CAA Resources Limited
優庫資源有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 02112)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND THE ANNUAL REPORT AND THE CORPORATE GOVERNANCE REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the further announcement of CAA Resources Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 30 July 2020 in relation to the annual results for the year ended 31 December 2019 (the "**2019 Annual Results Announcement**") and the annual report of the Group for the year ended 31 December 2019 (the "**2019 Annual Report**") and the corporate governance report (the "**2019 Corporate Governance Report**") contained therein.

Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2019 Annual Results Announcement and the 2019 Annual Report and the 2019 Corporate Governance Report.

In addition to the information provided in the 2019 Annual Results Announcement and the 2019 Annual Report, the Board would like to provide further information in relation to (i) the disclaimer of opinion (the "**Audit Qualification**" or the "**Disclaimer of Opinion**") issued by the auditor of the Company, namely Prism CPA Limited ("**Prism**" or "**Auditors**"), in relation to the consolidated financial statements of the Group for the year ended 31 December 2019 pursuant to paragraphs 3 and 45(7) of Appendix 16 to the Listing Rules; and (ii) the impairment loss on remeasurement of assets held for sale amounted to approximately USD31.6 million for the year ended 31 December 2019.

DISCUSSIONS ON THE COMPANY'S GOING CONCERN ISSUE FROM THE CORPORATE GOVERNANCE PERSPECTIVE

Reference is made to the 2019 Corporate Governance Report, and the Board would like to supplement further disclosures on the 2019 Corporate Governance Report.

As stated in the 2019 Corporate Governance Report (page 19 of the 2019 Annual Report), the Board is committed to maintaining appropriate corporate governance practices to enhance the accountability and transparency of the Company in order to protect Shareholders' interests and to ensure that the Company complies with the latest statutory requirements and professional standards.

As disclosed in the Independent Auditor's Report enclosed in the 2019 Annual Report, the Auditors, being Prism, issued the Disclaimer of Opinion on the consolidated financial statements of the Company for the year ended 31 December 2019. Set out below is the paragraph headed "Basis for Disclaimer of Opinion" as disclosed in the Independent Auditor's Report:

"Material Uncertainty Related to the Going Concern

As explained in note 2 to the consolidated financial statements, the Group incurred a net loss attributable to the owners of the Company of approximately US$57,110,000 and had net cash outflows from operating activities of approximately US$8,500,000 during the year ended 31 December 2019. As at the same date, the Group's amount due to ultimate holding company, bank and other borrowings, guarantee notes and bonds amounted to approximately US$155,555,000, while its cash and cash equivalents amount to approximately US$102,000 only.

In addition, as at 31 December 2019, the Group was in default in relation to, inter alia, the principal amount of aggregate amount due to ultimate holding company, bank and other borrowings and guarantee notes totaling approximately US$153,076,000 ("In Default Borrowings") due to the following events of default: (a) late or overdue payments of principal and interests during the year ended or as at 31 December 2019, and (b) breach of terms and conditions of In Default borrowing not abovementioned during the year ended 31 December 2019. These conditions constituted events of defaults which resulted in cross-default of bonds other than those mentioned above, amount to outstanding principal amount of approximately US$2,479,000 ("Cross-default Borrowings") as at 31 December 2019.

As at 31 December 2019, the Company has a loan from its ultimate holding company, Cosmo Field Holdings Limited ("Cosmo Field") with the outstanding principal of US$40,000,000 (the "Shareholder's Loan") which included in the In Default Borrowings. On 15 May 2020, Mr. Li Yang ("Mr. Li"), the director, chairman and chief executive officer of the Company and Cosmo Field, the ultimate holding company of the Company, received a writ of summons taken out by Industrial Bank Co., Limited ("Industrial Bank") at the High Court of Hong Kong ("High Court Action 1") in relation to a loan advanced by Industrial Bank to Cosmo field (the "Industrial Bank Loan"), for which Mr. Li was the guarantor. Pursuant to the High Court Action 1, Industrial Bank brought claim against Cosmo Field and Mr. Li with respect to the default in repayment of the Industrial Bank Loan in the amount of US$45,059,154 (the "Default on Industrial Bank Loan"). Cosmo Field has pledged 752,000,000 shares (representing 50.13% of all issued shares of the Company) in favour of Industrial Bank as security for the Industrial Bank Loan. Cosmo Field has lent the principal amount of the Industrial Bank Loan being US$40,000,000 (i.e. Shareholder's Loan) to the Company as an interest-free loan, and Industrial Bank is entitled to claim against the Company for the repayment of the Shareholder's Loan pursuant to the assignment of loan as part of security arrangement for the Industrial Bank Loan whereby Cosmo Field has assigned the rights under the Shareholder's Loan to Industrial Bank. The Default on Industrial Bank Loan will trigger cross-defaults of other borrowings and loans of the Group.

