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中金资源

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)

SUPPLEMENTAL ANNOUNCEMENT

SHARE TRANSACTION IN RELATION TO SALE AND PURCHASE AGREEMENT INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE

Reference is made to the announcement of China Metal Resources Utilization Limited (the "**Company**") dated 19 October 2018 (the "**Announcement**") in relation to the entering into of the Sale and Purchase Agreement, pursuant to which the Company conditionally agreed to purchase, and Advance Splendid conditionally agreed to sell, the entire issued share capital in the Target for an aggregate consideration of HK$509,164,969, of which HK$180,000,000 shall be settled in cash and HK$329,164,969 shall be settled by way of allotment and issue of Considerations Shares subject to the satisfaction of the Performance Targets. Unless otherwise defined in this announcement, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

Further to the information disclosed in the Announcement, the Company wishes to provide the following additional information concerning the Acquisition.

BASIS OF CONSIDERATION

It was disclosed in the Announcement that the consideration was determined by the parties, amongst others, with reference to a price-earnings ratio of 9.0 times the average annual Performance Targets for the three years ending 31 December 2021. The Directors consider such level of price-earnings ratio to be fair and reasonable in view of the average price-earnings ratio of companies listed on the Stock Exchange in the metal industry with similar business as the Target (the "**Comparable Companies**").

Whilst the list of Comparable Companies may not be exhaustive, the Company is of the view that the list covers 11 Comparable Companies and is representative given the similarity of these Comparable Companies's major business to the Target principal business. The criteria adopted by the Company in selecting the list of Comparable Companies were that the Comparable Companies have had positive earnings in the latest financial year and their major business activities being manufacturing and sales of metal products. No marketability discount was applied to the consideration.

Although the price-earnings ratios may be affected by the eventual net profits that may be achieved by the Target, assuming that throughout the relevant period there is no significant fluctuations in factor affecting the net profits of the Target, including the price of copper and demand for copper products, the average price-earnings ratio in respect of the Acquisition for the three years ending 31 December 2021 (being the cash consideration plus the value of any Consideration Shares which may be issued) will remain approximately 9 times so long as the Target achieves 17.83% to 100% of the Performance Targets. The average annual price-earnings ratio in respect of the Acquisition for the three years ending 31 December 2021 would be lower than 9 times if the Target achieves more than 100% of the Performance Targets.

The Board considered that it is likely that the Target could achieve more than 17.83% of the Performance Targets for the three years ending 31 December 2021 in view of the Management team's past experience and the support from the local government. On this basis, the Board considered the consideration based on 9 times the average Performance Targets to be fair and reasonable.

The applicable percentage ratios in respect of the Acquisition are less than 5%, the Company is of the view that the investment is not significant to the Company and given that over 60% of the total consideration is calculated on an earn-out basis based on the Performance Target, the risk of over-valuation is appropriately mitigated, and as a result, no independent valuation was performed on the Target.

In light of the above, the Company considered the total consideration to be fair and reasonable and in the interests of the Company and its shareholders as a whole given:

1. the probability of the Target not meeting 17.83% of Performance Targets (thus, causing the average price-earnings ratio in respect of the Acquisition for the three years ending 31 December to be higher than 9 times) is considered by the Board not to be high based on the above reasons. On the other hand, the adoption of the Earn-Out Arrangement means that such price-earnings ratio could be less than 9 times if the Performance Targets are exceeded; and

2. the net asset value of the Target as at 30 September 2018 in the sum of approximately RMB1.44 million does not accurately reflect the Target's actual net asset value in consideration of, amongst others, (i) the total liabilities in the sum of approximately RMB27 million to be assigned to a representative of Advance Splendid pursuant to the Liabilities Assignment Agreements: (ii) the further injection of unpaid registered capital in Chengxin Copper in the sum of RMB8.5 million by the Management Team prior to completion of the Acquisition; and (iii) the free-of-charge land use rights obtained by Chengxin Copper for 10 years (as further elaborated below).

BASIS OF PERFORMANCE TARGETS AND THE CONSIDERATION SHARES

As disclosed in the Announcement, the Performance Targets were premised on a number of factors and assumptions, including the production capacity of Chengxin Copper (the operating subsidiary of the Target), the selling price of copper products, and the possible government grants in the next three years. After considering Chengxin Copper's existing production capacity and the Seller's past experience in managing metal related businesses, the Company has set the Performance Targets such that it is sufficiently challenging to motivate the Management Team, the shareholders of Advance Splendid, in the management of the Target's business.

Chengxin Copper's production facilities, which has a production capacity of 50,000 tons on an annual basis, is newly set up and is expected to commence production in 2019. The Performance Targets were determined based on the net profits that Chengxin Copper would achieve assuming that it reaches its production capacity of 50,000 tons, 75,000 tons and 100,000 tons of copper products for the year ending 31 December 2019, 2020 and 2021 respectively. In calculating such net profits the Company had also taken into account the market price of copper products, the operating profit margin, the possible government grants and the corporate income tax rate as set out in the Announcement. The Company wishes to clarify that Chengxin Copper is expected to reach a production capacity of 100,000 tons of copper products upon the completion of the facility improvement program in mid 2020, and the Target could thereafter generate a maximum net profit of approximately RMB65.0 million on an annual basis on the basis that such production capacity is reached.

