group shall be entitled to enter into separate contracts for trading/sale and purchase of the Mineral and Metal Products contemplated under the 2019 CCT Agreement from time to time. Such contracts should comply with the relevant regulatory requirements in Hong Kong (including but not limited to the Listing Rules) and other applicable laws and regulations in the respective jurisdiction, and should set out, among other things, the parties of the transaction(s), the terms and conditions of the transaction(s) (including, if applicable, the annual minimum purchase quantity), the relevant product(s) and the trading price(s), the delivery time and the payment terms. The terms of such trading contracts should be on normal commercial terms and should be no less favourable than those available to Independent Third Parties; and
- (iii) the terms offered by the Group should be competitive in terms of the quality and trading price of the Mineral and Metal Products. Priority should only be given to the Group by JCG Group if the quality and trading price of the Mineral and Metal Products provided by the Group to JCG Group are no less favourable than those available from Independent Third Parties.

## **Basis of the selling prices of the Mineral and Metal Products**

The consideration of the Mineral and Metal Products sold will be determined with reference to the prevailing market price of the Mineral and Metal Products at the time of each specific agreement to be entered into pursuant to the 2019 CCT Agreement, subject to certain adjustments mainly involve the basis coefficient pricing, the moisture content, the percentage of metal content and the impurity element content in the metals. Market prices of copper, cobalt, nickel and other relevant metals refer to (i) the monthly moving average price or the monthly average settlement price of copper quoted on the LME; or (ii) the monthly moving average price of cobalt quoted on the MB; or (iii) the monthly moving average price or the monthly average settlement price of nickel quoted on the LME; or (iv) when the market price of other Mineral and Metal Products could not be adequately reflected through (i), (ii) and (iii) at the place of sale or the receiving market, the price shall be reasonably determined by both parties after making reference to the monthly average selling price of Mineral and Metal Products at the place of sale or the receiving market. Such price will be determined by making reference to the selling price charged by other renowned mining companies at the place of sale or receiving market, and a recognized stock index that is comparable to the LME or the MB, such as SMM Information & Technology Co., Ltd, Shanghai Futures Exchange or Chicago Mercantile Exchange. This mechanism is intended to ensure that the selling prices for the Mineral and Metal Products provided by the Group to JCG Group will be determined on normal commercial terms.

## Payment terms

Payments of the transactions will be settled in arrears, or such other manners as agreed by the parties in accordance with the agreed timing and manners as specified in the separate contracts to be entered into between members of the Group and JCG Group from time to time.

## HISTORICAL ANNUAL CAPS AND THE HISTORICAL TRADING AMOUNTS

The following table sets out the historical annual caps for transactions and the historical trading amounts of Mineral and Metal Products between the Group and the JCG Group, respectively, for the periods indicated below:

	Year ended 31 December 2016 (US\$)	Year ended 31 December 2017 (US\$)	Year ended 31 December 2018 (US\$)	Year ending 31 December 2019 (US\$)	Year ending 31 December 2020 (US\$)
Historical annual caps:					
– under 2013 CCT Agreement or as the case may be 2016 CCT Agreement (as supplemented by 2018 CCT Supplemental Agreement) and the 2018 Cobalt Agreement	1,500 million	209.6 million	755 million	793 million	833 million
– under 2015 Cobalt Agreement (as supplemented by 2016 Cobalt Supplemental Agreement)	106 million				
Historical trading amounts:					
– under 2013 CCT Agreement or as the case may be 2016 CCT Agreement (as supplemented by 2018 CCT Supplemental Agreement) and the 2018 Cobalt Agreement	26.9 million	209.6 million	238.7 million	N/A ( <i>note</i> )	
– under 2015 Cobalt Agreement (as supplemented by 2016 Cobalt Supplemental Agreement)	58 million				

*Note:* According to the information available to the Company, as at the Latest Practicable Date, the total trading amount recorded by the Group for the period from 1 January 2019 to 31 May 2019 under the 2016 CCT Agreement (as supplemented by 2018 CCT Supplemental Agreement) was nil.

