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DAMENG

CITIC Dameng Holdings Limited

中信大锰控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1091)

CONTINUING CONNECTED TRANSACTIONS

2019 GUANGXI XISHAN AGREEMENT

The Board is pleased to announce that on 25 January 2019, CITIC Dameng Mining has entered into 2019 Guangxi Xishan Agreement with Guangxi Xishan, pursuant to which Guangxi Xishan agreed to provide underground mining service and underground infrastructure construction service to CITIC Dameng Mining while CITIC Dameng Mining agreed to provide electricity and auxiliary materials to Guangxi Xishan in its course of provision of underground mining service and underground infrastructure construction service at Daxin Mine for the period from 1 January 2019 to 31 December 2021. Details of the 2019 Guangxi Xishan Agreement are set out below:

Date: 25 January 2019

Parties: (1) Guangxi Xishan
(2) CITIC Dameng Mining

Subject: Pursuant to the 2019 Guangxi Xishan Agreement, Guangxi Xishan agreed to provide underground mining service and underground infrastructure construction service to CITIC Dameng Mining while CITIC Dameng Mining agreed to provide electricity and auxiliary materials to Guangxi Xishan at Daxin Mine.

Term: For the period from 1 January 2019 to 31 December 2021

Pricing basis: The transactions under 2019 Guangxi Xishan Agreement will be conducted by CITIC Dameng Mining in its ordinary and usual course of business and on normal commercial terms and conditions and such terms and conditions will be no less favorable than those with Independent Third Parties.

(1) Provision of underground mining service by Guangxi Xishan to CITIC Dameng Mining

Under the 2019 Guangxi Xishan Agreement, the fee amount for the provision of underground mining service by Guangxi Xishan is calculated by multiplying the unit price per tonne of ores mined with the actual volume of ores mined by Guangxi Xishan and the adjustment in accordance with the grade of the ores mines at Daxin Mine.

The unit price for underground mining service is determined by arm's length commercial negotiations between CITIC Dameng Mining and Guangxi Xishan according to the principles of fairness and reasonableness and is calculated based on expected actual mining costs incurred by Guangxi Xishan, which mainly includes labour costs, mechanics, transportation and project management fees plus a margin of not more than 7%. The unit price is also determined with reference to prevailing market rates based on quotations provided by not less than two suppliers of CITIC Dameng Mining who are Independent Third Parties.

(2) Provision of underground infrastructure construction service by Guangxi Xishan to CITIC Dameng Mining

CITIC Dameng Mining has engaged an Independent Third Party surveyor to estimate the price ("**standard price**") for the construction work. CITIC Dameng Mining will arrange a tender process and the successful bidder of the tender will be awarded with the construction contract. CITIC Dameng Mining will appoint an Independent Third Party tendering agency to operate and monitor the tender process. In addition, (i) in order to evaluate bidders and their respective proposals, a tender evaluation committee will be formed, which comprises five committee members, one from CITIC Dameng Mining and the remaining four randomly selected from the expert pool of the aforesaid tendering agency; and (ii) bidders and their respective proposals will be assessed based on a list of prevailing market criteria, including but not limited to (a) basic background of bidders, such as principal business activities, experience and amount of their registered capital, (b) technical evaluation regarding, including but not limited to, capacity, safety and professional knowledge, (c) commercial evaluation regarding, including but not

limited to, business reputation and (d) tender price evaluation regarding the comparison of each tenderer's bid price against the standard price. The tender evaluation committee will give a score to each tender and the contract will be awarded to tender with the highest score. As part of our internal control procedures, at least three proposals from bidders (including Guangxi Xishan and two Independent Third Parties) shall be obtained, reviewed and appraised by the tender evaluation committee.

Provided that if Guangxi Xishan can successfully obtain the contract awarded by CITIC Dameng Mining through the tender process set out in the preceding paragraph, under the 2019 Guangxi Xishan Agreement, the pricing for underground infrastructure construction service to be provided by Guangxi Xishan is determined by arm's length commercial negotiations according to the principles of fairness and reasonableness at a price to be agreed between CITIC Dameng Mining and Guangxi Xishan based on "cost plus" principle. The price is also determined with reference to prevailing market rates based on quotations provided by not less than two suppliers of CITIC Dameng Mining who are Independent Third Parties.

(3) Provision of electricity and auxiliary materials by CITIC Dameng Mining to Guangxi Xishan

Electricity and auxiliary materials will be consumed by Guangxi Xishan during its course of provision of underground mining service and, if Guangxi Xishan is successfully awarded with the contract mentioned in paragraph (2) above, also such underground infrastructure construction service.

Under the 2019 Guangxi Xishan Agreement, the amount of electricity and auxiliary materials provided to Guangxi Xishan and charged by CITIC Dameng Mining is calculated by multiplying the respective unit prices of electricity and auxiliary materials with the actual volume of electricity and quantities of auxiliary materials consumed by Guangxi Xishan at Daxin Mine.