As at 31 December 2019, China Bright Industries Limited, a subsidiary of the Company, has a bank borrowings advanced from Oversea-Chinese Bank Corporation Limited ("OCBC") with the outstanding principal of approximately US$36,533,000 ("OCBC loan") as at 31 December 2019 which is included in the In Default Borrowings. As set out in the announcement by the Company dated 20 January 2020, Mr. Li, the director, chairman and chief executive officer of the Company, received a writ of summons taken out by OCBC at the High Court of Hong Kong ("High Court Action 2") in relation to the OCBC loan, in which Mr. Li failed to fulfil his obligation as a guarantor to settle the amount of HK$308,758,494. The Group has also breached the repayment obligations under the OCBC loan (the "Breach"), and the Breach will trigger cross defaults of other borrowings and loans of the Group.

As at 31 December 2019, the Company, has a bond issued to I-Access Investors Limited ("I-Access") with the outstanding principal of approximately US$2,479,000 as at 31 December 2019 which included in the Cross-default Borrowings. On 4 February 2020, a statutory demand under the Companies Winding Up and Miscellaneous Provisions) Ordinance ("Statutory Demand") was served on the Company by I-Access to demand the Company to pay the outstanding amount of HK$21,019,178 ("I-Access debt") within 21 days after the date of the Statutory Demand for repayment of the I-Access debt. On 8 May 2020, the Company and I-Access entered a terms sheet of extended payment schedule (the "extended payment schedule") and agreed that the Company shall be payable of the I-Access debt with six installments to 22 June 2021. The Group settled an aggregate amount of HK$300,000 to I-Access subsequently in May and June 2020, which in accordance with the extended payment schedule.

Subsequent to 31 December 2019, principal of approximately US$155,517,000 and interests of approximately US$9,834,000 relating to the In Default Borrowings and the Cross-default Borrowings, were not repaid in accordance with the repayment schedules pursuant to the borrowing agreements.

These conditions, together with other matters disclosed in note 2 to the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to financial institutions, which are set out in note 2 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) the successful negotiations with the Group's existing lenders for the renewal of or extension for repayment of outstanding In Default borrowings and Cross-default borrowings, including those with overdue principals and interests; (ii) successfully raising additional new sources of financing as and when needed; (iii) successfully reaching a settlement of the High Court Action 1, High Court Action 2 and the Statutory Demand between the Company and its Creditors; (iv) successful collection of trade receivables and controlling costs and containing capital expenditure so as to generate adequate net cash inflows; (v) successfully managing the impact of the COVID-19 outbreak, as well as any government's stimulus in response, on the Group's operation from time to time and adjusting its sales and marketing strategy for mine sales to generate sufficient cash from its operations; and (vi) the successful maintenance of relationship with the Group's exiting lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings with interest payment in default, including those with cross-default terms.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the carrying amounts of the Group's assets to their net recoverable amounts, to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements."