## PROPOSED REVISED ANNUAL CAPS AND THE DETERMINATION BASIS

The following table sets out the Proposed Revised Annual Caps:

	Year ending 31 December 2019 (US\$)	Year ending 31 December 2020 (US\$)	Year ending 31 December 2021 (US\$)	Period ending 31 May 2022 (US\$)
Proposed Revised Annual Cap	490 million	490 million	490 million	204 million

In arriving at the Proposed Revised Annual Caps, the Directors have taken account of the following for consideration:

- 1) The acute fluctuation of the price and demand for cobalt. Cobalt benchmark MB price surged from approximately US\$31,416 per tonne as at 31 December 2016 to approximately US\$77,162 per tonne as at 31 December 2017, representing an increase of approximately 145.6%. The trend continues in 2018 and cobalt price reached a peak of US\$96,342 per tonne on 25 April 2018. The demand for cobalt shrank due to the new supply available in the market, change in the DRC Mining Code and the high inventory kept by electric battery manufacturers in the PRC. Cobalt benchmark MB price dropped considerably to approximately US\$58,422 per tonne as at 31 December 2018 and further to US\$36,046 per tonne as at 30 April 2019. The average monthly cobalt price between January 2018 and April 2019 of US\$70,736 per tonne is adopted for estimating the Proposed Revised Annual Caps.
- 2) The possible sale of copper concentrate produced by Kinsenda Mine in the DRC, subject to tendering and bidding exercise outcome. Previously, copper concentrate produced by Kinsenda Mine were sold to refineries in Zambia, as a result of the implementation of a 5% import tax on all copper concentrates into Zambia by the Zambia Government in January 2019, the Group and the customers have mutually agreed to cease exporting Kinsenda Mine's product to Zambia and started shipping copper concentrates to the PRC for sale. JCG Group's refinery in the PRC is in need of copper concentrates and will need to source for copper concentrates overseas.
- 3) The inclusion of 25% of the buffer representing approximately 3 months of the sales value of the Mineral and Metal Products for the Proposed Revised Annual Caps. The Company believes that it would be prudent to leave 3 months of the sales value of the Mineral and Metal Products as a buffer. One reason is that the Company would need approximately 3 months to finalize the process of obtaining the Independent Shareholders' approval to revise the annual caps for the Continuing Connected Transaction, the other reason is that normally it would need one to one and a half months to arrange transportation before making actual delivery of products and realizing sales value, also it needs 20-25 days for management team to access actual sales value after delivery of products and realizing of sales revenue.

Shareholders should note that the Proposed Revised Annual Caps represent an estimate based on information currently available and that the actual utilisation and sufficiency of the Proposed Revised Annual Caps would depend on a number of factors, including but not limited to, the tendering and bidding exercise outcome, the price of the Mineral and Metal Products and the demand of JCG Group. The Proposed Revised Annual Caps have no direct relationship to, nor should be taken to have any bearing on, the Group's financial or potential financial performance or percentage of contributions of sales revenue to JCG Group to the overall revenue of the Group over the term of the 2019 CCT Agreement in the coming years.

## **REASONS FOR AND BENEFIT OF THE 2019 CCT AGREEMENT**

### **Reasons for selling cobalt of the Group to JCG Group**

Cobalt is a strategic and critical metal used in many diverse industrial and military applications. Boosted by the PRC national policies, cobalt has been in strong demand by enterprises in the PRC for processing rechargeable, lithium-ion batteries that power laptops and smartphones and electric cars.

According to the information available to the Company, global cobalt mine production was around 120,000 tonnes in 2017. Cobalt mine supply is heavily concentrated to several suppliers. JCG Group and the Group are amongst the top five suppliers in the world. In 2018, the PRC imported 77,200 tonnes of cobalt mine products and JCG Group was amongst the top five producers.

The Group's Africa subsidiaries are copper focused mining companies with significant copper and cobalt reserves and resources. The Group's mining projects are located in the DRC and Zambia in the Central African copperbelt, which hosts some of the world's largest copper and cobalt deposits, containing over a third of the world's cobalt mineral reserves and a tenth of the world's copper mineral reserves.

Given that the price for cobalt had dropped significantly in the second half of 2018 and in early 2019, the Group considers the further downside risk of cobalt prices is limited, and the major cobalt processing producers in the PRC are keen to lock up longer term supply for cobalt after destocking in the second half of 2018. Insofar as the Company is aware, there has been no restriction for the Group to sell cobalt in the PRC. JCG Group has been the strategic business partner of Ruashi back in 2008 and the only offtaker of cobalt metals from Ruashi Mine since its commercial operation in 2009 till 2018.

