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**MMG LIMITED**

**五礦資源有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(STOCK CODE: 1208)**

## LAS BAMBAS TAX UPDATE

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (Listing Rules) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

MMG Limited (Company or MMG and, together with its subsidiaries, the Group) notes that Minera Las Bambas S.A. (MLB) has now received assessment notices in connection with an audit undertaken in respect of the income tax paid by MLB during the 2016 tax year (2016 Income Tax Assessment) in the amount of approximately US\$160 million. The 2016 Income Tax Assessment was issued by the National Superintendence of Tax Administration of Peru (SUNAT) on the basis that all of the interest paid under bank loans during the period of January 2016 to December 2016 was non-deductible (amongst other items of expenditure also determined by SUNAT to be non-deductible).

The 2016 Income Tax Assessment is partly based upon the same interpretation of the Peru Income Tax Law (PITL) by SUNAT as previous assessments in relation to withholding tax payable in respect of bank loans for the 2014 to 2017 tax years<sup>1</sup>. This interpretation is that MLB, MMG and MMG's ultimate controlling shareholder China Minmetals Corporation (CMC) are related to a consortium of Chinese lender banks (the Lenders) because of certain alleged links between (a) MLB, MMG and CMC and the Chinese State on the one hand and (b) the Lenders and the Chinese State on the other hand. In addition to using this interpretation to impose a 30% withholding tax rate applicable to related party loans rather than the usual 4.99% withholding tax rate for offshore bank loans, SUNAT has relied upon this interpretation when assessing thin capitalisation rules to deny all interest deductions on the loans from the Lenders on the basis that the alleged related party debt should be included in calculating MLB's related party debt to equity ratio. MLB disagrees with this interpretation and the application of the PITL by SUNAT.

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<sup>1</sup> See previous announcements dated 3 August 2020, 19 February 2021, 13 July 2021, and 27 July 2022.

In addition to denying the deductibility of interest pursuant to the thin capitalisation rules on the basis that MLB, MMG and CMC are related parties to the Lenders, SUNAT alleges interest payable upon a shareholder loan from a shareholder of MLB, MMG Swiss Finance A.G., is non-deductible due to the application of the "Causality Principle" – i.e., that the merger of three legal entities in 2014 and subsequent assumption of the loan by the merged entity (MLB) has no relevance to the income-producing activities of MLB.

Further, SUNAT also separately alleges that the accounting treatment of the merger should have resulted in a negative equity adjustment meaning MLB should be regarded as having no equity for the purposes of calculating its thin capitalisation allowance.

MLB is a significant and compliant taxpayer to the State of Peru. However, MLB strongly disagrees with these interpretations and is of the view that SUNAT has disregarded all available evidence and independent opinions on the accounting treatment obtained as part of the 2014 acquisition, which have been submitted by MLB for consideration during the assessment period. MLB is concerned that this treatment will also be applied for other income tax years under audit, including the 2017 and 2018 audit years, and to audits for future years from 2019 onwards.

MLB intends to appeal the 2016 Income Tax Assessment to SUNAT and, if unsuccessful, to the Tax Court. Under Peruvian law, tax is not due until resolution of the proceedings in the Tax Court. We note that appeals in the Peruvian tax administration and judicial systems can take many years to resolve. MMG will also review other avenues for resolution of the dispute.

The Company continues to have discussions with the Peru Government to endeavour to resolve the matter.

Considering MLB's proposed appeals and the advice of the Group's tax and legal advisers, the Company does not intend to recognise a liability in its consolidated financial statements for any assessed amount.

By order of the Board  
**MMG Limited**  
**Li Liangang**  
*Interim CEO and Executive Director*

Hong Kong, 1 February 2023

*As at the date of this announcement, the Board consists of seven directors, of which one is an executive director, namely Mr Li Liangang; three are non-executive directors, namely Mr Jiao Jian (Chairman), Mr Zhang Shuqiang and Mr Xu Jiqing; and three are independent non-executive directors, namely Dr Peter William Cassidy, Mr Leung Cheuk Yan and Mr Chan Ka Keung, Peter.*