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CAA Resources Limited

優庫資源有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 02112)

DISCLOSEABLE TRANSACTION

JOINT VENTURE AGREEMENT

On 14 December 2018, Best Sparkle, being the Company's indirect wholly-owned subsidiary, entered into the JV Agreement with the JV Partner for establishing the JV Company. The JV Company will be engaged in operating the direct reduced iron ("**Direct Reduced Iron**") plant ("**Plant**") which is situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia.

Pursuant to the JV Agreement, Best Sparkle will subscribe for 33.3% issued shares ("**JV Shares**") of the JV Company at a consideration of US\$50,000,000 which is to be satisfied by contributing 9.12% of the issued shares ("**PM Shares**") of Pacific Mining, a wholly-owned subsidiary of Best Sparkle, and the JV Partner will subscribe for 66.7% issued shares of the JV Company at a consideration of US\$100,000,000, of which US\$20,000,000 is to be satisfied by cash while US\$80,000,000 is to be satisfied by contributing the ownership of certain buildings and machinery (collectively "**JV Partner's Contribution**").

The Company considers the incorporation of the JV Company and the contribution thereto as both the Company's disposal ("**Disposal**") of 9.12% PM Shares as well as the Company's acquisition ("**Acquisition**") of 33.3% JV Shares. As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal and Acquisition is more than 5% but less than 25%, the transactions contemplated under the JV Agreement constitute a discloseable transaction of the Company pursuant to the Listing Rules, and are subject to the reporting and announcement requirements thereunder.

* For identification only

INTRODUCTION

On 14 December 2018, Best Sparkle, being the Company's indirect wholly-owned subsidiary, entered into the JV Agreement with Affluent Oasis Sdn. Bhd. ("**JV Partner**") for establishing the JV Company. The JV Company will be engaged in operating the direct reduced iron ("**Direct Reduced Iron**") plant ("**Plant**") which is situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia.

The principal terms of the JV Agreement are set out below:

JV AGREEMENT

Date

14 December 2018

Parties

- (i) Best Sparkle Development Ltd. ("**Best Sparkle**", an indirect wholly-owned subsidiary of the Company as at the date of this announcement)

- (ii) Affluent Oasis Sdn. Bhd. ("**JV Partner**")

The JV Partner was incorporated with limited liability in Malaysia, and was principally engaged in investment holding, asset leasing, manufacturing of steel products and engaging in all recycling activities.

To the best knowledge, information and belief of the Directors after making all reasonable enquiries, the JV Partner and its ultimate beneficial owner(s) are Independent Third Parties.

Proposed business scope of the JV Company

The JV Company will be engaged in operating the direct reduced iron plant ("**Plant**") which is situated in PN2586 Lot No. 1407 in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia ("**Plant Site**"). The Plant Site is currently owned by the JV Partner who, according to the JV Agreement, would lease the Plant Site to the JV Company at nil consideration during the term of the JV Agreement.

The Plant is equipped and designated for the conversion of iron ore pellet into metallic iron, by reducing gases in a solid-gas moving bed reactor, which process is through removing Oxygen (O₂) from the iron ore by chemical reactions between hydrogen (H₂) and carbon monoxide (CO) for the production of highly metallized Direct Reduced Iron.

The main facilities on the Plant will include the reduction reactor, reducing gas compressor, process gas heater, cooling gas circuit, steam turbo generator, electrical equipment, material handling equipment and distribution control system. The manufacturing facilities will be either contributed by the JV Partner to the JV Company, or purchased through use of the cash contribution by the JV Partner.

As the JV Company would need to refurbish certain machinery to be contributed to the JV Company and also arrange for additional facilities and staff as preparation steps, the Plant is currently expected to commence trial operation on or before 31 December 2019 and full capacity production on or before 31 December 2021.