The Directors consider that it is beneficial for the Company and its shareholders as a whole to continue the sales of the cobalt to JCG Group, but not other cobalt processing producers in the PRC, on the following grounds:

- (a) JCG Group has been one of the top cobalt processing company in the PRC for years. Historically, JCG Group has been the key cobalt processing player with whom global cobalt miners would like to do business. Among the top five cobalt processing companies in the PRC, only JCG Group has state-owned background. JCG Group is tier one company in Gansu Province and Gansu Government has strong expectation for JCG Group to continue to grow and keep the industry leading position.
- (b) JCG Group is one of the market leaders in cobalt processing production in the PRC. It has processing capacity to take all of the volume of cobalt production by Ruashi Mine. The Group can thus recognize its operational and administrative costs in sourcing and managing other buyers for its cobalt products.
- (c) It is for strategic reason JCG Group enters into cobalt agreements with the Group to ensure its access to the cobalt. JCG Group has been the only offtaker of cobalt metals from the Ruashi Mine since it commenced commercial operation in 2009, when JCG Group had no shareholding relationship with Ruashi, up till the end of 2018. The arrangement will continue to subsist whether or not JCG Group is a controlling shareholder of the Group.
- (d) The cobalt prices payable by JCG Group are consistent with market practice and the commercial terms by reference to an independent benchmark price that reflects prevailing rates plus an adjustment mechanism is fair and reasonable.

Based on the above, the Directors believe that the strategic partnership in the supply of cobalt hydroxide between Ruashi Mine and Lanzhou Jinchuan is mutually beneficial to both parties.

### **Reasons for selling copper and nickel of the Group to JCG Group**

JCG Group is one of the major players of copper and nickel refinery in the PRC and is the third largest copper producer in the PRC and the third largest nickel producer in the world. Copper and nickel are strategic and critical metals used in many industrial applications. It is expected that the potential sale of copper and nickel of the Group to JCG Group will expand the Group's potentials to realise its Mineral and Metal Products.



## Sales to Independent Third Parties

Even though the JCG Group has been the largest customer of the Group, there are other major customers of the Group who are Independent Third Parties. The Group believes that each of the major independent customers, or a combination of a few of them, has the capacity to purchase at least a very significant portion of the Group's Mineral and Metal Products output as they are generally international trading companies and/or global refineries. These major independent customers include Company A, Company B, Company C, Company D and Company E.

The table below sets out the sales transaction amounts of Mineral and Metal Products to these major independent customers (who are Independent Third Parties) as well as other independent customers for the three years ended 31 December 2018:

	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>
	<b>Amount</b>	<b>Amount</b>	<b>Amount</b>
	<i>(US\$'000)</i>	<i>(US\$'000)</i>	<i>(US\$'000)</i>
Company A	–	68,942	161,386
Company B	52,288	70,341	159,214
Company C	–	–	141,428
Company D	–	–	90,399
Company E	–	–	54,910

The Group sold all its copper cathode and copper concentrate to Independent Third Parties in the past three years ended 31 December 2018. To the best knowledge and belief of the Directors, these major independent customers also procure copper products in substantial volume from other suppliers and their overall demand being greater than the Group's supply capacity. Coupled with the fact that the aforementioned customers have repeatedly expressed their intention to increase purchase volume of the Group's copper and cobalt products at various occasions, on such basis, the Directors are of the view that these major independent customers can purchase at least a significant portion of the Group's copper output. Nevertheless, to minimize customer concentration risk, the Group has diversified its sales to a number of independent major customers as well as sales to customers in Zambia, the DRC, Switzerland and the PRC for the past three years ended 31 December 2018.

Following the implementation of a 5% import tax on copper concentrate importing from the DRC to Zambia by the Zambia Government in January 2019, the Group has re-negotiated with its customers to adjust the delivery method and/or final destination of the delivery. One of the major copper concentrate offtake contracts will expire in August 2019 and the Group is now undergoing a global tendering process to sell its copper concentrate products and JCG Group is one of the bidders who is invited to participate in the global tendering.

The Group strives to maintain a balance of customer portfolio to minimize customer concentration risk. In fact, the total amount of sales to Independent Third Parties for the year ended 31 December 2016, 2017 and 2018 represents 80%, 62% and 83% of the total actual sales amount respectively.

### **No Heavy Reliance**

Notwithstanding approximately 17% of the Group's Mineral and Metal Products were sold to the JCG Group in the year ended 31 December 2018, the Directors are of the view that the Company does not have a heavy reliance on JCG Group that would render the Company unsuitable for listing. The Group is able to transact with Independent Third Parties and sell them substantially or all of its Mineral and Metal Products to be produced if it so needs or wishes. The Group's choosing of JCG Group as a major customer of its Mineral and Metal Products is a commercial decision, which, the Directors believe, is in the best interests of the Group and the Shareholders as a whole, after careful consideration and taking into account the following factors:

