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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)

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

THE SALE AND PURCHASE AGREEMENT

On 15 December 2017, the Company entered into the Sale and Purchase Agreement with Yuanxin, pursuant to which the Company agreed to purchase, and Yuanxin agreed to sell, 100 shares in the Target (representing 100% of the issued share capital in the Target) for an aggregate consideration of HK\$317,647,000, of which HK\$158,823,500 shall be settled in cash and HK\$158,823,500 shall be settled by way of allotment and issue of Consideration Shares. The consideration is subject to adjustment pursuant to the Earn-out Arrangement.

Assuming the maximum number of Consideration Shares is being allotted and issued to Yuanxin, 41,796,000 Shares will be issued under the Sale and Purchase Agreement, representing approximately 1.69% of the issued share capital of the Company as at the date of this announcement and approximately 1.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares. The Consideration Shares to be issued will rank *pari passu* in all respect with the Shares then in issue on the relevant issue date.

LISTING RULE IMPLICATIONS

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5% but all of which are less than 25%, the Acquisition is subject to the reporting and announcement requirements but exempt from Shareholder's approval requirement under Chapter 14 of the Listing Rules.

As the Acquisition is subject to the fulfilment or waiver (as the case may be) of the conditions as set out in the Sale and Purchase Agreement and the Acquisition may or may not proceed to completion, Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

THE SALE AND PURCHASE AGREEMENT

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PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

Date : 15 December 2017

Parties : (1) Purchaser: the Company
(2) Seller: Yuanxin

To the best of the directors' knowledge, information and belief having made all reasonable enquiries, the Seller and its ultimate beneficial owners are Independent Third Parties.

Assets to be acquired : 100 shares in the Target, representing 100% of the issued share capital in the Target

Consideration and payment terms : The aggregate consideration is HK\$317,647,000, which shall be paid and satisfied by the Company in the following manner:

1. HK\$158,823,500 shall be settled in cash on the Completion Date; and
2. HK\$158,823,500 shall be settled by way of allotment and issue of Consideration Shares at an issue price of HK\$3.8 per Consideration Share within 30 days of the date of confirmation of the Target's financial statements for each of the three years ending 31 December 2018, 31 December 2019 and 31 December 2020, calculated based on the Earn-out Arrangement as detailed below.

The consideration was determined by the parties on an arm's length basis and on normal commercial terms, and was determined with reference to the price-earnings ratio of 9.0 times the average Performance Targets for the three years ending 31 December 2020, translated at a designated exchange rate of HK\$1.0 to RMB0.85. The Directors consider such level of price-earnings ratio to be fair and reasonable in view of the industry average in metal industry.

It is expected that the cash consideration will be funded by internal cash resources of the Company.

Earn-out Arrangement : Under the Earn-out Arrangement, a maximum of 41,796,000 Shares may be allotted and issued to Yuanxin, in the following manner:

1. If the Target achieves net profits of RMB25,000,000 for the year ending 31 December 2018, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 11,610,000 Consideration Shares shall be issued to Yuanxin;
2. If the Target achieves net profits of RMB55,000,000 for the two years ending 31 December 2019, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 25,542,000 Consideration Shares shall be issued to Yuanxin on an aggregated basis; and
3. If the Target achieves net profits of RMB90,000,000 for the three years ending 31 December 2020, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 41,796,000 Consideration Shares shall be issued to Yuanxin on an aggregated basis.

In the event that the Target fails to achieve any of its Performance Targets as stated above, the number of Consideration Shares to be issued and allotted to Yuanxin each year will be adjusted according to the agreed formula pursuant to the Sale and Purchase Agreement. In addition, in the event that the Target fails to achieve an aggregate net profits of RMB45,000,000 for the three years ending 31 December 2020, Yuanxin shall unconditionally waive a maximum of 100% of its rights and release the obligations of the relevant subsidiary of the Target under the Facility accordingly.

