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洛陽欒川鉬業集團股份有限公司

China Molybdenum Co., Ltd.*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 03993)

UPDATE ON THE PROPOSED ACQUISITION OF THE TARGET COMPANY WHICH HOLDS IXM

We refer to the announcements (the “**Announcements**”) of China Molybdenum Co., Ltd.* (the “**Company**”) dated 29 October 2018, 4 December 2018, 25 January 2019, 14 February 2019, 21 February 2019, 22 February 2019, 28 February 2019, 22 March 2019, 26 April 2019, 15 May 2019 and 24 May 2019 in relation to the Proposed Acquisition of the Target Company which holds IXM. Capitalised terms used in this announcement have the same meanings as those defined in the Announcements, unless otherwise stated herein.

The Company received an enquiry letter (the “**Enquiry Letter**”) on the Report on the Substantial Acquisition of Assets by China Molybdenum Co., Ltd.* (Draft) (《洛陽欒川鉬業集團股份有限公司重大資產購買報告書(草案)》) (the “**Report**”) from the Shanghai Stock Exchange on 15 May 2019. On 22 May 2019, the Company published an announcement on the responses to the Enquiry Letter and the revised Report on the website of the Shanghai Stock Exchange and its own website, in which certain supplemental information related to the Target Company and IXM is extracted and/or summarized below.

RISK MANAGEMENT MODEL

The major risks exposed to the trading business in which IXM engaged also include warehousing and operational risk, risks arising from change in political and economic environment, operational risks etc. The specific management methods and strategies are as follows.

Warehousing and Operational Risk

Risk types	IXM's inventories are mostly stored in third-party warehouses, which may be subject to risks caused by losses or damages as a result of improper management
Risk management	The warehousing caps are set and reviewed on a regular basis Before inventories are stored in warehousing facilities, relevant warehousing facilities are strictly inspected IXM conducts inspection on inventories on a quarterly basis Inventories insurance

Risks arising from Change in Political and Economic Environment

Risk types	Trade frictions Political unrest Inflation Government intervention on pricing Import and trade restrictions Change in industrial policies
Risk management	IXM has blacklisted countries. No transactions are allowed for some countries with higher political and economic environment risks A series of approval processes of internal risk control shall be conducted to the countries which have not carried out transactions with IXM IXM's compliance team is responsible for ensuring IXM in compliance with relevant regulations and policies of relevant jurisdictions including trade and economic policies, economic sanctions and sustainable development

Operational Risks

Risk types	Improper operation of traders Malfunction of information system Breakdown of internal control
Risk management	Relevant codes of practice shall be complied with in the course of transaction IXM conducts daily safety training Relevant assets are covered by insurance, and IXM's insurance team manages IXM's insurance policies at all regional levels

MAIN PRODUCTS AND AVERAGE DURATION OF WAREHOUSING OF INVENTORIES OF IXM

(1) Details of inventories

Unit: US\$' 000

Projects	For the year ended 31 December 2018	For the year ended 31 December 2017
Copper	596,351	1,239,305
Lead	38,025	16,356
Zinc	344,962	142,178
Aluminium	483,695	500,212
Nickel	85,537	94,520
Others	31,320	21,765
Total	1,579,890	2,014,335

Note: each kind of inventories above contains concentrates and refined metals.

(2) Average duration of warehousing

Projects	2018	2017
Cost of sales (<i>US\$ '000</i>)	12,824,947	12,090,113
Turnover days	44 days	61 days

(3) Inventory impairment risks

IXM is subject to limited impairment risk as its inventories, mainly consisting of metallic minerals and refined metals, which can be stored for a long time, have a short average duration of warehousing.

IXM adopts international accounting standards (“IFRS”). Trade inventories may be measured at fair value less costs of sales in accordance with the IFRS. Changes in fair value are recognized as “costs of sales” in the income statement, which is in line with the “market to market” valuation policy of the commodity industry, reflecting trade activities objectively.

