

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement appears for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.



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 7 February 2018, the Company entered into the Sale and Purchase Agreement with Sure Victor, pursuant to which the Company agreed to purchase, and Sure Victor agreed to sell, 100 shares in the Target (representing 100% of the issued share capital in the Target) for an aggregate consideration of HK\$741,175,000, of which HK\$287,647,000 shall be settled in cash and HK\$453,528,000 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 Sure Victor, 94,485,000 Shares will be issued under the Sale and Purchase Agreement, representing approximately 3.83% of the issued share capital of the Company as at the date of this announcement and approximately 3.69% 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 percentage ratio 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 constitutes a discloseable transaction for the Company and 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

On 7 February 2018, the Company entered into the Sale and Purchase Agreement with Sure Victor, pursuant to which the Company agreed to purchase, and Sure Victor agreed to sell, 100 shares in the Target (representing 100% of the issued share capital in the Target) for an aggregate consideration of HK\$741,175,000, of which HK\$287,647,000 shall be settled in cash and HK\$453,528,000 shall be settled by way of allotment and issue of Consideration Shares. The consideration is subject to adjustment pursuant to the Earn-out Arrangement.

PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

Date: 7 February 2018

Parties: (1) Purchaser: the Company

(2) Seller: Sure Victor

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\$741,175,000, which shall be paid and satisfied by the Company in the following manner:

1. HK\$287,647,000 shall be settled in cash on the Completion Date; and
2. HK\$453,528,000 shall be settled by way of allotment and issue of Consideration Shares at an issue price of HK\$4.8 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, among other things, with reference to the price-earnings ratio of 10.5 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. Other factors considered by the Board in determining the consideration for the Acquisition are set out in the section headed "Reasons for and Benefits of the Acquisition" below.

Earn-out Arrangement:

Under the Earn-out Arrangement, a maximum of 94,485,000 Shares may be allotted and issued to Sure Victor, in the following manner:

1. If the Target achieves net profits of RMB45,000,000 for the year ending 31 December 2018, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 23,621,000 Consideration Shares shall be issued to Sure Victor;
2. If the Target achieves net profits of RMB105,000,000 for the two years ending 31 December 2019, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 55,116,000 Consideration Shares shall be issued to Sure Victor on an aggregated basis; and
3. If the Target achieves net profits of RMB180,000,000 for the three years ending 31 December 2020, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 94,485,000 Consideration Shares shall be issued to Sure Victor 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 Sure Victor 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 approximately RMB69,857,000 for the three years ending 31 December 2020, Sure Victor 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 Sure Victor shall lend 50% of the cash consideration (i.e. HK\$143,823,500) to China Rongsheng, 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 Agreement and the Factory Premises Leasing Agreement 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. Sure Victor 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 May 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 Sure Victor, 94,485,000 Shares (the nominal value of which being HK\$9,448,500) will be issued under the Sale and Purchase Agreement, representing approximately 3.83% of the issued share capital of the Company as at the date of this announcement and approximately 3.69% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price of HK\$4.8 represents:

- (i) a premium of approximately 0.21% over the closing price of HK\$4.79 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 3.88% over the average of the closing prices of HK\$4,994 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 discount of approximately 5.53% over the average of the closing prices of HK\$5,081 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\$4.8 was determined after arm's length negotiations between Sure Victor 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 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 308,096,896 Shares and the Directors are allowed to issue up to a remaining 170,468,483 new Shares under the General Mandate. As the issue of the Consideration Shares utilizes the General Mandate, no further approval from Shareholders is needed.

The Company will apply to the Stock Exchange for the listing of, and permission to deal in the Consideration Shares. Further announcements will be published by the Company and disclosures will be made by the Company in its annual reports in relation to the performance of the Target and whether or not the Performance Targets are met. Announcement will also be published by the Company after the allotment and issuance of any Consideration Shares pursuant to the Earn-out Arrangement.

INFORMATION ON THE TARGET

The Target is a company incorporated in the British Virgin Islands on 27 October 2017. The group of the Target is principally engaged in the production of copper products through Hubei Rongsheng, its subsidiary established in the PRC. Hubei Rongsheng is currently 100% owned by China Rongsheng, which is a direct wholly-owned subsidiary of the Target.