- Facility : After completion of the Sale and Purchase Agreement Yuanxin shall lend 50% of the cash consideration (i.e. HK\$79,411,750) to China Zhaofeng, a subsidiary of the Target, at the prevailing benchmark interest rate as specified by the People's Bank of China per annum for a term commencing from the Completion Date to 31 March 2021.
- Conditions precedent : Completion is subject to the satisfaction of the following conditions precedent:
1. the Stock Exchange granting the approval for the listing of, and permission to deal in, all the Consideration Shares and such listing approval and permission not having been withdrawn before the Completion Date;
 2. the Fixed Asset Leasing Agreements having been executed and remaining effective and not having been termination before Completion Date;
 3. the Management Agreement having been executed and remaining effective and not having been terminated before Completion Date;
 4. no government departments or regulatory institutions in any jurisdiction having proposed, formulated or adopted any order, decree, regulation or decision imposing restriction or prohibition on the transactions contemplated under the Sale and Purchase Agreement or causing them to be invalid;
 5. no third party having proposed restriction or prohibition on the transactions contemplated under the Sale and Purchase Agreement to any court or government organisations in any jurisdiction, sought to declare such transactions unlawful or commenced any litigation or there being any pending legal procedures seeking for compensation of substantial damages in connection with these transactions, nor threatened to bring such litigation or legal procedures; and
 6. Yuanxin having obtained all required consent and approval for the transactions contemplated under the Sale and Purchase Agreement, and met and fully complied with the relevant laws and regulations, such consents and approvals remaining valid until the Completion Date and the relevant authorities not having implemented any rules or regulations to prohibit or severely delay the fulfilment and completion of the Sale and Purchase Agreement.

If the above conditions have not been fulfilled before 31 March 2018 (or such other date the parties agree in writing), the Sale and Purchase Agreement will be automatically terminated and lapse, and the obligations of the parties under the Sale and Purchase Agreement will be released, except for certain specified provisions and legal responsibilities arising from the antecedent breach.

Completion : Completion shall take place within 2 business days of satisfaction (or waiver) of the conditions precedent.

THE CONSIDERATION SHARES

Assuming the maximum number of Consideration Shares is being allotted and issued to Yuanxin, 41,796,000 Shares (the nominal value of which being HK\$4,179,600) will be issued under the Sale and Purchase Agreement, representing approximately 1.69% of the issued share capital of the Company as at the date of this announcement and approximately 1.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price of HK\$3.8 represents:

- (i) a premium of approximately 1.06% over the closing price of HK\$3.76 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 1.17% over the average of the closing prices of HK\$3.756 per Shares as quoted on the Stock Exchange for the last five (5) consecutive full trading days immediately prior to the Last Trading Day; and
- (iii) a premium of approximately 10.24% over the average of the closing prices of HK\$3.447 per Shares as quoted on the Stock Exchange for the last ten (10) consecutive full trading days immediately prior to the Last Trading Day.

The issue price of HK\$3.8 was determined after arm's length negotiations between Yuanxin and the Company with reference to the current market price of the Shares. The Directors consider that the issue price of the Consideration Shares is fair and reasonable and on normal commercial terms.

The Consideration Shares to be issued will rank *pari passu* in all respect with the Shares then in issue on the relevant issue date.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in the Consideration Shares.

The Consideration Shares to be allotted and issued will be allotted and issued pursuant to the General Mandate under which the Directors are authorised to issue a maximum number of 478,565,379 Shares. Since the grant of the General Mandate and up to the date of this announcement, the General Mandate has been utilised as to 266,300,896 Shares and the Directors are allowed to issue up to a remaining 212,264,483 new Shares under the General Mandate. As the issue of the Consideration Shares utilizes the General Mandate, no further approval from Shareholders is needed.

INFORMATION ON THE TARGET

The Target is a company incorporated in the British Virgin Islands on 28 August 2017. The group of the Target is principally engaged in the production of copper products through Mianyang Zhaofeng, its subsidiary established in the PRC. Mianyang Zhaofeng is currently 95% owned by China Zhaofeng, which is a direct wholly-owned subsidiary of the Target, and 5% owned by Alpha Universe Group Limited, an indirect wholly-owned subsidiary of the Company.