Contribution to the JV Company

After arm's length negotiation between the parties to the JV Agreement with reference to, among others, the valuation report issued by Jones Lang LaSalle ("**JLL**"), Best Sparkle and the JV Partner agreed to make the following contribution to the JV Company respectively:

- (1) Best Sparkle will subscribe for 33.3% issued shares ("**JV Shares**") of the JV Company at a consideration of US\$50,000,000 which is to be satisfied by contributing 9.12% of the issued shares ("**PM Shares**") of Pacific Mining, a wholly-owned subsidiary of Best Sparkle ("**Company's Contribution**"). Pursuant to the valuation report issued by JLL, the investment value of the Mining Right held by Pacific Mining has been valued at approximately USD548 million by adopting the discounted cashflow approach. The parties to the JV Agreement through arm's length negotiation agreed that the subscription amount of USD50 million payable by Best Sparkle shall be settled by 9.12% issued shares of Pacific Mining based on the proportional calculation with reference to the valuation of Mining Right of the Ibam Mine held by Pacific Mining. During the year ended 31 December 2017, the Group focused on iron ores and commodities trading due to the volatility of international iron ore prices which hindered the self-production mining activities, and therefore the Ibam Mine did not record mining volume or production volume (2016: 175.9 Kt and 42.3 Kt respectively). For further details of the Mining Right and Ibam Mine, please refer to the section headed "Business – Overview – Project Ibam" in the prospectus of the Company dated 20 June 2013, and the sections headed "Resource and Reserves of Ibam Mine Under JORC Code" and "Exploration, Development and Mining Production Activities" in the annual reports and interim reports of the Company issued since listing.
- (2) the JV Partner will subscribe for 66.7% issued shares of the JV Company at a consideration of US\$100,000,000, of which US\$20,000,000 is to be satisfied by cash while US\$80,000,000 is to be satisfied by contributing the ownership of certain buildings and machinery (collectively "**JV Partner's Contribution**"). Pursuant to the valuation report issued by JLL, the investment value of the machinery and certain buildings situated on the Plant Site to be contributed by the JV Partner to the JV Company has been valued at USD146,084,000 by adopting the discounted cashflow approach. The parties to the JV Agreement through arm's length negotiation agreed that the contribution amount of USD80 million payable by the JV Partner shall be settled by the contribution of the aforesaid machinery and buildings after considering the discounting factors such as the likely depreciation in value of the machinery due to reason such as aging and the subsequent need for repairment. With respect to the cash contribution, USD2,000,000, USD8,000,000 and USD10,000,000 will be contributed by end of February 2019, July 2019 and December 2019 respectively.

Board composition of JV Company

The board of the JV Company will consist of three directors, of which the JV Partner will be entitled to appoint two directors and the remaining one director will be appointed by Best Sparkle.

Term

The JV Agreement will continue in full force until terminated in accordance with its terms.

If the Plant fails to commence operation to Best Sparkle's satisfaction, Best Sparkle would be entitled to terminate the JV Agreement and repurchase 9.12% issued shares of Pacific Mining from the JV Company at nil consideration.

Condition Precedent

The obligations of the parties to complete the transaction contemplated under the JV Agreement are subject to the fulfillment of, among others, the following conditions:

- (a) the JV Partner shall irrevocably undertake to lease the Plant Site to the JV Company during the term of this JV Agreement for nil consideration.
- (b) Best Sparkle and the JV Partner shall have obtained all the requisite internal and/or regulatory approvals respectively.

INFORMATION ON PACIFIC MINING

As disclosed above, the Company's Contribution to the JV Company is the 9.12% issued shares of Pacific Mining, a company incorporated in Malaysia as a private company limited by shares, and an indirect wholly-owned subsidiary of our Company as at the date of this announcement.

Pacific Mining is an investment holding entity which holds the Mining Right with respect to Ibam Mine. For details of the Mining Right and Ibam Mine, please refer to the section headed "Business – Overview – Project Ibam" in the prospectus of the Company dated 20 June 2013, and the sections headed "Resource and Reserves of Ibam Mine Under JORC Code" and "Exploration, Development and Mining Production Activities" in the annual reports and interim reports of the Company issued since listing.