On 31 October 2017, Hubei Rongsheng entered into the Fixed Asset Leasing Agreement with Yunmeng Xinchengyuan, pursuant to which Hubei Rongsheng agreed to lease all of Yunmeng Xinchengyuan's equipment for the production of copper products from Yunmeng Xinchengyuan for a term of six years commencing from 1 November 2017. Under the Fixed Asset Leasing Agreement, Hubei Rongsheng agreed to pay Yunmeng Xinchengyuan an annual fee of RMB2,505,200 for the leasing of equipment. On 31 October 2017, Hubei Rongsheng entered into the Factory Premises Leasing Agreement with Hubei Zhongyi, pursuant to which Hubei Rongsheng agreed to lease the factory premises, which is currently being used by Yunmeng Xinchengyuan for the production of copper products, for a term of six years commencing from 1 November 2017. Hubei Zhongyi is the owner of such factory premises. Under the Factory Premises Leasing Agreement, Hubei Rongsheng agreed to pay Hubei Zhongyi an annual fee of RMB494,800 for the leasing of factory premises. Such equipment and factory premises under above mentioned leases are estimated to be sufficient to produce a maximum of 50,000 tons of copper products on an annual basis.

In addition to the Fixed Asset Leasing Agreement and the Factory Premises Leasing Agreement, on 7 February 2018, Hubei Rongsheng 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 Hubei Rongsheng under the Fixed Asset Leasing Agreement and the Factory Premises 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 Agreement, the Factory Premises Leasing Agreement 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 31 December 2017 was approximately RMB4,950,000 and the unaudited net profit of the Target for the period from the date of its incorporation to 31 December 2017 was approximately RMB1,550,000.

INFORMATION ON SURE VICTOR

Sure Victor is a company incorporated in the British Virgin Islands and is principally engaged in investment holding. Sure Victor 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.

In determining the consideration for the Acquisition, the following factors were considered by the Board:

- Due diligence was conducted by the Company on the equipment owned by Yunmeng Xinchengyuan which are leased to Hubei Rongsheng under the Fixed Assets Leasing Agreement and the factory premises owned by Hubei Zhongyi which are leased to Hubei Rongsheng under the Factory Premises Leasing Agreement. Based on the production capacity from the equipment and factory premises of Yunmeng Xinchengyuan and Hubei Zhongyi, the Company estimated that, after taking into

account of the facility improvement program to be completed in mid 2018, such equipment and factory premises have the capacity of producing 70,000 tons of copper products on an annual basis. The Company is of the view that, based on the current market price of copper products (as at the date of this announcement, approximately RMB47,000 per ton, excluding VAT) such production capacity would generate a maximum revenue of approximately RMB3,290 million. On the basis of an estimated operating profit margin of 3%, being the operating profit margin of the Group's recycled copper products manufacturing business in the PRC for the six months ended 30 June 2017 and a preferential corporate income tax rate of 15% under the preferential policy for promoting the development of western China, it is estimated that the Target could generate a maximum net profit of approximately RMB80.0 million on an annual basis;

- The members of the Management Team, who are responsible for managing the equipment and factory premises leased to Hubei Rongsheng under the Fixed Asset Leasing Agreement and the Factory Premises Leasing Agreement, have extensive experience in conducting the business of Yunmeng Xinchengyuan since 2012. The Management Agreement between Hubei Rongsheng and the Management Team is therefore considered by the Company as an important asset that would contribute to the success of the Target;
- The Company analysed the price-earning ratio of companies listed on the Stock Exchange with similar business as the Target, namely the production of metal products. The average price-earning ratio of such companies in the past 12 months was approximately 10 times, which is close to the price-earning ratio of the Target based on the consideration payable by the Company;
- Prior to entering into the Sale and Purchase Agreement, the Board had considered other alternatives to acquiring shares in the Target including the acquisition of equity interest in Yunmeng Xinchengyuan. However, the Board was concerned about the contingent liabilities of Yunmeng Xinchengyuan which was revealed during its due diligence and, therefore, considered the acquisition of shares in the Target, being a new company with the benefit of the Fixed Asset Leasing Agreement, the Factory Premises Leasing Agreement and the Management Agreement, to be a viable solution of effectively obtaining the benefit of the business of Yunmeng Xinchengyuan while avoiding the incurrance of contingent liabilities; and
- 50% of the cash consideration payable by the Company for the Acquisition will be lent by Sure Victor to China Rongsheng, a subsidiary of the Target and therefore a subsidiary of the Company upon completion of the Sale and Purchase Agreement. In the event that the Target fails to achieve an aggregate net profits of approximately RMB69,857,000, representing approximate 38.81% of the aggregate Performance Target, for the three years ending 31 December 2020, Sure Victor shall, depending on the actual aggregate net profits achieved by the Target compared to the aggregate Performance Target, unconditionally waive a maximum of the full amount of such loan to China Rongsheng. The Board considered that such arrangement effectively enables the Company to have part of the cash consideration repaid to the Group in the event that the Target fails to achieve half of the Performance Target.