On 30 September 2017, Mianyang Zhaofeng entered into the Fixed Asset Leasing Agreements with Sichuan Longhua, pursuant to which Mianyang Zhaofeng agreed to lease all of Sichuan Longhua's equipment and factory premises for the production of copper products from Sichuan Longhua for a term of six years commencing from 30 September 2017. Under the Fixed Asset Leasing Agreements, Mianyang Zhaofeng agreed to pay Sichuan Longhua an annual fee of (i) RMB400,000 for the leasing of equipment and (ii) RMB100,000 for the leasing of factory premises. Such equipment and factory premises under lease are estimated to be sufficient to produce a maximum of 30,000 tons of copper products on an annual basis.

In addition to the Fixed Asset Leasing Agreements, on 15 December 2017, Mianyang Zhaofeng entered into the Management Agreement with the Management Team, pursuant to which each member of the Management Team has agreed to manage the equipment and factory premises leased to Mianyang Zhaofeng under the Fixed Asset Leasing Agreement and the production line therein, for a term of three years from 1 January 2018 to 31 December 2020. The Management Team will have operational decision power over human resources, procurement, production and sales, subject to certain restrictions on procurement price and sales price.

To the best of the directors' knowledge, information and belief having made all reasonable enquiries, the counterparties to each of the Fixed Asset Leasing Agreements and the Management Agreement are Independent Third Parties.

According to the unaudited financial statements of the Target prepared in accordance with accounting standards of the PRC, the net asset value of the Target as at 30 November 2017 was approximately RMB69,000 and the unaudited net profit of the Target for the period from the date of its incorporation to 30 November 2017 was approximately RMB69,000.

INFORMATION ON YUANXIN

Yuanxin is a company incorporated in the British Virgin Islands and is principally engaged in investment holding. Yuanxin is wholly owned by the Management Team.

INFORMATION ON THE GROUP

The Group is a fast-growing manufacturer of recycled copper products (also known as copper semis), communication cables and power transmission and distribution cables in Southwest China. The Group processes recycled scrap copper and, to a lesser extent, electrolytic copper, to manufacture a range of copper products, including copper wire rods, copper wires, copper plates, copper granules, communication cables and power transmission and distribution cables. Since 2015, the Group has also extended its product range to aluminium products and has entered into trading activities in relation to electrolytic copper.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group and the Target are principally engaged in the production of copper products, it is expected that the Acquisition will have immediate synergy effect, enabling the Group to diversify and strengthen its revenue sources and accelerate its growth and developments in the near future.

The Directors believe that the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms and fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has 2,466,900,969 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; and (ii) immediately after the allotment and issuance of the Consideration Shares (assuming that there will be no further changes in the issued share capital of the Company prior to such exercise) are as follows:

	As at the date of this announcement		Immediately after the allotment of the maximum number of Consideration Shares to be issued	
	Number of Shares directly or indirectly held	Approximate percentage of the issued share capital of the Company (%)	Number of Shares directly or indirectly held	Approximate percentage of the issued share capital of the Company (%)
Shareholders				
Mr. Yu Jiangqiu and Epoch Keen Limited (<i>note 1</i>)	1,037,354,400	42.05	1,037,354,400	41.35
First Harvest Global Limited, Gold Wide Enterprises Limited and Ocean Through Limited (<i>note 2</i>)	310,317,000	12.58	310,317,000	12.37
Mr. Kwong Wai Sun Wilson (<i>note 3</i>)	3,272,600	0.13	3,272,600	0.13
Public Shareholders				
Hong Kong Zhongliang Recycling Mining Investments Limited	135,000,000	5.47	135,000,000	5.38
Yuanxin	—	—	41,796,000	1.67
Other public shareholders	980,956,969	39.77	980,956,969	39.10
	<u>2,466,900,969</u>	<u>100.00</u>	<u>2,508,696,969</u>	<u>100.00</u>

Notes:

- The shares were held by Mr. Yu Jianqiu, Chairman and an executive Director of the Company, together with Epoch Keen Limited, a company wholly-owned by Mr. Yu Jianqiu. On 8 December 2017, Mr. Yu Jianqiu and Epoch Keen Limited have entered into certain sale and purchase agreements for the disposal of their Shares. As at the date of this announcement, the disposal has not yet completed. For further details, please refer to the announcement of the Company dated 8 December 2017.
- First Harvest Global Limited, Gold Wide Enterprises Limited and Ocean Through Limited are companies wholly-owned by Mr. Huang Weiping, a Director.
- Mr. Kwong Wai Sun Wilson is an executive Director.

