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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)**

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019**

The Board of Directors (the “Board”) of China Metal Resources Utilization Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2019. This announcement, containing the full text of the 2019 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in relation to information to accompany preliminary announcement of interim results. Printed version of the Company’s 2019 interim report will be delivered to the shareholders of the Company and available for viewing on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and of the Company at [www.cmru.com.cn](http://www.cmru.com.cn) on or before 14 September 2019.

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

Hong Kong, 29 August 2019

*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.*



**China Metal Resources Utilization Limited**

**中國金屬資源利用有限公司**

*(a company incorporated under the laws of Cayman Islands with limited liability)*

*(根據開曼群島法律註冊成立的有限公司)*

Stock Code 股份代號：1636



2019 中期報告  
INTERIM REPORT

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This interim report, in both English and Chinese versions, is available on the Company's website at <http://www.cmru.com.cn/>. Shareholders who have chosen to receive the corporate communications of the Company (the "Corporate Communications") in either the English version or the Chinese version may request for a copy in the other language. The interim report in the requested language will be sent free of charge by the Company upon request.

Shareholders may at any time change their choice of language(s) (either English only or Chinese only or both languages) of Corporate Communications.

Shareholders may send their request to change their choice of language(s) of Corporate Communications by notice in writing to the Hong Kong Branch Share Registrar of the Company with Computershare Hong Kong Investor Services Ltd. at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

## **DIRECTORS**

### **EXECUTIVE DIRECTORS**

Yu Jianqiu  
Kwong Wai Sun Wilson  
Huang Weiping  
Zhu Yufen

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Lee Ting Bun Denny  
Pan Liansheng  
Ren Ruxian

### **REGISTERED OFFICE**

Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

### **HEAD OFFICE IN THE PRC**

She Nos 1, 3 and 8  
Shunhe Village Xiaojiangou Town  
Youxian District  
Mianyang  
Sichuan Province  
China

### **PLACE OF BUSINESS IN HONG KONG**

Unit 4402-03, COSCO Tower,  
183 Queen's Road Central,  
Sheung Wan,  
Hong Kong

### **COMPANY SECRETARY**

Cheung Ying Kwan

### **AUDITORS**

Ernst & Young  
*Certified Public Accountants*

### **LEGAL ADVISORS**

*As to Hong Kong law*  
Herbert Smith Freehills  
*As to PRC law*  
Chen & Co Law Firm

## **AUDIT AND CORPORATE GOVERNANCE COMMITTEE**

Lee Ting Bun Denny (*Chairperson*)  
Pan Liansheng  
Ren Ruxian

## **REMUNERATION COMMITTEE**

Pan Liansheng (*Chairperson*)  
Lee Ting Bun Denny  
Ren Ruxian

## **NOMINATION COMMITTEE**

Ren Ruxian (*Chairperson*)  
Lee Ting Bun Denny  
Pan Liansheng

## **AUTHORIZED REPRESENTATIVES PURSUANT TO THE LISTING RULES**

Kwong Wai Sun Wilson  
Cheung Ying Kwan

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Conyers Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman, KY1-1111  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor,  
Hopewell Centre  
183 Queen's Road East, Wanchai  
Hong Kong

## **PRINCIPAL BANKERS**

Standard Chartered Bank (Hong Kong) Limited  
Industrial and Commercial Bank of China  
Mianyang Commercial Bank  
Huarong Xiangjiang Bank  
China Merchants Bank  
Youxian Rural Credit Cooperative Association

## **COMPANY WEBSITE**

<http://www.cmru.com.cn>

## **STOCK CODE**

1636



# Financial Highlights

For the six months ended 30 June			
	2019 RMB'000	2018 RMB'000	
Revenue	11,694,871	9,658,380	
Net profit attributable to the shareholders of the Company	44,026	60,233	
Earnings per share	RMB0.02	RMB0.02	
	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000	Change
Cash and cash equivalents	21,808	112,935	-80.7%
Total assets	4,842,004	4,703,524	2.9%
Total liabilities	2,822,383	2,797,747	0.9%
Total Equity	2,019,621	1,905,777	6.0%

For the six months ended 30 June			
	2019 RMB'000	2018 RMB'000	
Net profit margin	0.38%	0.62%	
Return on equity	4.5%	7.5%	
	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000	
Inventory turnover days	12.0 days	7.7 days	
Receivables turnover days	11.4 days	17.4 days	
Payables turnover days	4.4 days	6.6 days	
Current ratio	1.3	1.3	
Quick ratio	0.8	1.1	
Debt to equity ratio*	60.2%	60.2%	
Net debt to equity ratio <sup>#</sup>	59.1%	54.3%	

\* Total interest-bearing debts/Total equity.