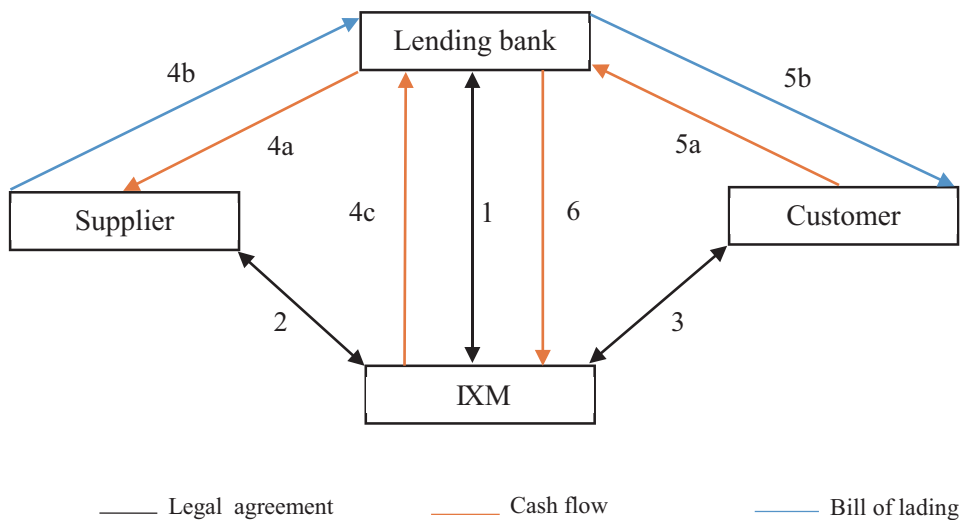
Pursuant to the discussion with and confirmation from the management of IXM, IXM’s inventories are measured at the fair value of prices quoted in market, i.e., fluctuations in prices have been included in the book value in financial statements. Further, in respect of other risks, such as operational risk and national risk, IXM implements monthly assessment, and monthly inventory check with third parties, entrusts third party inspectors to conduct quarterly taking inventory, engages auditors to conduct annual taking inventory, and executes appropriate accounting treatment to impairment indicators identified during assessment, so as to ensure that fluctuations in prices are included in financial statements in a timely manner.

In respect of industry product prices, the price of major non-ferrous metals has fluctuated within a relatively stable range in the recent five years with fewer possibility of a substantial decline within a short period. The fair value at the end of the month, the quarter and the year could be measured to reflect the reasonable value of inventories. In view of the above, IXM is subject to a low impairment risk brought by drop in product prices.

TRADE FINANCING ACTIVITIES OF IXM

(1) Main business process

Main process of and parties involved in trade financing activities of IXM are shown in the chart below:



IXM, as the borrower, will enter into a credit agreement with lending bank, and enter into procurement and sales contract with suppliers and customers, respectively (as shown in 1, 2 and 3 in above chart, respectively). Procurement payment between IXM and supplier will be made by the bank on behalf of IXM directly to related supplier (as shown in 4a in above chart). At this moment, a debtor-creditor relationship is established between IXM and the bank based on procurement payment. The supplier will, upon receipt of the payment, hand over the bill of lading or warehouse receipt to the bank as instructed by the bank (as shown in 4b in above chart). During the period of financing, where the value of goods is less than the loan amount, IXM needs to repay the loan in part or choose to provide additional collateral to the bank (as shown in 4c in above chart). The bank will, upon remittance of payment by customer into the account of IXM opened at lending bank, hand over the bill of lading or warehouse receipt to IXM's customer (as shown in 5a and 5b in above chart). Upon completion of the transaction, the bank will transfer the profits generated from the transaction into the bank account of IXM.

