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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)

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 and 31 October 2018 (the “**Announcements**”) 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, 100 shares 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. Unless otherwise defined in this announcement, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

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

LIST OF COMPARABLE COMPANIES

The Company wishes to supplement on the list of Comparable Companies and its selection process. As the Company is categorized as within the “Materials — Nonferrous Metal” sector, the Company has initially considered listed companies in Hong Kong that, based on available public information, are within the “Materials — Nonferrous Metal” sector. This involved a total of 30 Hong Kong listed companies. The Company then undertook a selection process to finalise the list of Comparable Companies by, firstly, excluding companies with substantial mining business; secondly, removing companies which had changed their core business; and thirdly, excluding companies which had no price-earnings ratio (implying that they recorded loss). The remaining companies formed the list of Comparable Companies.

Whilst putting together the list of Comparable Companies, the Company was not able to identify, based on public information available to it, any comparable companies that are engaged purely in manufacturing copper product business. The Board therefore considered that comparable companies engaging in manufacturing of metal products business would be a fair and reasonable approximation to the Target's business.

THE EARN-OUT ARRANGEMENT

The number of Consideration Shares to be issued, the Earn-out Arrangement, and the amount of Facility to be waived (if applicable) are dependent on the following mathematic formula (the “**Agreed Formula**”) under the Sale and Purchase Agreement:

For the year ending 31 December 2019, the Earn-out Amount is calculated as:

$$(A \div B) \times (C + D \times \text{HK\$}5.0) - C$$

A = actual net profits of the Target for the first year

B = Performance Target for the first year, i.e. RMB 35,000,000

C = cash consideration, i.e. HK\$180,000,000

D = the maximum number of Consideration Shares to be issued for the first year, i.e. 15,361,000 Shares

For the year ending 31 December 2020, the Earn-out Amount is calculated as:

$$(A \div B) \times (C + D \times \text{HK\$}5.0) - C - E$$

A = actual net profits of the Target for the first and second years

B = Performance Target for the first and second years, i.e. RMB 85,000,000

C = cash consideration, i.e. HK\$180,000,000

D = the maximum number of Consideration Shares to be issued for the first and second years, i.e. 37,305,000 Shares

E = Earn-out Amount for the first year (if any)

For the year ending 31 December 2021, the Earn-out Amount is calculated as:

$$(A \div B) \times (C + D \times \text{HK\$}5.0) - C - E$$

A = actual net profits of the Target for the first, second and third years

B = Performance Target for the first, second and third years, i.e. RMB 150,000,000

C = cash consideration, i.e. HK\$180,000,000

D = the maximum number of Consideration Shares to be issued for the first, second and third years, i.e. 65,833,000 Shares

E = Earn-out Amount(s) for the first and second years (if any)

As disclosed in the Announcements, the number of Consideration Shares shall be a factor of the Earn-out Amount divided by the issue price of HK\$5.00, and to the extent that the Earn-out Amount is negative (“**Negative Earn-out**”), the Facility, together with its accrued interest, will be correspondingly waived to cover for such Negative Earn-out. Mathematically, if the Target’s accumulated net profits for the three years ending 31 December 2021 is less than RMB53,028,000, no Consideration Shares would be issued to Advance Splendid. However, the Company would also like to clarify that in the event that certain Consideration Shares were issued for each of the year ending 31 December 2019 and 2020, but it was concluded that the aggregated net profits for the three years ending 31 December 2021 could not meet RMB53,028,000, the Facility, together with its accrued interest, will then be used to cover for the ultimate Negative Earn-out up to the Maximum Waived Amount, and thereby adjusting the Consideration paid by the Company.

It was disclosed in the Announcements that for each RMB 1.00 of the shortfall of the net profits of the Target, HK\$3.394 under the Facility will be waived. Such calculations can be derived from the Agreed Formula, and was determined based on the fact that the aggregate consideration of HK\$509,164,969 is equal to 3 times of the Performance Targets for the three years ending 31 December 2021 (RMB150,000,000) at the exchange rate of HK\$1.00 to RMB0.8838.

BASIS OF CONSIDERATION

The Company also wishes to provide additional information on the basis of the calculation of the Consideration under the Sale and Purchase Agreement.

With respect to marketability discount, the Consideration was arrived at as a result of negotiation between the parties. The consequence of the negotiation was that, economically, Advance Splendid did not agree to apply marketability discount. The Company ultimately accepted such calculation as the Earn-out Arrangement is tied to the long term profitability of the Target, which the Company as a 100% shareholder upon completion of the Acquisition will enjoy.

In addition, the Company had performed a sensitivity analysis to derive the price-earnings ratio of 9 times, factoring into various levels of profitability of the Target for the three years ending 31 December 2021. It is expected that the price-earnings ratio shall remain approximately 9 times if the Target can meet 17.83% to 100% of the Performance Target, based on the Agreed Formula detailed above. If the Facility together with its accrued interest is insufficient to cover the aggregate Negative Earn-out for the three years ending 31 December 2021, such shortfall would have an effect of increasing the price-earnings ratio to more than 9 times.

The Performance Targets represent the estimated results of the Target at full utilization rate, as such, achieving 17.83% utilization rate implies that 17.83% of the Performance Targets could be achieved, assuming that other factors, such as the market price of copper products, operating profit margin, possible government grants and corporate income tax, remain constant. Given the Management Team has its pre-existing business relationship with a number of potential customers and made up with a sales forecast based on its discussion with these potential customers, based on the experience and assessment of the Company’s management team, the Company is of the view that achieving 17.83% of the Performance Target is likely achievable.

In calculating the net profits of the Target for the three years ending 31 December 2021, profits from both ordinary and usual course of business and extraordinary items will both be taken into account. As the Target's business is the manufacturing of copper products, the Company does not expect any significant extraordinary items. As such, including extraordinary items in determining the Performance Targets is not expected to make a significant difference.

In addition, the Board had considered that, in the worst case scenario, even if the Target is unable to achieve any net profit during the earn-out period and the Company had already paid a consideration of RMB80,213,688 (i.e. the cash consideration deducting the Maximum Waived Amount) at the exchange rate of HK\$1.00 to RMB0.8838, the Company will make use of the net assets (with value of RMB36,810,000 as at 30 September 2018, without taking into account the free land use rights for 10 years) to continue its operations under the Company's management. The Company is of the view that given the Target and its substantial assets and operations will continued to be owned by the Company after the expiry of the earn-out period, even if in the worst case scenario, the Target should continue to be of a going concern and the Company will continue to take benefit of any of its future profits after the expiry of the earn-out period. The price-book ratio of 2.18 times as disclosed in the announcement of the Company dated 31 October 2018 is derived by dividing RMB80,213,688 over RMB36,810,000, which the Board considers as fair and reasonable having considered the Company being able to benefit from any future profits of the Target after the earn-out period as aforesaid.

LISTING APPROVAL AND SUBSEQUENT UPDATES

The Company will apply for the listing approval for the Considerations Shares by tranches after the exact number of Consideration Shares to be allotted and issued based on the Earn-out Arrangement is determined, and the Company will make corresponding announcements after the allotment and issue of the Consideration Shares. The Company will also publish announcements (and in the Company's annual reports) on the performance of the Target for each of the three years ending 31 December 2019, 2020 and 2021, whether the Performance Targets are met, and if not met, the calculations of the Earn-out Amount and the number of Considerations Shares to be issued and/or the amount of Facility to be waived (as the case may be).

The above information is supplemental to the Announcements and does not affect other information contained in the Announcements. Save as disclosed in this announcement, the contents of the Announcements 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, 16 November 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.