- i. The Group is capable of reducing its level of sales of the Mineral and Metal Products to JCG Group.
  - a) The business model of the Group can be changed to reduce the level of reliance, if it so needs or wishes, as there is shortage of supply of copper, cobalt and nickel in the PRC. As stated above, the Group believes that each of the independent major customers of the Group, or a combination of a few of them, has the capacity to purchase at least a significant portion of the Group's copper output. In order to reduce customer concentration risk, the Group has diversified its sale to a number of independent customers as well as customers in Zambia, the DRC, Switzerland, Singapore and the PRC over the years. The Group also maintains close commercial relationships with various copper refiners in the PRC and downstream copper processing plants, who are customers for copper concentrates and copper cathode respectively. In addition, the Group has an experienced sales team which has sufficient knowledge in the distribution channels, coupled with the fact that the management of the Group has extensive experience in the mining industry and is capable of developing customer base due to their wide network. Thus the Group will be able to sell its products to other independent customers, if it so needs and wishes.

- b) In terms of the nature of products, as copper and nickel are a widely-used commodity product and essential raw material for different industries, it has a readily available market and may be traded on any of the relevant international trading platforms and/or commodity exchanges. All copper, nickel and cobalt products have relatively transparent pricing mechanism, with their prices determined with reference to the prices published by relevant international trading platforms such as the LME or MB. They are fungible and easily marketable. Accordingly, the nature of the Group's products enables the Group to source customers easily. The Group has, over the years, successfully established extensive contacts and commercial relationships with global non-ferrous metal producers, traders and downstream processing plants, who are customers for copper blister, copper cathode, copper concentrates and cobalt hydroxide. It has been the intention of the Group to strengthen its trading operations with other customers and therefore the Group is actively looking for opportunities to increase the diversity of its income sources and business operations. The Group strives to extend its business cooperation with existing independent customers and at the same time source new customers and suppliers to expand the portfolio of its trading business and to strengthen its revenue-generating ability. It is the primary objective of the Group to look for opportunities to increase the diversity of its income sources and business operations. The Company expects that the income stream to be generated from Mineral and Metal Products sales to Independent Third Parties will increase over time and will help reduce the level of reliance on JCG Group.
  - c) The Group is continuing expanding its trading business via the incorporation of Shanghai Jinchuan Junhe, a joint venture with Junhe Group, in 2018. For the year ended 31 December 2018, Shanghai Jinchuan Junhe has recorded a revenue of US\$784 million, through the trading of products including copper cathode, nickel cathode, etc. to Independent Third Parties.
- ii. It is in the best interests of the Group and the Shareholders as a whole to maintain certain level of sale of Mineral and Metal Products to JCG Group.
- a) The Board after careful assessment has determined that it will be in the best interests of the Group and the Shareholders as a whole to maintain the current level of sale of Mineral and Metal Products to the JCG Group and not to overly diversify its customer base. Further, due to the nature of commodity transactions, settlement risk is also a very important consideration. The Company believes that the risk of default of JCG Group is very remote as JCG Group is a state-owned enterprise.

It also has a good credit standing in the Mineral and Metal Products industry and the Group has developed long-term cooperation relationship with the JCG Group over the years.

Moreover, it is crucial for the Group as a Mineral and Metal Products producer to maintain a solid customer base to secure stable sales volumes of Mineral and Metals Products. Overly diversifying its customer base would increase the unnecessary fluctuation in the Group's sales volume.

- b) The Board would like to emphasize that the Group acts in the best interests of the Group and the Shareholders as a whole in formulating sales policy. The Group decides the proportion of sales to different customers according to the terms of the sales and their settlement risk. As sales volume to JCG Group is not specified in the 2019 CCT Agreement, the Group can vary the sales volume should there be any adverse change of terms of sale to JCG Group. While the Group may selectively diversify its sales to other high quality customers, the Group does not see the commercial need to overly diversify its customer base at this stage since it would bring additional business and financial risks and administrative burdens to the Group. The Group considers that shifting substantial sales volume to other Independent Third Party customers might conversely bring in new business and/or financial uncertainties/risks to the Group, because it has to re-assess the credit-worthiness of such new Independent Third Party customers. As JCG is the ultimate controlling Shareholder, it has maintained a more secured, reliable and trustworthy relationship with the Group when compared to any other Independent Third Party customers.

The Group is the flagship and listed international base metals platform of JCG Group for undertaking overseas operations in the exploration and exploitation of mining assets and related trading of raw materials and products of non-ferrous metal including, copper and cobalt, while it continues to leverage on the background and expertise of JCG Group to pursue mining investment opportunities. The Group will continue to focus on boosting its international trade business of the Mineral and Metal Products produced by the Group's mines by cementing relationships with the Group's existing network of overseas suppliers, as well as expanding customer portfolio by making strategic moves in the development and selection of suppliers and customers.

