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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 IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

Reference is made to (i) the annual report of China Metal Resources Utilization Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 which was published on 28 April 2021 (the “**2020 Annual Report**”); and (ii) the annual report of the Company for the year ended 31 December 2019 which was published on 23 August 2020 (the “**2019 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2020 Annual Report and the 2019 Annual Report.

In addition to the information provided in the 2020 Annual Report and the 2019 Annual Report, the Board would like to provide further information in relation to the qualified opinion on the Company’s financial statements for the year ended 31 December 2020 (the “**Audit Modification**”) issued by the Company’s auditors, ZHONGHUI ANDA CPA Limited (the “**Auditors**”) in relation to the goodwill and contingent consideration liabilities.

DETAILS OF THE AUDIT MODIFICATION

1. Goodwill

In relation to the impairment assessment of the goodwill, the Auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the recoverability of goodwill which amounted to approximately RMB277.9 million as at 31 December 2019. The Group recognised impairment losses on goodwill of approximately RMB277.9 million and RMB407.9 million for the years ended 31 December 2020 and 31 December 2019, respectively. The Auditors has not yet obtained sufficient and appropriate audit evidence to satisfy themselves as to these impairment losses on goodwill and whether these impairment losses on goodwill should be recognised in current or prior years.

2. Contingent consideration liabilities

The Auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the carrying amount of contingent consideration liabilities which amounted to approximately RMB151.3 million as at 31 December 2019. The Group recognised the following changes in fair values, interest expenses and exchange differences in respect of contingent consideration liabilities for the years ended 31 December 2020 and 31 December 2019. The Auditors has not yet obtained sufficient and appropriate audit evidence to satisfy themselves as to these changes in fair values, interest expenses and exchange differences should be recognised in current or prior years.

IMPACT OF THE AUDIT MODIFICATION ON THE COMPANY'S FINANCIAL POSITION

Any adjustments to the figures as described above might have a consequential effect on the Group's consolidated financial performance for the years ended 31 December 2020 and 2019, the consolidated financial position of the Group as at 31 December 2019, and the related disclosures thereof in the consolidated financial statements.

MANAGEMENT'S AND AUDIT COMMITTEE'S VIEW ON THE AUDIT QUALIFICATION

1. Management's position and basis on major judgmental areas (such as basis for impairment or valuation of assets), and how management's view is different from that of the Auditors

The Board, as concurred by the Audit Committee, is of the view that the inability of the Auditors to obtain sufficient appropriate audit evidence as described is a historical event and would only affect the financial information of the consolidated financial statements for the year ended 31 December 2020 to the extent described under the section headed "Basis for Qualified Opinion" in the 2020 Annual Report, which would have affected the opening balances as of 1 January 2020.

The Board does not expect the basis of the qualified opinion relating to the recoverability of goodwill and the carrying amount of contingent consideration liabilities to affect the opening balances of the financial year immediately subsequent to the year ended 31 December 2020 (i.e. 1 January 2021) and hence the Board does not expect the above to recur in the consolidated financial statements for the year ended 31 December 2021 and onwards except the financial information to be shown as comparative figures.

2. Audit Committee's view towards the modifications

The Audit Committee has reviewed the assessment on the impairment of goodwill and fair value of contingent consideration liabilities and agrees with the management's position and basis.

ACTION PLAN OF THE GROUP TO ADDRESS THE AUDIT MODIFICATION

In view of the fact that (i) the goodwill has been fully impaired as at 31 December 2020, the goodwill for the subsidiaries acquired in previous years will no longer be in the consolidated statement of financial position of the Group as at 31 December 2021; (ii) the earn-out arrangements for the acquisition of Silver Eminent and Value Link has ended as at 31 December 2020; and (iii) the consideration liabilities for the acquisition of Sky Harvest will not be contingent but actual as the earn-out arrangement for the acquisition of Sky Harvest will be completed in the financial year ending 31 December 2021.

The Board does not expect the basis of the qualified opinion relating to the recoverability of goodwill and the carrying amount of contingent consideration liabilities to affect the opening balances of the financial year immediately subsequent to the year ended 31 December 2020 (i.e. 1 January 2021) and hence the Board does not expect the above to recur in the consolidated financial statements for the year ended 31 December 2021 and onwards except for the financial information to be shown as comparative figures.

