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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)

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

THE SALE AND PURCHASE AGREEMENT

On 19 October 2018, the Company entered into the Sale and Purchase Agreement with Advance Splendid, pursuant to which the Company agreed to purchase, and Advance Splendid agreed to sell, 100 shares in the Target (representing 100% of the 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 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 Advance Splendid, 65,833,000 Shares will be issued under the Sale and Purchase Agreement, representing approximately 2.52% of the issued share capital of the Company as at the date of this announcement and approximately 2.46% 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 all of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition are less than 5% and part of the consideration for the Acquisition shall be settled by the allotment and issuance of Consideration Shares, the Acquisition constitutes a share transaction for the Company and 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.

THE SALE AND PURCHASE AGREEMENT

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PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

Date : 19 October 2018

Parties : (1) Purchaser: the Company

(2) Seller: Advance Splendid

To the best of the directors' knowledge, information and belief having made all reasonable enquiries, Advance Splendid 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\$509,164,969, which shall be paid and satisfied by the Company in the following manner:

1. HK\$180,000,000 shall be settled in cash on the Completion Date; and
2. HK\$329,164,969 shall be settled by way of allotment and issue of Consideration Shares at an issue price of HK\$5.0 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 2019, 31 December 2020 and 31 December 2021, 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 2021, translated at a designated exchange rate of HK\$1.0 to RMB0.8838. 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 65,833,000 Shares may be allotted and issued to Advance Splendid, in the following manner:
1. If the Target achieves net profits of RMB35,000,000 for the year ending 31 December 2019, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 15,361,000 Consideration Shares shall be issued to Advance Splendid;
 2. If the Target achieves net profits of RMB85,000,000 for the two years ending 31 December 2020, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 37,305,000 Consideration Shares shall be issued to Advance Splendid on an aggregated basis; and
 3. If the Target achieves net profits of RMB150,000,000 for the three years ending 31 December 2021, based on the agreed formula pursuant to the Sale and Purchase Agreement, a maximum of 65,833,000 Consideration Shares shall be issued to Advance Splendid 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 Advance Splendid 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 RMB53,028,000 for the three years ending 31 December 2021, depending on the actual aggregate net profits achieved by the Target compared to the aggregate Performance Target, Advance Splendid 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 Advance Splendid shall lend HK\$80,000,000 to China Sanmei, 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 of three years commencing from the Completion Date.
- 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 Liabilities Assignment Agreements having been duly executed and remaining effective and not having been terminated before Completion Date;
 3. the Management Agreement having been executed and remaining effective and not having been terminated before Completion Date;
 4. the unpaid registered capital of RMB8.5 million of Chengxin Copper having been fully paid up by the Management Team;
 5. any amounts, if any, due from or due to the Management Team by Chengxin Copper having been fully repaid;

6. 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;
7. 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;
8. Advance Splendid 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.
9. the warranties given by Advance Splendid remaining true and accurate in all material respects, and that there is no violation of the warranties or the obligations of Advance Splendid under the Sale and Purchase Agreement; and
10. the Company being satisfied with the due diligence results conducted on the Target.

If the above conditions have not been fulfilled before 31 December 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 Advance Splendid, 65,833,000 Shares (the nominal value of which being HK\$6,583,300) will be issued under the Sale and Purchase Agreement, representing approximately 2.52% of the issued share capital of the Company as at the date of this announcement and approximately 2.46% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The issue price of HK\$5.0 represents:

- (i) a premium of approximately 12.40% over the closing price of HK\$4.45 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 12.61% over the average of the closing prices of HK\$4.44 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 11.86% over the average of the closing prices of HK\$4.47 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\$5.0 was determined after arm's length negotiations between Advance Splendid 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 500,456,868 Shares. Since the grant of the General Mandate and up to the date of this announcement, the General Mandate has been utilised as to 117,440,000 Shares and the Directors are allowed to issue up to a remaining 383,016,868 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 Chengxin Copper, its subsidiary established in the PRC. Chengxin Copper is currently wholly owned by Ganzhou Sanmei, an indirect wholly-owned subsidiary of the Target. Ganzhou Sanmei is wholly owned by China Sanmei, which is a direct wholly-owned subsidiary of the Target.

Before the Completion Date, a representative of the Advance Splendid, Chengxin Copper and its creditors will enter into the Liability Assignment Agreements, pursuant to which the representative of the Advance Splendid will take up all of Chengxin Copper's liabilities as at 30 September 2018, including trade payable balances of RMB12,160,112 and other payable balances of RMB14,712,230.

Before the Completion Date, Chengxin Copper will enter into the Management Agreement with the Management Team, pursuant to which each member of the Management Team agrees to manage the equipment and factory premises for a period from 1 November 2018 to 31 December 2021. 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 Liabilities Assignment Agreements and the Management Agreement are Independent Third Parties.

According to the consolidated 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 September 2018 was approximately RMB1.44 million, or RMB28.31 million if the effect of the Liabilities Assignment Agreements was taken into consideration. The consolidated unaudited net loss of the Target for the period from the date of its incorporation to 30 September 2018 was approximately RMB64,000.