- iii. The Group is capable of maintaining its revenue in the future in view of the following:
  - a) copper, nickel and cobalt are widely used commodities and essential raw material for different industries, so it can be sold on public markets at a transparent market price;
  - b) the Group can sell the Mineral and Metal Products to other Independent Third Party customers given the global commodity market's volume is much larger than the Group's production; and

- c) the loss of the JCG Group as a customer will not materially affect the financial performance of the Group as other independent major customers can easily replace JCG Group by purchasing a very significant portion of the Group's production output on similar or slightly less favourable terms. Further, the Group will always take extreme caution to manage its business operation by balancing the risk management, liquidity requirement and profitability from time to time in the future.

With that said, as demonstrated in the section headed "PRICING MECHANISM OF THE CONTINUING CONNECTED TRANSACTIONS" of this announcement, the Company will continue to implement its comprehensive internal control system to ensure that its continuing connected transactions are conducted on normal commercial terms or better and in the ordinary course of business of the Group, and in the interests of the Company and the Shareholders as a whole. Therefore, despite the fact that JCG Group is the controlling Shareholder of the Group, the Directors consider that the overall pricing basis under the 2019 CCT Agreement is fair and reasonable, and the transactions thereunder are conducted on normal commercial terms or better and in the ordinary course of business of the Group. Accordingly, the 2019 CCT Agreement and transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

Based on the above, the Directors believe that the strategic partnership in the supply of Mineral and Metal Products between the Group and JCG Group is mutually beneficial to both parties.

### **Volatility in the prices of the Mineral and Metal Products**

The Group is principally engaged in (i) the mining of metals, primarily copper and cobalt, in the DRC and in Zambia; and (ii) the trading of mineral and metal products in the PRC and Hong Kong.

The prices of copper, cobalt and nickel are typically sensitive to any changes in the domestic and international economic situation and geopolitical influence. As a result of the growth in the new energy vehicles and battery market during 2017, cobalt price had increased significantly. However, the metal prices began to drop after the first quarter of 2018 with wide range fluctuation in copper price, and unilateral sharp fall in cobalt price.

As a result of the acute fluctuation in the prices of cobalt and copper, GHL in the past had entered into various agreement(s) or supplemental agreement(s) with Lanzhou Jinchuan to adjust the terms so as to reflect the market trend and the international market practice. It is intended that by entering into the 2019 CCT Agreement and by following the pricing mechanism mentioned in section headed "PRICING MECHANISM OF THE CONTINUING CONNECTED TRANSACTIONS" below, the Group would have more rooms to negotiate the terms of the sales of the Mineral and Metal Products with members of JCG Group.

## **REASONABLENESS AND FAIRNESS OF THE 2019 CCT AGREEMENT AND THE PROPOSED REVISED ANNUAL CAPS**

The terms of the 2019 CCT Agreement have been agreed upon arm's length negotiation between the Company and JCG and the pricing mechanism contemplated under the 2019 CCT Agreement are fair and reasonable and are beneficial to the Company and Shareholders as a whole. The arrangement between the Group and JCG Group under the 2019 CCT Agreement is non-exclusive and there should be no bias or preference for the Group to deal with JCG Group. In addition, the strategic partnership in the trading of the Mineral and Metal Products between the Group and JCG Group is mutually beneficial to both parties.

Given that the transactions will be carried out in the ordinary course of business of each party, the parties consider that it will be beneficial to enter into the 2019 CCT Agreement in order to allow more rooms for the Group to negotiate the terms of the sale of the Mineral and Metal Products with members of JCG Group. The Directors consider that the 2019 CCT Agreement was entered into in the ordinary and usual course of business of the Group and on normal commercial terms (on arm's length basis) or better or on terms no less favourable than those terms offered by Independent Third Parties to the Group for similar products, and that the terms of the 2019 CCT Agreement (including the Proposed Revised Annual Caps) are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

None of the Directors have any material interest in the 2019 CCT Agreement and the Proposed Revised Annual Caps contemplated thereunder for which they would be required to abstain from voting on the relevant board resolution approving the 2019 CCT Agreement and the Proposed Revised Annual Caps contemplated thereunder pursuant to the Articles of Association of the Company. However, for good corporate governance, Mr. Zhang Youda, Mr. Gao Tianpeng, Mr. Qiao Fugui and Mr. Yang Jinshan have voluntarily abstained from voting on the relevant board resolution in connection with the 2019 CCT Agreement and the Proposed Revised Annual Caps contemplated thereunder, as they also serve as directors and/or senior management at JCG and/or its subsidiaries.