THE MANAGEMENT'S POSITION, VIEW AND ASSESSMENT ON THE DISCLAIMER OF OPINION

During the course of audit of the consolidated financial statement of the Company for the year ended 31 December 2019, the Auditors had raised concern on the Group's ability to operate as a going concern. In order to address this concern, the Group has, among other things, taken the following steps:

(i) Cosmo Field, the ultimate holding company has agreed not to demand for any repayment of amount due by the Company of approximately US$60,000,000 as at 31 December 2019 until the Company is in a financial position to do so;

(ii) the Group has been actively negotiating with existing lenders for renewal and extension of bank loans and credit facilities;

(iii) the Group is also negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future;

(iv) in light of the COVID-19 outbreak, the Group is closely monitoring the latest development and will continue to assess the impact of the epidemic, as well as any government's stimulus in response, on the Group's operation from time to time and adjust its sales and marketing strategy for its mine sales to generate sufficient cash from its operations;

(v) the Group has implemented measures to speed up the collection of outstanding trade debts proceeds; and

(vi) the Group will continue to take active measures to control administrative costs through various channels including human resources optimisation and management remuneration adjustments and containment of capital expenditures.

Taking all of the above measures and/or actions into consideration, the Board considers and is confident that the Group will have sufficient liquidity to finance its operations for the next twelve months and therefore is of the view that the Group would be able to continue its businesses and operations as a going concern and the going concern issue will be fully resolved in the immediate future.

AUDIT COMMITTEE'S VIEW ON THE AUDIT QUALIFICATION

The members of the audit committee of the Company (the "**Audit Committee**") had critically reviewed the Disclaimer of Opinion, the management's position concerning the Disclaimer of Opinion and measures taken by the Group for addressing the Disclaimer of Opinion. The Audit Committee agreed with the management's position based on the reasons above. Moreover, the Audit Committee requested the management to take all necessary actions to address the effect on the Disclaimer of Opinion that no such Disclaimer of Opinion to be made in the forthcoming audited financial statements. The Audit Committee had also discussed with the Auditors regarding the financial position of the Group, measures taken and to be taken by the Group, and considered the Auditors' rationale and understood their consideration in arriving their opinion.

DETAILS OF THE UNDERLYING REASONS FOR, OR THE EVENTS AND CIRCUMSTANCES (WITH THE TIMING OF THE OCCURRENCE THEREOF) LEADING TO, THE RECOGNITION OF THE IMPAIRMENT

Reference is made to page 99 and page 150 of the 2019 Annual Report.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale is measured at the lower of their previous carrying amount and fair value less costs of disposal.

In accordance with IFRS 5, the assets classified as held for sale are measured at lower of their carrying amount immediately prior to being classified as held for sale and fair value less costs to sell.

The impairment loss on remeasurement of assets held for sale was related to the disposal of the entire interests of Pembinaan Sponge Iron ("**Pembinaan Sponge Iron**" or the "**JV Company**") held by the Group on 13 July 2020 (the "**Investment**").

As disclosed in the announcement dated 14 December 2018, Best Sparkle Development Ltd. (“**Best Sparkle**”, an indirect wholly-owned subsidiary of the Company) subscribed for 33.3% equity interest in Pembinaan Sponge Iron at a consideration of USD50,000,0000, which was settled by transferring contributing 9.12% of the issued shares of Pacific Mining Resources Sdn. Bhd. (“**Pacific Mining**”, a wholly owned subsidiary of Best Sparkle). The JV Company will be engaged in operating the direct reduced iron plant (the “**Plant**”) which is situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia.

According to the terms and conditions of the joint venture agreement in relation to the JV Company, with respect to the cash contribution of Affluent Oasis Sdn. Bhd. (the “**JV Partner**”), being the partner to the JV Company, a total of US$20 million shall be contributed by end of December 2019, and in the event that the JV Partner failed to contribute US$20 million on or before 31 December 2019, the Agreement would be automatically terminated and the Group will be able to retain the consideration. The JV Partner failed to honor the cash contribution by end of December 2019.

On 13 July 2020, the Group disposed the entire 33.3% interests in Pembinaan Sponge Iron to the JV Partner, who is the controlling shareholder of Pembinaan Sponge Iron. According to IAS 28.20, the Group shall apply to IFRS 5 to an investment that meets the criteria to be classified as held for sale. Accordingly, according to the criteria set out in IFRS 5, the Group shall classify the Investment as non-current assets held for sale.