The steps taken by the Company since the publication of the 2019 Annual Report to address the underlying issues related to the goodwill impairment and contingent consideration liabilities resulted in the disclaimer opinion on the 2019 results and the progress achieved

The Company has strengthened and maintained frequent communication with the Auditors and the professional valuer over the audit approach on assessment of the fair value of the contingent consideration liabilities as at 31 December 2020. In particular, the Company, the Auditors and the professional valuer have agreed in advance on the necessary information that the Auditors and the professional valuer must obtain in order to objectively assess the fair value of the contingent consideration liabilities and the impairment of goodwill as at 31 December 2020.

The Company will continue to take the same approach for the audit in the coming year. The Auditors agrees with the Company's plan to strengthen communication over the auditing approach in the impairment assessment of goodwill and fair value measurement of contingent consideration liabilities. The Auditors will seek to agree in advance with the Company on objective benchmarks to be used in these areas. Based on the discussion with the Auditors, the Board is given to understand that the above mentioned action plan of the Group to address the Audit Modification is acceptable and adequate. However, since the management's assessment has to take into consideration of the then conditions and circumstances and could only be made at the end of the relevant reporting period, the Auditors is unable to ascertain at this moment whether the Audit Modification can be removed in the next financial year purely based on the current progress of the action plan. The Auditors concur with the Company's view above that (i) the goodwill has been fully impaired as at 31 December 2020; (ii) the earn-out arrangement for the acquisition of Silver Eminent and Value Link has ended as at 31 December 2020; and (iii) the consideration liabilities for the acquisition of Sky Harvest will not be contingent but actual as the earn-out arrangement for the acquisition of Sky Harvest will be completed in the financial year ending 31 December 2021. The Auditors further concur with the Company's view that the Company does not expect the basis of the qualified opinion relating to the recoverability of goodwill and the carrying amount of contingent consideration liabilities to affect the opening

balances of the financial year immediately subsequent to the year ended 31 December 2020 (i.e. 1 January 2021) and hence the Board does not expect the above to recur in the consolidated financial statements for the year ended 31 December 2021 and onwards except for the financial information to be shown as comparative figures.

DETAILS OF THE IMPAIRMENT AND THE CONTINGENT CONSIDERATION LIABILITIES

The impairment of goodwill accounted for approximately 81% of the total comprehensive loss for 2020 attributable to owners of the Company. According to the 2020 Annual Report, the goodwill related to six CGUs were fully impaired in 2020 as the Group revised its cash flow forecasts for these CGUs due to change in market conditions. In addition, three of the six CGUs which were fully impaired, i.e. Zhaofeng, Rongsheng and Chengxin, were acquired in 2018.

The assessment of impairment of goodwill involves estimation of the future financial performance of the relevant CGUs. In preparing the forecast for the year ended 31 December 2019, the Company already took a conservative approach when formulating the assumptions applied for Zhaofeng, Rongsheng and Chengxin. Such assumptions included (i) overall weaker financial performance; and (ii) historical financial figures of the relevant CGUs. Although the actual operating performance of various operating subsidiaries (including but not limited to Zhaofeng, Rongsheng and Chengxin) deteriorated in the first quarter of 2020, the profound effect of COVID-19 on the whole world could not be fully anticipated. As such, the goodwill of Zhaofeng, Rongsheng and Chengxin were not fully impaired in 2019.

The outbreak of COVID-19 in 2020 had significantly affected the economy in China, and in particular, the areas surrounding Hubei province. Various cities in Hubei and Henan province were locked down and economic activities were drastically reduced. Rongshen operates in Hubei province and its major customers and suppliers also operate in Hubei province. Chengxin operates in Kaifeng city in Henan province which is adjacent to the Hubei province. Zhaofeng operates in Sichuan province, which was also affected by the outbreak of COVID-19. Therefore, Zhaofeng, Rongshen and Chengxin operates in an area which was significantly affected by the pandemic of COVID-19 in 2020.

In preparing the forecast for the year ended 31 December 2020, certain key assumptions of forecast, including revenue growth rates and capacity utilization rates, among others, of operating subsidiaries were adjusted downward in view of the economic uncertainties and the change of circumstances since the publication of 2019 Results and the actual full year financial performance of Zhaofeng, Rongshen and Chengxin. As mentioned above, such adjustments were related to the effect of COVID-19 and a more pessimistic international trade environment. As a result of the adjusted assumptions, the recoverable amounts of CGUs of Zhaofeng, Rongsheng and Chengxin were valued to be lower in 2020 as compared to 2019, and the goodwill was fully impaired accordingly in 2020.

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

Hong Kong, 12 May 2021

As at the date of this announcement, the Board 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.