Having considered the prospect of the Target with reference to its production capacity, the availability of the Management Team in managing the operation of the Target under the Management Agreement, the price-earning ratio of comparable companies, the disadvantages of the alternatives to acquiring the Target and the arrangement for the effective repayment of part of the cash consideration by Sure Victor in the event of a failure to achieve the Performance Target, the Board considered that the terms of the Sale and Purchase Agreement are 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	
	<i>Number of Shares directly or indirectly held</i>	<i>Approximate percentage of the issued share capital of the Company (%)</i>	<i>Number of Shares directly or indirectly held</i>	<i>Approximate percentage of the issued share capital of the Company (%)</i>
Shareholders				
Mr. Yu Jiangqiu and Epoch Keen Limited (<i>note 1</i>)	1,037,354,400	42.05	1,037,354,400	40.50
First Harvest Global Limited, Gold Wide Enterprises Limited and Ocean Through Limited (<i>note 2</i>)	310,317,000	12.58	310,317,000	12.11
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	5.27
Sure Victor	—	—	94,485,000	3.69
Other public shareholders	980,956,969	39.77	980,956,969	38.30
	<u>2,466,900,969</u>	<u>100.00</u>	<u>2,561,385,969</u>	<u>100.00</u>

Notes:

1. 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.
2. First Harvest Global Limited, Gold Wide Enterprises Limited and Ocean Through Limited are companies wholly-owned by Mr. Huang Weiping, a Director.
3. Mr. Kwong Wai Sun Wilson is an executive Director.

LISTING RULE IMPLICATIONS

As certain percentage ratio 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 constitutes a discloseable transaction for the Company and 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.

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 Rongsheng”	China Rongsheng Metal Limited, a company incorporated 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 94,845,000 Shares to be issued to Sure Victor at an issue price of HK\$4.8 per Share, 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 Sure Victor, 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\$143,823,500 to be provided by Sure Victor to China Rongsheng, 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
“Factory Premises Leasing Agreement”	a factory premises leasing agreement dated 31 October 2017 and entered into between Hubei Rongsheng and Hubei Zhongyi in relation to the leasing of certain factory premises
“Fixed Asset Leasing Agreement”	a fixed asset leasing agreement dated 31 October 2017 and entered into between Hubei Rongsheng and Yunmeng Xinchengyuan in relation to the leasing of certain equipment
“General Mandate”	the general mandate granted to the Directors by the resolution of the Shareholders passed at the annual general meeting of the Company 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
“Hubei Rongsheng”	Hubei Rongsheng Copper Co., Ltd.* (湖北融晟金屬製品有限公司), a company established in the PRC which is wholly-owned by China Rongsheng
“Hubei Zhongyi”	Hubei Zhongyi Technology Co., Ltd.* (湖北中一科技股份有限公司), a company established in the PRC which is controlled and managed by the Management Team

“Independent Third Party(ies)”	person(s) who is/are not connected persons of the Company
“Last Trading Day”	7 February 2018, 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 7 February 2018 entered into between Hubei Rongsheng and the Management Team in relation to the provision of management services to the Target
“Management Team”	two PRC individuals, namely Mr. Liu Zhang* (劉章) and Mr. Yang Changbin* (楊昌斌)
“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 RMB45,000,000, RMB60,000,000 and RMB75,000,000, 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 7 February 2018 entered into between the Company and Sure Victor 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
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sure Victor”	Sure Victor Global Limited, a BVI business company incorporated in the British Virgin Islands
“Target”	Value Link Developments Limited, a BVI business company incorporated in the British Virgin Islands

“Yunmeng Xinchengyuan” Yunmeng Xinchengyuan Copper Co., Ltd.* (雲夢鑫盛源銅業有限公司), a company established in the PRC which is controlled and managed by the Management Team

“%” per cent.

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

Hong Kong, 7 February 2018

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*