The Group committed a plan (as per IFRS 5.8) to sell the asset. Before the audited financial statements have been issued on 30 July 2020, the Group had met the criteria of actively located a buyer for the disposal, indicated by the fact that the Group intended to return the equity interest to the JV Partner. The disposal was completed on 13 July 2020. On 13 July 2020, Best Sparkle transferred 33.3% equity shares of Pembinaan Sponge Iron to the JV Partner while 9.12% of the issued shares of Pacific Mining Resources Sdn. Bhd., a subsidiary of Best Sparkle, which was initially contributed by Best Sparkle to Pembinaan Sponge Iron, is now returned to Best Sparkle.

Pursuant to IFRS 5.15, the Group shall measure a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

As at 31 December 2019, the Group recognised a non-current assets held for sale in respect of the Investment in Pembinaan Sponge Iron in accordance with IFRS 5 and the provision of IAS 28. After classification, the Group performed the remeasurement on the carrying amount of assets held for sale as at 31 December 2019 in accordance with IFRS 5.

The Group engaged an independent valuation firm, International Valuation Limited ("**IVL**") to perform a valuation on the fair value of the Investment as at 31 December 2019. The fair value is approximately US$18,363,000. Considering the cost to sell is insignificant, the Directors considered that the fair value less costs to sell was approximately US$18,363,000. As at 31 December 2019, the carrying amount of the Investment was approximately US$49,999,000.

As a result, an amount of US$31,636,000 was recognised as impairment loss on remeasurement of assets held for sale for the year ended 31 December 2019.

The major inputs for the valuation of investment in an associate include (1) the price-to-book ("**P/B**") multiple of 0.43, which was the median of P/B multiples of the comparable companies which were principally engaged in sponge iron mining and production extracted from Bloomberg as of 31 December 2019; and (2) discount for lack of marketability of 15.8% based on Stout Restricted Stock Study Companion Guide 2020 published by Stout Risius Ross, LLC. The first valuation of the Investment was conducted by IVL as of 31 December 2019. Market approach was adopted for valuation of the JV Company as of 31 December 2019, and IVL relied on the trading multiples of publicly traded guideline companies of the JV Company and benchmarked equity value of the JV Company to the publicly trading entities by looking into their financial performances. The Board agreed to the adoption of the market approach, as it could reflect the current market's investment preferences or investment habitat, and also provide up-to-date public market information allowing the management of the Company to make a more informative decision.

At the time of announcing the unaudited results of the Company for the year ended 31 December 2019 on 30 March 2020, the management of the Company took into account the information available to them as of 30 March 2020 and assessed that the sale of the Investment did not meet the criteria of "highly probable" as set out in the guideline of IFRS5. Accordingly, the management of the Company did not reclassify the Investment as held for sale at that time. At that time, there was no indication of impairment of the Investment. However, upon the engagement of Prism, Prism considered that, with the completion of the disposal of the Investment, the actual disposal value amount should be used as the fair value amount, and upon considering the situation at that time, the Board and the Audit Committee were persuaded to accept this reclassification.

LATEST UPDATE ON THE PROPOSED MEASURES

As at the date of this announcement, with regard to the proposals to improve the financial situation of the Group as stated above, the Board would like to provide the following update:

(i) Cosmo Field, the controlling shareholder has already executed an agreement in favour of the Company to the effect that it would not demand repayment from the Company until the Company's financial situation has been improved;

(ii) the Group has been trying to reach a settlement arrangement with various lenders who agreed to extend or renew the existing loans and facilities;

(iii) the Group is still in negotiation with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future;

(iv) as disclosed in the interim results announcement of the Company for the six months ended 30 June 2020 (the "**2020 Interim Results Announcement**"), as the effect of COVID-19 is still prevalent in Malaysia, the Group's financial performance has not yet fully recovered;

(v) the Group is still in active process of speeding up the collection of outstanding trade debts proceeds;

(vi) the Group is still in active of process of taking measures to control administrative costs through various channels including human resources optimisation.

In addition to the above, the management of the Group has continuously assessed the Group's current liquidity, performance and available sources of financing in considering the Group's ability to continue as a going concern. The management has taken and will continue to implement the measures as mentioned in note 2 to the consolidated financial statements to mitigate the Group's liquidity pressure and improve the conditions of cash flow.

By Order of the Board
CAA Resources Limited
Li Yang
Chairman

Hong Kong, 9 December 2020

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

* *For identification purpose only*