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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)**

### **CLARIFICATION ANNOUNCEMENT**

This announcement is made by China Metal Resources Utilization Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.

The board of directors (the “**Board**”) of the Company noted there was a research report issued by Hindenburg Research (“**Hindenburg**”) on 17 May 2020 (the “**Research Report**”) which contains certain allegations relating to the Group’s financial performance and certain transactions carried out by the Group. The Company does not have any background information as to the identity of Hindenburg, nor was there any meeting or contact from any of their research analyst in or before the issuance of the Hindenburg Report.

### **COMMENTS CONCERNING THE GROUP IN THE RESEARCH REPORT**

Whilst the Research Report contains a certain amount of information and references to matters which were ostensibly previously published by the Company, the Research Report attempts to portray or lead readers to draw certain conclusions about the Company, which in the Company’s view, is either incorrect or misleading in nature. On a number of occasions, selective information and possibly misleading when considering these selective information in isolation was used in the Research Report ignoring other information which has been published by the Company. On some other occasions, the Company takes the view that the analysis presented was simply illogical or wrong. In this connection, the Board would like to state the following:

#### **1. Allegations against Gushan Environmental Energy Limited**

The Research Report set out certain allegations against Gushan Environmental Energy Limited (“**Gushan**”), a company which was previously listed on the New York Stock Exchange (“**NYSE**”) until it was privatized by our the chairman of the Company, Mr. Yu Jianqiu, in 2012. The Research Report, based on various media reports the facts nor

basis of which did not appear to be verified or substantiated by the author of the Research Report, attempted to point to suggestions of possible fraud on the part of Gushan.

While these allegations do not relate to the operation of the Group, given the severity of the comments made in the Research Report and the attempt to suggest the relevant allegations may also apply to the Company, the Company would like to comment that, based on the public information available to the Company to date, the auditors of Gushan has at all material time while it was listed on the NYSE, issued unqualified audit opinions on its financial statements. KPMG was the auditors of Gushan during the material time. Further, based on public information available to the Company and to its knowledge, Gushan has never been subject to any regulatory investigation by the U.S. Securities and Exchange Commission. Similarly, the auditors of the Company have issued unqualified audit opinions on each of its financial statements since the date of its listing in 2014. As seen in the above, it is apparent that the financials of both Gushan and the Company have been independently audited by internationally recognized accounting firms and the relevant auditors are of the view that the financial statements reflect the true and fair view of the financial position of Gushan and the Company, respectively.

## **2. Acquisitions strategy — Transaction Structure and Consideration**

The Research Report questioned that the Company has acquired targets which are newly formed companies with minimal net assets at a disproportionate consideration. The Research Reports further suggests one of the acquired targets is not in operation.

The Company wishes to state that shareholders are encouraged to review the announcements dated 15 December 2017, 7 February 2018 and 19 October 2018 made by the Company in relation to these acquisitions which have set out the basis of which the acquisition consideration was determined as well as the transaction structure.

In summary, as disclosed in the above-mentioned announcements, the value of these targets lies on the profits generating ability instead of their asset value. Hence, a material proportion of the purchase consideration was non-cash consideration (e.g. consideration shares) and the payment of such non-cash consideration was subject to an earn-out arrangement depending on the future profits they would generate. As such, if the targets did not perform as envisaged at the time of acquisition, the actual purchase consideration payable would be a reduced based on the terms of the relevant earn-out. These earn-out arrangements were disclosed in the above mentioned announcements of the Company.

In addition, prior to the acquisition, these acquired targets have undergone pre-acquisition restructuring whereby the proposed business to be acquired was injected to a newly formed entity. The purpose of this arrangement is to mitigate the risk of the Company of inadvertently taking on hidden liabilities of pre-existed companies.

The Research Report made no attempt to explain the above salient points notwithstanding that they were clearly disclosed in the relevant announcements, in particular as to the basis on which the purchase prices were determined and the earn-out arrangements.

The Company condemns the use of selective information in the Research Report which attempts to lead or is otherwise capable of causing readers to draw inaccurate or misconceived conclusion on the nature of these transactions.

The Research Report also made an allegation that one of our factories situated in Hubei province that was the subject of a previous acquisition was possibly not in operation at all. The Research Report included a photograph taken allegedly outside the premises of the factory to attempt to substantiate the allegation. No date was stated in the Research Report as to the date of the photo albeit the Research Report did state that the operation of such factory could be affected by Covid.