## **PRICING MECHANISM OF THE CONTINUING CONNECTED TRANSACTIONS**

The selling prices of the Mineral and Metal Products will be determined by reference to the prices of copper, nickel, cobalt and other relevant metals as announced by the LME and/or the MB, subject to certain adjustments to be made in accordance with the relevant market practice. Generally, such adjustments mainly involve the moisture content, the percentage of metal content and the impurity element content in the metals. The mechanism is intended to ensure that the selling prices for the Mineral and Metal Products provided by the Group to JCG Group will be determined on normal commercial terms.

In particular, the selling price of the cobalt contained in cobalt hydroxide will be determined on basis of the MB cobalt price with a basis coefficient (subject to an adjustment based on the cobalt content and impurity element content in the metals). It is a market practice for metal traders to adopt pricing mechanism that use, in line with market practice with respect to the relevant metal, a certain percentage of the prices quoted by a recognised publisher or on a recognised exchange, subject to certain adjustments according to the metal content and quality. The setting of a benchmark by reference to the MB is considered to be appropriate as it is the premium intelligence service for metal professionals and is a recognised publisher of reference prices for short- and long-term cobalt trading contracts. Prior to entering into each separate agreement relating to the sale of cobalt, member(s) of the Group will conduct an international tendering so as to obtain the best of the then cobalt price and basis coefficient. The mechanism is intended to ensure that the selling prices for cobalt offered by JCG Group will be competitive and no less favourable than the prices offered by Independent Third Parties to the Group.

The selling price of the copper (including copper concentrate) will be determined on basis of the LME copper price with or without a basis coefficient (subject to an adjustment based on the copper content and impurity element content in the metals). It is a market practice for metal traders to adopt pricing mechanism that use, in line with market practice with respect to the relevant metal, a certain percentage of the prices quoted by a recognised publisher or on a recognised exchange, subject to certain adjustments according to the metal content and quality. The setting of a benchmark by reference to the LME is considered to be appropriate as it is the premium intelligence service for metal professionals and is a recognised publisher of reference prices for short- and long-term copper trading contracts. Prior to entering into each separate agreement relating to the sale of copper (including copper concentrate), member(s) of the Group will conduct an international tendering so as to obtain the best of the then copper price and basis coefficient. The mechanism is intended to ensure that the selling prices for copper (including copper concentrate) offered by JCG Group will be competitive and no less favourable than the prices offered by Independent Third Parties to the Group.

The Group has in place internal control measures for choosing between JCG Group and other independent third party buyers for the Group's Mineral and Metal Products. Under such measures, the Group will select the successful buyer of the Group's Mineral and Metal Products by the way of tender. In particular, before entering into specific purchase and sales contract with the potential buyers, at least 3 quotations from different parties (including JCG Group) will be obtained by the Group and the Group will assess each potential buyer based on the following criteria:

- (a) Pricing terms
- (b) Payment terms
- (c) Payment ability (with the assessment on historical payment record of potential buyers)
- (d) Volume of intended transactions (buyers with the ability to take up a large volume of the Group's products will be preferred)

The screening process, rationale and result on the potential buyers will be documented and submitted to the senior management of the Group for review and final approval before entering into specific purchase and sales contract with the successful buyers.

The above pricing mechanisms are intended to ensure that the selling prices for the Mineral and Metal Products to be provided by the Group to JCG Group will be determined on normal commercial terms. The Company has established internal control measures to standardize and stipulate the pricing policies and mechanism, the assignment of responsibility and decision-making authority to ensure the Continuing Connected Transactions will be conducted in accordance with the terms of the 2019 CCT Agreement, and that the pricing policies will be strictly complied with. As part of the Company's internal control measures, the implementation of the 2019 CCT Agreement and the relevant pricing terms in accordance with the general transaction principles therein, including the relevant adjustments to metal product prices, the relevant costs and expenses as well as the actual quantity and amount of the Mineral and Metal Products, will be monitored and reviewed by the Board and the senior management on a regular basis, with reference to terms of similar transactions which apply the relevant pricing principles. The pricing terms will be reviewed by the senior management prior to the execution of any transaction document(s) under the 2019 CCT Agreement to ensure the relevant general transaction principles are being complied with on arm's length basis and the trading terms are no less favourable than those with independent third parties. The Company will evaluate the Continuing Connected Transactions on a yearly basis.

The independent non-executive Directors shall conduct an annual review on whether the terms on which the Continuing Connected Transactions undertaken during the relevant year have been conducted on normal commercial terms by assessing whether the trading prices for the Mineral and Metal Products have been determined by following the above pricing mechanism, selected on a random basis, with Independent Third Parties and by comparing the terms with those conducted with Independent Third Parties and after taking into account the factors that have been identified above (as and if appropriate).