The unit price of electricity and auxiliary materials is determined by arm's length commercial negotiations between CITIC Dameng Mining and Guangxi Xishan according to the principles of fairness and reasonableness and is based on the actual cost for such electricity and auxiliary materials purchased by CITIC Dameng Mining plus a margin of not less than 10%.

The mark-up on electricity is principally to compensate for power loss in electrical transmission and other operating and maintenance expenses incurred by CITIC Dameng Mining. The volume of

electricity usage by Guangxi Xishan is measured by separate electricity meters. The mark-up on auxiliary materials is principally to compensate the operating expenses, including logistics and warehousing charges incurred by CITIC Dameng Mining.

HISTORIAL AMOUNTS OF THE TRANSACTIONS WITH GUANGXI XISHAN

Set out below are the historical amounts of the transactions with Guangxi Xishan for the three years ended 31 December 2018:

	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
(i) Provision of underground mining service by Guangxi Xishan	HK\$75,813,000 (equivalent to RMB64,819,000)	HK\$113,684,000 (equivalent to RMB98,590,000)	HK\$183,884,000 (equivalent to RMB155,032,000)
(ii) Provision of underground infrastructure construction service by Guangxi Xishan	HK\$73,805,000 (equivalent to RMB63,103,000)	HK\$8,161,000 (equivalent to RMB7,077,000)	-
(iii) Provision of electricity and auxiliary materials to Guangxi Xishan	HK\$5,551,000 (equivalent to RMB4,746,000)	HK\$8,076,000 (equivalent to RMB7,003,000)	HK\$11,018,000 (equivalent to RMB9,289,000)

2019 GUANGXI XISHAN CAPS

The 2019 Guangxi Xishan Caps in respect of the 2019 Guangxi Xishan Agreement are set out as follows:

		2019 Guangxi Xishan Caps for the year ending 31 December		
		2019	2020	2021
(i)	Provision of underground mining service by Guangxi Xishan	HK\$188,674,000 (equivalent to RMB162,650,000)	HK\$203,870,000 (equivalent to RMB175,750,000)	HK\$219,066,000 (equivalent to RMB188,850,000)
(ii)	Provision of underground infrastructure construction service by Guangxi Xishan	HK\$54,288,000 (equivalent to RMB46,800,000)	HK\$61,146,000 (equivalent to RMB52,712,000)	HK\$65,981,000 (equivalent to RMB56,880,000)
(iii)	Provision of electricity and auxiliary materials to Guangxi Xishan	HK\$17,400,000 (equivalent to RMB15,000,000)	HK\$20,880,000 (equivalent to RMB18,000,000)	HK\$23,200,000 (equivalent to RMB20,000,000)

The proposed annual caps under the 2019 Guangxi Xishan Agreement in respect of the provision of underground mining service by Guangxi Xishan are determined with reference to, inter alia (i) historical amounts of underground mining service provided by Guangxi Xishan, (ii) the projected mining volume at Daxin Mine jointly estimated by Guangxi Xishan and CITIC Dameng Mining of approximately 1,250,000 tonnes, 1,350,000 tonnes and 1,450,000 tonnes of ores for the three years ending 31 December 2021 respectively; and (iii) estimated unit price of ores mined of approximately RMB130 per tonne during the three years ending 31 December 2021.

Assuming that Guangxi Xishan will be awarded with the construction contract by CITIC Dameng Mining through the tender process, the proposed annual caps under the 2019 Guangxi Xishan Agreement in respect of the provision of underground infrastructure service by Guangxi Xishan are determined with reference to, inter alia: (i) historical amounts of underground infrastructure construction service provided by Guangxi Xishan, (ii) the volume of underground infrastructure construction work of approximately 38,000 cubic meters, 57,000 cubic meters and 64,000 cubic meters for the three years ending 31 December 2021 respectively; and (iii) the estimated construction costs of infrastructure for underground mining work of approximately RMB1,232 per cubic meter, RMB928 per cubic meter and RMB886 per cubic meter for the three years ending 31 December 2021 respectively, which is based on the standard price estimated by the Independent Third Party surveyor and having taken into consideration of the construction design and time schedule of the underground infrastructure construction work for the three years ending 31 December 2021.

The proposed annual caps under the 2019 Guangxi Xishan Agreement for the provision of electricity and auxiliary materials are determined primarily based on (i) historical amounts of electricity and auxiliary materials provided by CITIC Dameng Mining, (ii) the estimated volume of consumption of electricity and auxiliary materials during Guangxi Xishan's course of provision of underground mining service and underground infrastructure construction service; (iii) the existing price of electricity and auxiliary materials; and (iv) the projected increase in price of electricity and auxiliary materials for the three years ending 31 December 2021.