LISTING RULE IMPLICATIONS

As certain applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceed 5% but all of which are less than 25%, the Acquisition is subject to the reporting and announcement requirements but exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

As the Acquisition is subject to the fulfilment or waiver (as the case may be) of the conditions as set out in the Sale and Purchase Agreement and the Acquisition may or may not proceed to completion, Shareholders and potential investors of the Company should exercise caution when dealing in the Shares.

DEFINITIONS

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

“Acquisition”	The acquisition of the 100 shares in the Target pursuant to the Sale and Purchase Agreement
“Board”	the board of Directors
“China Zhaofeng”	China Zhaofeng Copper Limited, a company established in Hong Kong and a direct wholly-owned subsidiary of the Target
“Company”	China Metal Resources Utilization Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1636)
“Completion Date”	the date of completion of the Acquisition
“Consideration Shares”	a maximum of 41,796,000 Shares to be issued to Yuanxin at an issue price of HK\$3.8, calculated based on the Earn-out Arrangement
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Earn-out Arrangement”	the adjustment mechanism to determine the number of Consideration Shares to be issued and allotted to Yuanxin, the details of which are set out in the section headed “Principal Terms of the Sale and Purchase Agreement — Earn-out Arrangement” of this announcement

“Facility”	the facility of HK\$79,411,750 to be provided by Yuanxin to China Zhaofeng, a subsidiary of the Target, the details of which are set out in the section headed “Principal Terms of the Sale and Purchase Agreement — Facility” of this announcement
“Fixed Asset Leasing Agreements”	two fixed asset leasing agreements both dated 30 September 2017 and entered into between Mianyang Zhaofeng and Sichuan Longhua in relation to the leasing of certain equipment and factory premises
“General Mandate”	the general mandate granted to the Directors by the resolution of the Shareholders passed at the Annual General Meeting held on 6 June 2017 to allot, issue and deal with Shares and to make or grant offers, agreements and options which may require Shares to be issued, allotted or dealt with, which is subject to the limit of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the Annual General Meeting held on 6 June 2017
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s) who is/are not connected persons of the Company
“Last Trading Day”	15 December 2017, being the last full trading day immediately prior to the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Agreement”	the management agreement dated 15 December 2017 entered into between Mianyang Zhaofeng and the Management Team in relation to the provision of management services to the Target
“Management Team”	three PRC individuals, namely Mr. Li Yongyi* (李永宜), Mr. Yin Guohua* (銀國華) and Ms. Wang Jinrong* (王金容)

“Mianyang Zhaofeng”	Mianyang Zhaofeng Copper Co., Ltd.* (綿陽兆豐銅業有限公司), a company established in the PRC which is owned as to 95% by China Zhaofeng and 5% by Alpha Universe Group Limited, an indirect wholly-owned subsidiary of the Company
“Performance Targets”	the agreed targeted net profits to be achieved by the Target for the three years ending 31 December 2018, 31 December 2019, and 31 December 2020, being RMB25,000,000, RMB30,000,000 and RMB35,000,000, respectively
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sale and Purchase Agreement”	the agreement dated 15 December 2017 entered into between the Company and Yuanxin for the Acquisition, details of which are set out in the section headed “Principal Terms of the Sale and Purchase Agreement” of this announcement
“Share(s)”	Ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Sichuan Longhua”	Sichuan Longhua Electronic Equipment Co., Ltd.* (四川龍華電工器材有限公司), a company established in the PRC which is controlled and managed by the Management Team
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target”	Silver Eminent Group Limited, a BVI business company incorporated in the British Virgin Islands
“Yuanxin”	Yuanxin Ventures Limited, a BVI business company incorporated in the British Virgin Islands
“%”	per cent.

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

Hong Kong, 15 December 2017

As at the date of this announcement, the Board comprises of 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.

** For identification purpose*