## **PRINCIPAL ACTIVITIES OF THE PARTIES**

The Company is an investment holding company. The Group is principally engaged in (i) the mining of metals, primarily copper and cobalt, in the DRC and in Zambia; and (ii) the trading of mineral and metal products in the PRC and Hong Kong.

JCG is the ultimate holding company of the Company. JCG was founded in 1958 and is a state-owned enterprise with its majority interest held by the People's Government of Gansu Province. JCG Group is one of the world's largest mining enterprises and being the third largest producer of nickel in the world, fourth largest cobalt producer in the world and the third largest copper producer in the PRC. The principal business of JCG Group includes the production of nickel, copper, cobalt, platinum group metals, non-ferrous metal plates, chemical products and chemicals of non-ferrous metals.



## **IMPLICATIONS UNDER THE LISTING RULES**

As at the date of this announcement, through its wholly-owned subsidiaries, JCG indirectly owns 7,567,325,857 Shares, representing approximately 60.01% of the issued share capital of the Company. Accordingly, JCG is a connected person of the Company under Chapter 14A of the Listing Rules and the Continuing Connected Transactions constitute continuing connected transactions of the Company.

Since one or more of the applicable percentage ratios of the Proposed Revised Annual Caps as calculated in accordance with Rule 14.07 of the Listing Rules exceeds 5%, the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Board will seek the approval of the Independent Shareholders, among other things, to approve the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps. JCG and its associates will abstain from voting on the relevant resolution(s) to be passed at the EGM.

The Company has established the Independent Board Committee to advise the Independent Shareholders in connection with the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps. The Company has appointed Altus as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps.

A circular of the EGM containing, among others, (i) further details of the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps; (ii) the advice and recommendations from the Independent Board Committee in respect of the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps; (iii) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the 2019 CCT Agreement and transactions contemplated thereunder including the Proposed Revised Annual Caps; and (iv) a notice of the EGM will be dispatched to the Shareholders on or before 26 June 2019.

## DEFINITIONS

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

“2013 CCT Agreement”	the framework agreement dated 2 December 2013 entered into between the Company and JCG for trading of Mineral and Metal Products between the Group and JCG Group
“2015 Cobalt Agreement”	the agreement dated 2 December 2015 entered into between GHJ and Lanzhou Jinchuan for the sale and purchase of cobalt hydroxide produced by Ruashi, as supplemented by the 2016 Cobalt Supplemental Agreement
“2016 CCT Agreement”	the framework agreement dated 29 November 2016 entered into between the Company and JCG for trading of Mineral and Metal Products between the Group and JCG Group for the three years commencing 1 January 2017 up to 31 December 2019
“2016 Cobalt Supplemental Agreement”	the supplemental agreement dated 15 June 2016 entered into between GHJ and Lanzhou Jinchuan for the sale and purchase of the cobalt hydroxide produced by Ruashi, the terms of which are to supplement the 2015 Cobalt Agreement
“2018 CCT Supplemental Agreement”	the supplemental agreement dated 6 April 2018 entered into between the Company and JCG for extending the term of the trading of Mineral and Metal Products between the Group and JCG Group until 31 December 2020
“2018 Cobalt Agreement”	the agreement dated 6 April 2018 entered into between GHJ and Lanzhou Jinchuan for the sale and purchase of cobalt hydroxide produced by Ruashi
“2019 CCT Agreement”	the agreement dated 5 June 2019 entered into between the Company and JCG for trading of the Mineral and Metal Products between the Group and JCG Group for the three years commencing retrospectively from 1 June 2019 and expiring on 31 May 2022