INFORMATION ON ADVANCE SPLENDID

Advance Splendid is a company incorporated in the British Virgin Islands and is principally engaged in investment holding. Advance Splendid 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 an 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:

- (i) Based on the production capacity from the equipment and factory premises of Chengxin Copper, the Company estimated that, after taking into account of the facility improvement program to be completed in mid 2020, Chengxin Copper has the capacity of producing 100,000 tons of copper products on an annual basis. The Company is of the view that, based on the current market price of copper products (at the date of this announcement, approximately RMB42,800 per ton, excluding VAT), such production capacity would generate a maximum revenue of approximately RMB4,280 million. On the basis of an estimated operating profit margin of approximately 2%, being the operating profit margin of the Group's recycled copper products manufacturing business in the PRC for the six months ended 30 June 2018, other possible government grants and the corporate income tax rate of 25%, it is estimated that the Target could generate a maximum net profit of approximately RMB65.0 million on an annual basis;
- (ii) The members of the Management Team have extensive experience in metal processing and sales from 8 to over 15 years. The Management Team is therefore considered by the Company as an important asset that would contribute to the success of the Target;
- (iii) Chengxin Copper obtained free land use rights for a piece of industrial land with an area of 22,803 square meters from the municipal government of Weishi County in Kaifeng City, Henan Province, for a term of 10 years from 24 May 2018 to 23 May 2028, beyond which Chengxin Copper will be entitled to a preferential right to continue leasing such piece of land. The Company considers that such free land use rights will have positive effect on Chengxin Copper's operations.
- (iv) 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 9.6 times, which is close to the price-earning ratio of the Target based on the consideration payable by the Company; and
- (v) HKD80,000,000 of the cash consideration payable by the Company for the Acquisition will be lent by Advance Splendid to China Sanmei, 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 RMB53,028,000, representing approximately 35.4% of the aggregate Performance Target, for the three years ending 31 December 2021, Advance Splendid 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 Sanmei. 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 35.4% of the Performance Target.

Having considered the prospect of the Target with reference to its production capacity, the affluent experience of the Management Team, the 10-year free land use rights granted to Chengxin Copper, the price-earning ratio of comparable companies and the arrangement for the effective repayment of part of the cash consideration by Advance Splendid in the event of a failure to achieve the Performance Targets, 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 2,614,994,419 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	39.67	1,037,354,400	38.69
First Harvest Global Limited, Gold Wide Enterprises Limited and Ocean Through Limited (<i>note 2</i>)	310,317,000	11.87	310,317,000	11.57
Mr. Kwong Wai Sun Wilson (<i>note 3</i>)	3,272,600	0.12	3,272,600	0.12
Public Shareholders				
Hong Kong Zhongliang Recycling Mining Investments Limited	135,000,000	5.16	135,000,000	5.04
Advance Splendid	—	—	65,833,000	2.46
Other public shareholders	1,129,050,419	43.18	1,129,050,419	42.12
	<u>2,614,994,419</u>	<u>100.00</u>	<u>2,680,827,419</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.
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 all of the applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition are less than 5% and part of the consideration for the Acquisition shall be settled by the allotment and issuance of Consideration Shares, the Acquisition constitutes a share transaction for the Company and 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
“Advance Splendid”	Advance Splendid Limited, a BVI business company incorporated in the British Virgin Islands
“Board”	the board of Directors
“China Sanmei”	China Sanmei Copper Limited, a company established in Hong Kong and a direct wholly-owned subsidiary of the Target
“Chengxin Copper”	Chengxin Copper Copper Co., Ltd.* (晟鑫銅業有限公司), a company established in the PRC which is a direct wholly-owned subsidiary of Ganzhou Sanmei
“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 65,833,000 Shares to be issued to Advance Splendid at an issue price of HK\$5.0, 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 Advance Splendid, 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\$80,000,000 to be provided by Advance Splendid to China Sanmei, 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
“Ganzhou Sanmei”	Ganzhou Sanmei Copper Co., Ltd.* (贛州銅業有限公司), a company established in the PRC which is a direct wholly-owned subsidiary of China Sanmei
“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 2018 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 2018
“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”	18 October 2018, being the last full trading day immediately prior to the publication of this announcement
“Liabilities Assignment Agreements”	the liabilities assignment agreements to be entered into among a representative of Advance Splendid, Chengxin Copper and its creditors before the Completion Date, in relation to the assignment of all of Chengxin’s liabilities as at 30 September 2018 to the representative of the Advance Splendid
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Management Agreement”	the management agreement to be entered into between Chengxin Copper and the Management Team before the Completion Date, in relation to the provision of management services to the Target
“Management Team”	two PRC individuals, namely Mr. Chen Xiaofeng* (陳小鋒) and Mr. Zhang Zhigan* (張志耿)
“Performance Targets”	the agreed targeted net profits to be achieved by the Target for the three years ending 31 December 2019, 31 December 2020, and 31 December 2021, being RMB35,000,000, RMB50,000,000 and RMB65,000,000, 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 19 October 2018 entered into between the Company and Advance Splendid 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
“Target”	Sky Harvest Global 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, 19 October 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*