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CHINA METAL RESOURCES UTILIZATION LIMITED

中國金屬資源利用有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1636)

CLARIFICATION ANNOUNCEMENT IN RELATION TO THE IMPAIRMENT LOSS FROM THE ACQUISITION OF 30% INTEREST IN SICHUAN BAOHE FUSHAN RESOURCES RECYCLING DEVELOPMENT CO., LTD.

INTRODUCTION

References are made to (i) the announcement of China Metal Resources Utilization Limited (the “**Company**”) dated 22 April 2015 (the “**Announcement**”) in relation to the acquisition (the “**Acquisition**”) of 30% interest in Sichuan Baohe Fushan Resources Recycling Development Co., Ltd. (四川省保和富山再生資源開發有限公司) (“**Baohe Fushan**”); and (ii) the 2016 annual report of the Company published by the Company on 25 April 2017 (the “**Annual Report**”).

As stated in note 15 of the notes to the financial statements for the year ended 31 December 2016 in the Annual Report, the Company considered that there was impairment indicator for the interest in Baohe Fushan as its business performance was below expectation. The Group therefore assessed the recoverable amounts of the interest in Baohe Fushan and, as a result, the carrying amount was written down to its recoverable amount of RMB37,435,000. An impairment loss of RMB100,315,000 (the “**Impairment**”) was recognised in the consolidated statement of profit or loss for the year ended 31 December 2016. The board of directors of the Company wishes to elaborate on the circumstances upon which the Impairment was recognised as follows.

PRINCIPAL BUSINESS OF BAOHE FUSHAN

As stated in the Announcement, the principal business of Baohe Fushan is the operation and development of the Baohe Fushan Recycling Resources Industrial Park, an industrial park at the Youxian Economic Development Zone, Mianyang City, Sichuan Province, China (the “**Industrial Park**”). According to an agreement entered into between Baohe Fushan and the Government of Youxian district, Mianyang City, Sichuan Province (“**Youxian Government**”), the Youxian Government agreed to set aside 4,900 mu of land to Baohe Fushan for development and Baohe Fushan is authorised to receive a land infrastructure

development fee from businesses investing at the Industrial Park which is generally charged on a one-off basis. In turn, land development cost is payable by Baohe Fushan in respect of any land developed by Baohe Fushan at the Industrial Park.

The land infrastructure development fee receivable by Baohe Fushan from businesses investing at the Industrial Park is the primary source of revenue for Baohe Fushan. In addition, Baohe Fushan is entitled to other income, being tax refund payable by the Youxian Government to Baohe Fushan from tax paid by businesses operating at the Industrial Park on an on-going basis based on the businesses already operating at the Industrial Park.

Since completion of the Acquisition, due to the reasons set out below, Baohe Fushan did not derive any revenue from land infrastructure development fees from investors, and has been deriving its revenue from tax refund by the Youxian Government. According to the unaudited management accounts of Baohe Fushan, its net profit after tax for the year ended 31 December 2016 was approximately RMB6.0 million and its net asset value as at 31 December 2016 was approximately RMB124.8 million.

VALUATION OF BAOHE FUSHAN

As stated in the Announcement, the consideration for the Acquisition was determined with reference to the valuation of Baohe Fushan as at 30 September 2014 by China Alliance Appraisal Co., Ltd. (the “**Valuer**”). Based on the valuation report prepared by the Valuer, the key assumptions and value of inputs used by the Valuer in the valuation included the following:

- (a) The aggregate area of land available for development by Baohe Fushan is 4,900 mu;
- (b) The aggregate area of developed land is 771 mu; whereas the aggregate area of undeveloped land is 4,129 mu (including 3294 mu for industrial use and 835 mu for commercial use);
- (c) The undeveloped land of 4,129 mu will be fully developed during the period from 2014 to 2020;
- (d) In respect of the land for industrial use, land infrastructure development fee will be charged by Baohe Fushan at RMB90,000 per mu and will increase by 5% per year from 2016 onwards;
- (e) In respect of the land for commercial use, land infrastructure development fee will be charged by Baohe Fushan at RMB600,000 per mu and will increase by 5% per year from 2016 onwards;
- (f) The land development cost payable by Baohe Fushan for the period from 2014 to 2015 is assumed to be RMB52,900 per mu, which will decrease every year afterwards through the effect of economies of scale as follows:
 - (i) the land development cost for 2016 is assumed to be RMB47,860 per mu;
 - (ii) the land development cost for 2017 is assumed to be RMB45,600 per mu; and