(2) Main counterparties

IXM has cooperated with many financial institutions all over the world under trade financing mode, which is well-established. Banks participating in such transactions mainly include certain banks incorporated in the EU, such as BNP PARIBAS (a renowned global bank and financial service institution in Europe, included in the top four banks in the globe by Standard & Poor's), Société Générale (one of the biggest commercial bank groups in France) and Internationale Nederlanden Group (an integrated financial group established by Nationale-Nederlanden and NMB Postbank Groep through merger). In addition, IXM also established cooperation relationships with Citibank, HSBC and UBS, etc. in the worldwide. In addition, Bank of China, Bank of Communications, Hang Seng Bank, China Merchants Bank, Industrial Bank and other Chinese-funded banks also provide financing services to IXM.

(3) Financing amount and interest rate

In 2017 and 2018, IXM obtained a trade financing amount of approximately US\$3.16 billion and US\$2.83 billion through mortgage of inventories, of which the actual amount for use in the above two years were US\$1.5 billion and US\$1.43 billion, respectively. IXM still reserves a large outstanding trade financing amount.

IXM's loan interest rate at each cooperative bank is generally based on the bank's cost of capital plus deposit and related expenses of each transaction. LIBOR represents the interest rate required when a large international bank tends to offer loans to one another, and also represents the interest rate for transaction involving the US dollars deposited in non-American banks by commercial banks in London interbank transaction market, and is generally considered as a benchmark rate for commercial loans, mortgage and debt issuance. IXM's average loan rate for 2018 is the one-month US dollar interbank lending rate (US Libor 1m) in the London market plus about 100 basis points (approximately 1%). The US Libor 1m is approximately 1.5% to 2.5% in the past year.

(4) Whether mortgage shall be replenished due to insufficient value of collateral as a result of a substantial decrease of the product price

All IXM's inventories are hedged with derivatives generally through the following two measures in the inventory mortgage financing agreement entered into with the bank:

- 1 IXM mortgages inventories together with related derivatives for hedging to the bank; in such a case, fluctuations in prices of inventories are hedged with derivatives in an effective manner, hence eliminating the risk of limited financing due to insufficient collaterals.
- 2 Where IXM only mortgages inventories to the bank, prices of derivatives will rise accordingly in case of drop in prices of inventories. In such case, IXM may reduce guarantee deposits for derivatives and return such cash to the bank.

Risk of trade financing business is under effective control through both two measures described above. If there was a substantial decrease of the product price, replenishment of the mortgage due to insufficient value of collateral would not be required.

(5) Specific risk control

IXM has maintained continuing operations in non-ferrous metal trade industry for nearly 13 years with a well-established robust operation management concept and a sound operational system. In light of the risk of fluctuations in prices of non-ferrous metals and bulk commodities, IXM has established a sound and effective risk control and management system and solutions based on years of practice, covering counterparty risk management, market risk management (hedging), insurance, etc., and fully guaranteed the effective and proper implementation of risk control measures in respect of human resources, hence achieving profit making and effective risk control at the same time.

OPERATION MODEL OF IXM

Combination model of futures and spot commodities

(1) *Changes in income from hedging activities of IXM*

IXM is a global metal trading company, and mainly engages in global trading of non-ferrous metal concentrates and refined metals, and transferring of goods from the producers and over supply sides to demand sides worldwide. Considering volatile non-ferrous metal prices, IXM also holds futures contract for the same varieties of metals available for net settlement, in addition to spot trading of non-ferrous metals. Through spot-futures business model, IXM can manage price risks related to spot metals traded and spot contract through futures trading. In the upward shift of spot market, profits from the spot trading side in the spot-futures business model can offset the loss from the futures business side; while in the downward shift of spot market, profits from the futures business side in the spot-futures business model can offset the loss from the spot trading side. Such business model can smooth periodic fluctuation in the industry and price related risks, hence bringing stable and continuing profits for enterprises. The operation of hedging activities is as follows:

Steps		Operations	
1.	Purchase of metals	+ Metals	
2.	Entering into hedging activities	– Futures contracts	
3.	Sale of metals		– Metals
4.	Exiting from hedging activities		+ Futures contracts

According to the data provided by the management of IXM, income from futures trading, income from spot trading and income from futures-spot trading in the recent two years are set out below:

Unit: US\$

Year	Income from futures trading	Income from spot trading	Net income
2016	-245,657,452	349,969,592	104,312,140
2017	-666,667,583	796,785,376	130,117,793
2018	420,391,944	-307,474,911	112,917,033
2019 Q1	-107,646,138	136,534,097	28,887,959

It can be concluded from the above data that: there has been a significant correlation between IXM's spot trading and futures trading, and its futures trading properly mitigated spot business related risks. IXM's futures-spot business model has produced satisfactory results, as compared with futures business or spot business, income from futures-spot business model shows a more stable trend.