If the transactions contemplated under the 2019 Guangxi Xishan Agreement for any of the above years exceed the relevant annual cap(s), the Company will re-comply with the relevant requirements stipulated under Chapter 14A of the Listing Rules.

REASONS FOR ENTERING INTO THE 2019 GUANGXI XISHAN AGREEMENT

Guangxi Xishan has been engaged by the Group in the provision of underground mining service and underground infrastructure construction service at Daxin Mine since 2005 and therefore have established long term and good relationship with the Group and accumulated years of experience and knowledge for provision of underground mining service and underground infrastructure construction service at Daxin Mine. In the past years of CITIC Dameng Mining's working relationship with Guangxi Xishan, Guangxi Xishan has proven to be a reliable contractor in providing cost effective and quality underground mining service and underground infrastructure construction service at Daxin Mine. In addition, as Guangxi Xishan is familiar with the geological composition and structure of Daxin Mine, it has the added advantage of minimising the possible occurrence of mining accidents.

Upon gradual mining extraction of ore resources, currently our underground mining infrastructure in the central and northern portions at Daxin Mine can only support mining operations therein for approximately five more years. Therefore, CITIC Dameng Mining will soon have to shift the underground mining operations into resources situated in further depth beneath in the two portions at Daxin Mine. Upon completion in the year 2022 of our planned underground infrastructure construction work stipulated in the 2019 Guangxi Xishan Agreement, it is estimated that barring any unforeseen event or circumstance, our underground mining capacity in these two portions at Daxin Mine will be increased from 600,000 tpa to 1,000,000 tpa.

Electricity and auxiliary materials are essential for Guangxi Xishan's provision of underground mining service and underground infrastructure construction service at Daxin Mine. Electricity and auxiliary materials are to be provided by CITIC Dameng Mining to Guangxi Xishan for mutual cost benefits for the following reasons:

- (i) CITIC Dameng Mining is the owner and operator of Daxin Mine and electricity is supplied by local power grid to it directly. Provision of electricity by CITIC Dameng Mining to Guangxi Xishan minimises Guangxi Xishan's construction work for electricity facilities and hence lowers the underground mining and construction service fees it charges from CITIC Dameng Mining.
- (ii) Auxiliary materials, mainly includes explosives, detonating cords, fuels and other minor supplies which are all essential for mining operations and underground infrastructure construction. CITIC Dameng Mining is the holder of a permit from Public Security Bureau to purchase and store certain of these dangerous auxiliary materials on site Daxin Mine. Provision of auxiliary materials by CITIC Dameng Mining to Guangxi Xishan saves Guangxi Xishan's effort to source the supplies and storage facilities of these materials on site Daxin Mine and hence lower the underground mining and construction service fees it in turn charges from CITIC Dameng Mining.

None of the Directors have a material interest in relation to the transactions contemplated under 2019 Guangxi Xishan Agreement and therefore have to abstain from voting from the relevant Board resolution approving the 2019 Guangxi Xishan Agreement.

The Directors (including independent non-executive Directors) are of the view that: (i) the 2019 Guangxi Xishan Agreement has been entered into on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the terms under the 2019 Guangxi Xishan Agreement (including the 2019 Guangxi Xishan Caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION RELATING TO THE GROUP, CITIC DAMENG MINING AND GUANGXI XISHAN

The Company is a vertically integrated manganese producer that produces and sells manganese products. It has manganese mining, ore processing and downstream processing operations in the PRC as well as manganese mining and ore processing operations in Gabon.

CITIC Dameng Mining is an indirectly wholly owned subsidiary of the Group, which has manganese mining, ore processing and downstream processing operations in the PRC.

Guangxi Xishan is a mining operator and is principally engaged in mining business in the PRC.

INFORMATION ON DAXIN MINE

Daxin Mine is the largest manganese mine in China in terms of resources and reserves. As at 31 December 2018, the manganese mineral resources and manganese ore reserves of Daxin Mine in accordance with JORC code are as follows:

Manganese mineral resources

JORC Resource Category	Million Tonnes	Average Manganese Grade (%)
Measured	3.53	25.82
Indicated	<u>60.98</u>	21.52
Subtotal	64.51	21.76
Inferred	<u>0.43</u>	21.23
Total	<u>64.94</u>	21.76

Manganese ore reserves

JORC Reserve Category	Million Tonnes	Average Manganese Grade (%)
Proved	3.31	20.81
Probable	<u>58.45</u>	18.96
Total	<u>61.76</u>	19.06