As such, assuming that the key assumptions in computing the Performance Targets are not materially deviated, the Company is of the view that the Performance Targets is commercially reasonable, and achievable with the full dedication of the Management Team.

The Target's net profits shall be audited based on the International Financial Reporting Standards by the Company's auditors. The Performance Targets shall be counted as achieved on a totality basis such that profits from both ordinary and usual course of business and extraordinary items will be taken into account.

The total number of Consideration Shares of 65,833,000 Shares will not be issued to Advance Splendid upfront at completion of the Acquisition. The Consideration Shares in respect of the year ending 31 December 2019, 2020 and 2021 (if any), shall be issued to Advance Splendid, in accordance with the Earn-out Arrangement, after the Target's financial statements for such year has been audited by the Company's auditors, which is expected to be in or around April following each relevant year.

EARN-OUT ARRANGEMENT

The Company also wishes to provide additional information on the agreed formula in respect of the Earn-out Arrangement under the Sales and Purchase Agreement.

Based on the formula, an earn-out amount in respect of each of the relevant year (the "**Earn-out Amount**") will be calculated based on the percentage of Performance Targets achieved that year, multiplied by a sum equivalent to the cash consideration plus the value of the maximum Consideration Shares issuable for that year (on the basis of HK$5.00 per Consideration Share), minus the cash consideration already paid and the earn-out amount for the previous year (if any). The number of Consideration Shares to be issued shall be a factor of the Earn-out Amount divided by the issue price of HK$5.00. No Consideration Shares will be issued in any of the relevant year ending 31 December 2019, 2020 and 2021 in the event that the Target recorded a net loss in such year. To the extent the aggregate net profits of the Target for the three years ending 31 December 2021 is lower than RMB53,028,000, the Earn-out Amount will be negative, in which case the Facility will be used to offset any negative Earn-out Amount in the manner set out below.

THE FACILITY FROM ADVANCE SPLENDID TO CHINA SANMEI

It is expected that Advance Splendid, as lender, and China Sanmei, as borrower, will execute a facility agreement in the principal amount of HK$80,000,000 after the Completion Date. The Facility is expected to be lent to China Sanmei at the People's Bank of China's standard interest rate (currently 3.85% per annum), accrued on an annual basis and payable in arrears, for a term of three years. No security or guarantee arrangement is expected to be entered into for the purpose of the Facility.

It was also disclosed in the Announcement that if the Target fails to achieve an aggregate net profits of approximately RMB53,028,000 for the three years ending 31 December 2021, Advance Splendid shall unconditionally waive its rights and release the obligations of the subsidiary of the Target under the Facility in respect of the shortfall. The Company wishes to supplement that the amount of RMB53,028,000 represents 35.35% of the aggregated Performance Targets, which is the percentage representing the proportion of the cash consideration out of the total consideration payable by the Company for the Acquisition.

To the extent that the aggregate Earn-out Amount for the three years ending 31 December 2021 is negative, the Facility, together with its accrued interests, shall be used to discharge such shortfall from the Earn-out Arrangement. For each RMB1.00 of the shortfall of the net profits of Target, HK$3.394 under the Facility will be waived by Advance Splendid based on the exchange rate of HK$1.00 to RMB0.8838. Based on the current PBOC standard interest rates, the sum available for set-off for the three years ending 31 December 2021 is expected to amount to approximately HK$89,240,000 (the "**Maximum Waived Amount**").

Even if Maximum Waived Amount is insufficient to cover the negative Earn-out Amount, the Company is of the view that the total consideration (as adjusted by the non-issuance of the Consideration Shares and waiving of the Facility) is still fair and reasonable given the Company has acquired the entire shareholding in the Target which has an estimated value of total net assets of approximately RMB36.81 million (based on the total net assets on the Target's management accounts as at 30 September 2018, the total liabilities expected to be assigned to a representative of Advance Splendid before the Completion Date, and the further injection of unpaid registered capital of RMB8.5 million into Chengxin Copper from the Management Team before the Completion Date, and the total estimated undiscounted rental value of the 10-year free land use rights. In addition, the value of the 10-year land use rights held by Chengxin Copper in Keifeng City, Henan Province has not been reflected in the accounts of the Target. To the knowledge of the Company, the average monthly rental value of industrial land in the region is approximately RMB4.0 per square meter, as such, the average annual rental value for the land with an area of 22,803 square meters would be approximately RMB1,094,544). As such, the price-book ratio in respect of the Acquisition will be approximately 2.18 times that is considered fair and reasonable by the Board.

On the above basis, the Company is of the view that the Acquisition is fair and reasonable and in the interests of the Company and its shareholders as a whole.

The above information is supplemental to the Announcement and does not affect other information contained in the Announcement. Save as disclosed in this announcement, the contents of the Announcement remain unchanged. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 31 October 2018

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.