“Altus” or “Independent Financial Adviser”	Altus Capital Limited, a corporation licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the 2019 CCT Agreement and the Proposed Revised Annual Caps
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Jinchuan Group International Resources Co. Ltd, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2362)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	collectively, the continuing connected transactions for the trading of Mineral and Metal Products between the Group and JCG Group contemplated under the 2019 CCT Agreement
“Director(s)”	the director(s) of the Company
“DRC”	the Democratic Republic of Congo
“DRC Mining Code”	the mining code from time to time in force in the DRC
“EGM”	the extraordinary general meeting to be convened by the Company for, among other matters, approving the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps
“GHL”	Golden Harbour International Trading Limited, a company incorporated in Hong Kong and an indirectly wholly-owned subsidiary of the Company
“Group”	collectively, the Company and its subsidiaries (including GHL) and associates controlled by the Company from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the independent committee of the Board, consisting of the three independent non-executive Directors, established to advise the Independent Shareholders in connection with the 2019 CCT Agreement and the transactions contemplated thereunder including the Proposed Revised Annual Caps
“Independent Third Party(ies)”	person(s) who or company(ies) together with its/their ultimate beneficial owner(s) which is/are third party(ies) independent of the Company and its connected person(s) (as defined under the Listing Rules)
“Independent Shareholders”	Shareholders other than JCG Group and its associates
“JCG”	金川集團股份有限公司 (Jinchuan Group Co., Ltd.*), a stated-owned enterprise established in the PRC and the controlling shareholder of the Company
“JCG Group”	collectively, JCG and its subsidiaries (including Lanzhou Jinchuan) and associates controlled by it from time to time, for the purpose of this announcement, excluding the Group
“Junhe Group”	Shanghai Junhe Group Co., Ltd., the holding company of Junhe Holdings Limited which in turn is a shareholder of Shanghai Jinchuan Junhe
“Kinsenda Mine”	an underground copper mine owned by the Group and situated in Katanga Province in the DRC
“Lanzhou Jinchuan”	蘭州金川新材料科技股份有限公司 (Lanzhou Jinchuan Advanced Materials Technology Co., Ltd.*), a company incorporated in the PRC, approximately 99% interest of which is indirectly held by JCG
“Latest Practicable Date”	31 May 2019
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LME”	London Metal Exchange, a recognized investment exchange regulated by the Financial Conduct Authority of the United Kingdom and a recognised publisher of reference prices for various metals which are timely published on its designated website ( <a href="https://www.lme.com/">https://www.lme.com/</a> ) on a daily basis for metal and investment communities

“MB”	Metal Bulletin, a premium intelligence service for metal and steel professionals, being part of the Euromoney Institutional Investor Plc Group of companies and a recognized publisher of reference prices for long-term cobalt trading contracts which are timely published on its designated website (www.metalbulletin.com) on a twice-a-week basis for subscribed members and publications
“Mineral and Metal Products”	mineral products, metal products and other raw materials, including but not limited to copper or nickel ores and concentrates, copper or nickel cathodes and other forms of copper, nickel or other metals bearing raw materials, cobalt and its related products
“Original Annual Caps”	the revised annual caps of the continuing connected transactions between the Group and JCG Group contemplated under the 2016 CCT Agreement (as supplemented by the 2018 CCT Supplemental Agreement) (including for the avoidance of doubt, the 2018 Cobalt Agreement) for the financial year ended 31 December 2018 for an amount not exceeding US\$755 million, the financial year ending 31 December 2019 for an amount not exceeding US\$793 million, and the financial year ending 31 December 2020 for an amount not exceeding US\$833 million
“PRC”	the People’s Republic of China
“Proposed Revised Annual Caps”	the proposed revised annual caps of the Continuing Connected Transactions for the seven months period ending 31 December 2019, two financial years ending 31 December 2020 and 2021 and the five months period ending 31 May 2022, details of which are set out in the paragraph headed “PROPOSED REVISED ANNUAL CAPS AND THE DETERMINATION BASIS”
“Ruashi”	Ruashi Mining SAS, a company incorporated in the DRC and an indirect non wholly-owned subsidiary of the Company
“Ruashi Mine”	an opencast oxide copper and cobalt mine owned by Ruashi and situated in the DRC on the outskirts of Lubumbashi, the capital of Katanga Province
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company listed on the Stock Exchange

“Shareholder(s)”	the holder(s) of the Share(s)
“Shanghai Jinchuan Junhe”	上海金川均和經濟發展有限公司 (Shanghai Jinchuan Junhe Economic Development Co., Ltd*), a company incorporated in the PRC and a 60% owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Zambia”	the Republic of Zambia
“US\$”	United States dollars, the lawful currency of the United States of America
“lb”	pound(s) (2.204 pounds = 1 kilogram)
“%”	percentage

\* *for identification purposes only*

By order of the Board  
**Jinchuan Group International Resources Co. Ltd**  
**Wong Hok Bun Mario**  
*Company Secretary*

Hong Kong, 5 June 2019

*As at the date of this announcement, the Board comprises two executive directors, namely Mr. Gao Tianpeng and Mr. Qiao Fugui; three non-executive directors, namely Mr. Zhang Youda, Mr. Yang Jinshan and Mr. Zeng Weibing; and three independent non-executive directors, namely Mr. Wu Chi Keung, Mr. Yen Yuen Ho, Tony and Mr. Poon Chiu Kwok.*