LISTING RULES IMPLICATIONS

Guangxi Xishan holds 20.59% equity interest in Guangxi Start, a subsidiary of the Company. According to the financial information of Guangxi Start and the Group for the year ended 31 December 2014, Guangxi Start was regarded as an insignificant subsidiary of the Company starting from the year 2015 and therefore Guangxi Xishan was not a connected person of the Company as detailed in the Company's announcement of 20 March 2015. Based on the financial information of Guangxi Start and the Group for the four years ended 31 December 2017, Guangxi Start has continued to be an insignificant subsidiary of the Company for the four years ended 31 December 2018. However, upon our annual review and based on the preliminary financial information of Guangxi Start and the Group for the year ended 31 December 2018, one of the percentage ratio prescribed under Rule 14A.09(i) exceeds 10% for the first time since the year 2014. Accordingly Guangxi Start is no longer an insignificant subsidiary of the Company and therefore Guangxi Xishan becomes a connected person of the Company since the year 2019. The transactions contemplated under the 2019 Guangxi Xishan Agreement therefore constitute continuing connected transactions for the purpose of the Listing Rules.

However, as (i) Guangxi Xishan is a connected person of the Company at the subsidiary level; (ii) the board of directors have approved the transactions contemplated under the 2019 Guangxi Xishan Agreement; and (iii) the board of directors (including the independent non-executive directors) have confirmed that the terms of the transactions contemplated under the 2019 Guangxi Xishan Agreement together with the 2019 Guangxi Xishan Caps are fair and reasonable and on normal commercial terms or better and in the interests of the Company and its Shareholders as a whole. Therefore, by virtue of Rule 14A.101 of the Listing Rules, the transactions under the 2019 Guangxi Xishan Agreement are subject to the reporting and announcement requirements but exempted from the circular, independent financial advice and Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“2019 Guangxi Xishan Agreement”	the agreement dated 25 January 2019 entered into between CITIC Dameng Mining and Guangxi Xishan pursuant to which Guangxi Xishan agreed to provide underground mining service and underground infrastructure construction service while CITIC Dameng Mining agreed to provide electricity and auxiliary materials to Guangxi Xishan at Daxin Mine for the three years ending 31 December 2021
“2019 Guangxi Xishan Caps”	the proposed maximum annual value of the transactions under the 2019 Guangxi Xishan Agreement for each of the three years ending 31 December 2021
“associate(s)”	has the meaning given to it by the Listing Rules
“auxiliary materials”	mainly explosives, detonating cords and fuels with other minor

	supplies used in mining and infrastructure construction
“Board”	the board of directors of the Company
“CITIC Dameng Mining”	中信大錳礦業有限責任公司 (CITIC Dameng Mining Industries Co., Limited), an indirect wholly-owned subsidiary of the Company
“Company”	CITIC Dameng Holdings Limited (中信大錳控股有限公司) (Stock Code: 1091), a company incorporated in Bermuda whose shares are listed on the Stock Exchange
“connected person(s)”	has the meaning given to it by the Listing Rules
“Daxin Mine”	中信大錳礦業有限責任公司大新錳礦(CITIC Dameng Mining Industries Co., Limited Daxin Mine) which is owned and operated by CITIC Dameng Mining
“Directors”	directors of the Company
“Group”	the company and its subsidiaries
“Guangxi Start”	廣西斯達特錳材料有限公司(Guangxi Start Manganese Materials Co., Ltd.), a company incorporated under the laws of the PRC which is an indirect non-wholly owned subsidiary of the Company
“Guangxi Xishan”	廣西錫山礦業有限公司 (Guangxi Xishan Mining Limited Company), a company incorporated under the laws of the PRC
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Parties”	persons or companies which are independent of the Group, the directors, the chief executives, the substantial shareholders of the Company or any of its subsidiaries, and their respective associates
“insignificant subsidiary”	has the meaning given to it by Rule 14A.09 of the Listing Rules
“JORC”	the Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy
“Listing Rule(s)”	the Rules Governing the Listing of Securities on the Stock Exchange

“PRC” or “China”	the People’s Republic of China. Geographical reference in this announcement to the PRC excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“tpa”	tonnes per annum
“%”	per cent

Note: In this announcement, save for the historical amounts for the period from 1 January 2016 to 31 December 2018 which are converted based on their respective historical rates, the amounts in RMB have been converted into HK\$ or vice versa at the rate of RMB1.00 = HK\$1.16. The conversion rate is for illustration purpose only and should not be taken as a representation that any amounts in HK\$ or RMB have been or could have been or can be converted at the above rate or at any other rates or at all.

By order of the Board
**CITIC DAMENG HOLDINGS
LIMITED**
Yin Bo
Chairman

Hong Kong, 25 January 2019

As at the date of this announcement, the executive Directors are Mr. Yin Bo and Mr. Li Weijian; the non-executive Directors are Mr. Suo Zhengang, Mr. Chen Jiqu and Mr. Lyu Yanzheng; and the independent non-executive Directors are Mr. Lin Zhijun, Mr. Wang Chunxin and Mr. Tan Zhuzhong.

**For identification purpose only*