This is just another example of the allegations made in the Research Report, in the views of the Company, that are not substantiated whilst they are dressed up to appear to be founded on the face. The Company wishes to clarify that operations of this factory of Hubei Rongsheng Copper Co., Ltd. was temporarily suspended for the past few months due to the outbreak of COVID-19 in the Hubei province. The author of the Research Report made no attempt to seek to clarify this with the Company prior to their issue of the report.

### 3. Related Parties Transactions

The Research Reports has also attempted to portray that the acquisitions of Mianyang Zhaofeng Copper Co., Ltd.\* (綿陽兆豐銅業有限公司) (“**Mianyang Zhaofeng**”) and Hubei Rongsheng Copper Co., Ltd.\* (湖北融晟金屬製品有限公司) (“**Hubei Rongsheng**”) were related to the chairman of the Company or his family members and therefor questioned the nature of the Company’s acquisitions.

The Company would like to confirm that, as disclosed in the announcement dated 15 December 2017 and 7 February 2018 relating to the acquisition of Mianyang Zhaofeng and Hubei Rongsheng respectively, as of the date of the relevant announcements, the sellers of these acquisitions and their ultimate beneficial owners were independent third parties of the Company and the Board was of the view that the acquisitions were fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

The Research Report sought to point to information such as identical telephone number or identical registered address between those of Mianyang Zhaofeng with those of the Group or various other individuals or entities to draw the conclusion that Mianyang Zhaofeng and/or sellers are likely to be “related” to the Company prior to the acquisitions.

The Company vigorously refutes the allegation. As disclosed above, Mianyang Zhaofeng was established as part of a pre-acquisition structuring to ensure that it has no trading history and hidden liability. To ensure this was achieved, the Group, as purchaser, took the lead in establishing Mianyang Zhaofeng and oversaw the other pre-

acquisition structuring steps. As Mianyang Zhaofeng would become the Company's subsidiary, it had also included various contact details of the members of the Group as company information of Mianyang Zhaofeng.

#### **4. Company's financials**

##### *(i) Reversal of the provision of doubtful debts*

The Research Reports has attempted to suggest that the reversal of the provision of doubtful debts for the past 2 years in the total sum of approximately RMB115 million as a mean to artificially bolster the Company's financial performance.

The Company vigorously refutes such allegation and believes it is poorly founded and illogical. As a prudent business and in accordance with applicable accounting policies and standards, provisions are made in relation to the Group's receivables. As and when receivables that have been previously provided for are subsequently settled and paid by the Group's debtors, the provision is reversed in accordance with applicable accounting standards and policies.

Somehow, the Research Report suggests that the Group should be making more provisioning of receivables and was wrong to "reverse" them. The Research Report appears to simply fail to understand the fact that when provided for receivables are subsequently paid, the appropriate treatment is to reverse such amount.

##### *(ii) Ageing analysis of trade and bills payables*

The Research Report suggested that the Company is facing difficulties in settling its payables and there are certain payables which are over 180 days due.

The Company wishes to clarify that, based on the unaudited annual results for the financial year ended 31 December 2019, the costs of sales of the Company was approximately RMB24,270 million. As such, the total outstanding payables (RMB560 million) and payables of the Company which are over 180 days due (RMB357 million) for the year ended 31 December 2019 constitute approximately only 2.30% and 1.47% of total costs of sales respectively. In other words, the Company has settled approximately 97.7% of its payables incurred in the financial year ended 31 December 2019.

##### *(iii) Government Subsidies*

The Research Report has attempted to portray that the main reason for the Company to receive government subsidies is because of its friendly relationship with the provincial government in the People's Republic of China ("PRC").

The provision of government subsidies to various industries is common in many jurisdictions. For certain industries, the amount of government subsidies can form a material part of their income.

The Company operates in the recycling industry which is supported by the government. In addition, the Company employs certain disadvantaged persons and receives certain governmental subsidies in support. The Company believes that subsidies and other governmental supports received by the Group were made by the relevant governmental bodies in accordance with applicable PRC laws and regulations. Subsidies and government supports received by the Group have previously been disclosed in its prospectus and other financial reports.

It is important for shareholders to be aware that the relevant allegations are the opinions of a short seller whose interests may not be aligned with those of shareholders in general, and that it may be intended specifically to undermine confidence in the Group and its management, and to harm its reputation. Accordingly, shareholders should treat such allegations with caution. The Company reserves its right to take legal action against Hindenburg and/or those responsible for the relevant allegations.

**The Board considers that the Research Report contain certain misleading statements and unfounded speculations which may lead to unusual price movement. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.**

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

Hong Kong, 19 May 2020

*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.*