According to Pacific Mining's latest audited financial statements, the amount of audited net liabilities (without taking into account the Mining Right) as at 31 December 2017 was RM2,236,631, while it recorded net loss of RM44,112 and RM43,366 for the year ended 31 December 2016 and 2017 respectively.

Upon completion of the JV Agreement, Pacific Mining will be owned as to 9.12% and 90.88% by the JV Company and Best Sparkle respectively, and will continue to be a subsidiary of the Company, and its financials will continue to be consolidated with that of the Group.

The Disposal will not result in a loss of control by the Group in Pacific Mining and the Disposal will be recorded as an equity transaction as defined in IFRS and the accounting policy of the Group. Therefore, it is expected that the Group will not record any gain or loss from the Disposal in the income statement of the Group.

REASONS FOR AND BENEFITS OF ENTERING INTO THE JV AGREEMENT

The Company and its subsidiaries were principally engaged in the business of mining, ore processing, sale of iron ore products and other commodities to steel manufacturers and/or their respective purchase agents in Mainland China and other commodity trading companies, as well as investment holding.

The JV Partner is principally engaged in investment holding, asset leasing, manufacturing of steel products and engaging in all recycling activities.

The Board believes that the arrangement contemplated under the JV Agreement will allow the Company to broaden its business scope to manufacturing and processing of Direct Reduced Iron without the need for cash outlay, and therefore is a positive strategic move, which will benefit the Shareholders in the long run. Accordingly, the Board considered that the JV Agreement was arrived after arm's length negotiations between the parties thereto, and is of the view that the terms of the JV Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

To the Directors' knowledge and belief, the JV Partner is optimistic about the prospects of the Ibam Mine and therefore considers that the Company's Contribution representing 9.12% issued shares of Pacific Mining which held the Mining Right towards the Ibam Mine would be beneficial to the JV Partner in long term.

LISTING RULE IMPLICATIONS

The Company considers the incorporation of the JV Company and the contribution thereto as both the Company's disposal ("**Disposal**") of 9.12% PM Shares as well as the Company's acquisition ("**Acquisition**") of 33.3% JV Shares. As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the Disposal and Acquisition is more than 5% but less than 25%, the transactions contemplated under the JV Agreement constitutes a discloseable transaction of the Company pursuant to the Listing Rules, and are subject to the reporting and announcement requirements thereunder.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires.

“Best Sparkle”	Best Sparkle Development Ltd., a company incorporated in the BVI with limited liability, which is an indirect wholly-owned subsidiary of the Company as at the date of this announcement
“Company”	CAA Resources Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	third party(ies) independent of the Company and the connected persons (as defined in the Listing Rules) of the Company
“Ibam Mine”	the mining site located in Lot 27887 (PA 143236), Sungai Cipai, Mukim Keratong, Daerah Rompin, Pahang, Malaysia
“IFRS”	International Financial Reporting Standards
“JV Agreement”	please refer to the section headed “JV Agreement” in this announcement
“JV Company” or “JV”	the joint venture company to be established by the JV Partner and Best Sparkle in Malaysia with limited liability
“JV Partner”	Affluent Oasis Sdn. Bhd., a company incorporated with limited liability in Malaysia
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mining Right”	the exclusive right held by Pacific Mining to explore, mine, extract and sell iron ore extracted from the Ibam Mine
“Pacific Mining”	Pacific Mining Resources Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares, which is wholly owned by Best Sparkle, and an indirect wholly-owned subsidiary of the Company, as at the date of this announcement
“Plant Site”	being PN 2586 Lot No. 1407 situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia
“RM”	Malaysian Ringgit, the lawful currency of Malaysia
“Shareholders”	the holder(s) of the ordinary share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	percentage or per cent

By Order of the Board
CAA Resources Limited
Li Yang
Chairman and Chief Executive Officer

Hong Kong, 14 December 2018

As at the date of this announcement, the executive Directors are Mr. Li Yang, Ms. Li Xiaolan, Mr. Wang Er, Ms. Xu Mijia, and the independent non-executive Directors are Mr. Leung Yiu Cho, Dr. Li Zhongquan and Dr. Wang Ling.