- (iii) the land development cost for the period from 2018 to 2020 is assumed to be RMB43,500 per mu;
- (g) The administration expenses to be incurred by Baohe Fushan from 2015 onwards is approximately RMB7.0 million to RMB8.0 million per year;
- (h) Based on the assumption of the scale of investment at the Industrial Park, taxes payable by businesses investing at the Industrial Park will be refunded by the Youxian Government as Baohe Fushan's other income, which amount is assumed to be approximately RMB10.7 million, RMB 15.2 million, RMB 40.1 million, RMB50.4 million, RMB56.4 million and RMB73.5 million in 2015, 2016, 2017, 2018, 2019 and 2020, respectively;
- (i) Tax rate is assumed to be 25%; and
- (j) Discount rate of 14.25% is applied.

FACTOR CONTRIBUTING TO THE IMPAIRMENT

Businesses which invest at the Industrial Park are principally engaged in metal or other recycling industries. According to a notice issued by the State Administration of Taxation on 21 November 2011 named 關於調整完善資源綜合利用產品及勞務增值稅政策的通知 (the “**2011 VAT Policy**”), businesses engaging in the recycled industries were entitled to refund of value added tax (“**VAT**”) ranging from 50% to 100% depending on the type of recycled products. In addition, in order to be eligible for the VAT refund, certain recycled products manufactured using recyclable wasted materials must contain a minimum percentage of such recyclable wasted materials. By way of example, according to the 2011 VAT Policy, in order to be eligible for a 50% VAT refund for manufacturing recycled copper using scrap metal, the recycled copper manufactured must contain at least 90% of materials from scrap metal.

On 12 June 2015, the State Administration of Taxation issued a notice named 關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知 (the “**New VAT Policy**”) which superseded the 2011 VAT Policy. According to the New VAT Policy, the VAT refund percentages in respect of certain recycled products have been reduced. By way of example, VAT refund percentage for manufacturing recycled copper using scrap metal has been reduced from 50% to 30%. In addition, under the New VAT Policy, the minimum percentage of recyclable wasted material used in finished products have been increased. As VAT refund is a main source of income for the recycling industry in China, the New VAT Policy has affected the confidence of businesses in entering or investing in the recycling industry and therefore prevented businesses from investing at the Industrial Park.

The above factor significantly contributed to the cancellation of investment plans by four companies which had entered into memorandum of understanding with Baohe Fushan for developing an aggregate of approximately 300 mu of land at the Industrial Park prior to the execution of the agreement by the Company for the Acquisition.

DETERMINATION OF THE AMOUNT OF IMPAIRMENT

The Impairment was determined by the Company after taking into account the fact that no investors had completed any investment at the Industrial Park during the year ended 31 December 2016, and as such Baohe Fushan had not been able to derive from investors any revenue from land infrastructure development fees (being its main source of income). Due to the reason mentioned above and on the basis that there was no clear indicator which may support the future growth of the investors investing at the Industrial Park as initially envisaged by the Company, the Company decided to impair the entire amount of goodwill in the financial year ended 31 December 2016 and only recognise the Company's share of Baohe Fushan's net asset value as at 31 December 2016 in the sum of approximately RMB37.4 million (being 30% of approximately RMB124.8 million) as its interest in associates.

On the basis that it was prudent to impair the full amount of the goodwill taking into account the reasons mentioned above, and in order to give a true and fair view of the Company's financial positions, the audit committee and the board of directors of the Company considered that the Impairment is fair and reasonable and in the interest of the Company and its shareholders as a whole.

By order of the Board
China Metal Resources Utilization Limited
Mr. YU Jianqiu
Chairman

Hong Kong, 9 October 2017

As at the date of this announcement, the board of directors of the Company comprises four executive directors, namely, Mr. Yu Jianqiu (Chairman), Mr. Kwong Wai Sun Wilson, Mr. Huang Weiping and Ms. Zhu Yufen; and three independent non-executive directors, namely, Mr. Lee Ting Bun Denny, Mr. Pan Liansheng and Ms. Ren Ruxian.