(2) *Specific measures for hedging risk and prevention and control*

The main risks of hedging are as follow:

- (i) Credit risk: the risk generated by a brokerage firm;
- (ii) Operational risk: the risk of loss caused by imperfect internal procedures, employees, systems and external events;
- (iii) Basis risk: the risk arise from unsynchronized changes in futures and spot prices;
- (iv) Liquidity risk: the risk of not being able to trade at market prices due to insufficient market capacity; and
- (v) Cash flow risk: the risk of inability to raise funds in a timely manner to establish and maintain a hedge position.

In response to the above risks, IXM has established a complete risk control system and internal control system. Specifically, IXM has reasonable authorization arrangements for internal control, a clear reporting system and sound business processes and has set a mature corporate governance system. It has a special risk management department; the board of directors has a committee dedicated to risk and macroscopical analysis.

While designing and implementing the hedge program, IXM has arrangements of raised funds and emergency funds, and adopts the VaR model (i.e., the maximum potential loss of the value of a certain financial asset or security portfolio within a certain period in the future under a certain probability level) on achieving real-time dynamic monitoring on the risk. As a risk value model, VaR enables futures investors to understand whether the current risk in the market is too large, and allows futures investors to judge whether the timing of futures trading is appropriate before making futures trading, and whether it is suitable for the immediate trading of futures contracts. If the value of VaR is larger than that of the weekday, it means that the opportunity cost of trading will be larger. Conversely, if the VaR value is smaller than that of the weekday, it means that the opportunity cost of trading will be smaller. As for futures investors who already have a futures position, VaR can tell investors whether the risk they are currently taking has exceeded the tolerable limit.

DIVIDEND POLICY OF THE TARGET COMPANY AND IXM

According to the articles of association provided by the Target Company, set out below are the main contents of the Target Company's dividend policy:

- (1) Dividend distribution shall be subject to the approval of the Board of Directors;
- (2) Dividends can be declared only upon satisfying adequate accrual of statutory surplus reserve fund required by laws and the articles of association;
- (3) Dividends shall be paid only from profits in balance sheet or surplus reserve fund accrued for this purpose; and
- (4) Dividends not declared within five years since the deadline will be automatically in the possession of the company.

According to the communication with the Target Company, it has not distributed dividends since its establishment.

According to the articles of association provided by IXM, the main contents of the dividend policy of IXM are as follows:

- (1) Dividends shall be reviewed and approved by the general meeting on the premise of meeting the statutory reserve standards;
- (2) The board of directors may terminate the approval of dividends if it is expected that the company may have a debt repayment risk;
- (3) When calculating the profit distribution, the shares held by the company itself should not be included; and

- (4) Unless agreed by all shareholders, the relevant dividend amount shall be calculated based on the nominal value of shares.

According to the communication with IXM, it did not distribute dividends during the past five years.

By Order of the Board
China Molybdenum Co., Ltd.*
Li Chaochun
Chairman

Luoyang City, Henan Province, the PRC, 24 May 2019

As at the date of this announcement, the Company's executive directors are Mr. Li Chaochun and Mr. Li Faben; the Company's non-executive directors are Mr. Guo Yimin, Mr. Yuan Honglin and Mr. Cheng Yunlei; and the Company's independent non-executive directors are Mr. Wang Gerry Yougui, Ms. Yan Ye and Mr. Li Shuhua.

* *For identification purposes only*