<sup>#</sup> Total interest-bearing debts less cash and cash equivalents/Total equity.

## **BUSINESS REVIEW**

In the first half of 2019, China's GDP grew at 6.2%, such growth rate, though slowing, was still within a reasonable range. China still recorded an increase in the demand for copper products across the country. As a result, the Group recorded an increase in sales volume of copper products in the first half of 2019 as compared with the first half of 2018, which translated into an increase in turnover by 21.1% as compared with the same period last year. Such increase in sales was contributed not only by the increase in the Group's trading volume of electrolytic copper but also by the increase in production volume of its recycled copper products. Along with the increase in production and sales volume of recycled copper products, VAT refunds under the Comprehensive Utilisation of Resources Policy also recorded a corresponding increase during the first half of 2019. Furthermore, the improvement in the liquidity of our customers has resulted in an overall improvement in receivable aging, the provision for bad debts ratio was adjusted downward accordingly.

## **FUTURE PROSPECTS/OUTLOOK**

China's gross domestic product in the second quarter of 2019 grew by 6.2%, which was lower than last year's 6.8%. In addition, the prolonged trade war with the US is likely to further negatively affect China's economy. As a result, we expect our operating environment to be challenging in the second half of the year. Meanwhile, copper price in China has decreased by approximately 2.8% in the first half of 2019 and then stabilized from July to mid August 2019. In order to further support the economic growth, the Chinese government plans to encourage banks to lend more to non-state owned enterprises, launch new tax cuts and speed up infrastructure investments in near future. At this juncture, we are still cautiously optimistic about our prospects and will be looking to increase our financial strength so that we can take full advantage of future opportunities as well as being able to cope with possible headwinds. At the same time, we shall also continue to seek suitable acquisition opportunities to help grow our business and enhance our shareholder value.

## **HUMAN RESOURCES**

As at 30 June 2019, the Group had a total of approximately 870 employees (31 December 2018: 864). The Group's staff costs for the six months ended 30 June 2019 were approximately RMB27.4 million. The Group offers competitive remuneration schemes to its employees. In addition, discretionary bonuses and share options may also be granted to eligible employees based on individual and the Group's performance. The Group is committed to nurturing a learning and sharing culture across its organization. Heavy emphasis is placed on the training and development of individual employees and team building, as the Group's success is dependent on the contribution of all functional divisions comprising skilled and motivated professionals. The Group is also committed to social responsibility by employing disabled staff and providing appropriate working conditions and protection to them.

## DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: nil).

## FINANCIAL REVIEW

### REVENUE

Our revenue represents the fair value of consideration received or receivable for sales of goods and services in the ordinary course of business. Revenue is shown net-of-VAT and other taxes, returns and discounts after eliminating sales within our Group.

The following table sets forth an analysis of our revenue:

	For the six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Sales from trading of electrolytic copper	8,315,856	6,707,436
Sales of recycled copper products	3,323,894	2,819,678
Sales of power transmission and distribution cables	16,445	16,669
Sales of communication cables	16,534	23,234
Sales of scrap steel	—	3,108
Sales of scrap materials	17,977	40,399
Others	4,165	4,175
Revenue from trading of electrolytic nickel	—	43,681
	11,694,871	9,658,380

Revenue for the six months ended 30 June 2019 amounted to RMB11,694.9 million, representing an increase of 21.1% from RMB9,658.4 million for the six months ended 30 June 2018.

Revenue from copper products amounted to RMB11,639.8 million (including revenue from trading of electrolytic copper of RMB8,315.9 million and revenue from recycled copper products of RMB3,323.9 million) for the six months ended 30 June 2019, representing an increase of 22.2% from RMB9,527.1 million for the six months ended 30 June 2018, reflecting mainly an increase of 28.0% in the sales volume of all copper products from 213,786 metric tons for the six months ended 30 June 2018 to 273,665 metric tons for the six months ended 30 June 2019, and a decrease of 4.5% in average selling price from RMB44,527 per ton for the six months ended 30 June 2018 to RMB42,532 per ton for the six months ended 30 June 2019.

# Management Discussion and Analysis

Revenue from sales of power transmission and distribution cables amounted to RMB16.4 million for the six months ended 30 June 2019, representing a decrease of 1.3% from RMB16.7 million for the six months ended 30 June 2018. Revenue from sales of communication cables amounted to RMB16.5 million for the six months ended 30 June 2019, representing a decrease of 28.8% from RMB23.2 million for the six months ended 30 June 2018.

## PROFIT FOR THE PERIOD

Our profit for the six months ended 30 June 2019 was RMB44.0 million as compared to RMB60.2 million for the six months ended 30 June 2018. The decrease was mainly due to the enlarged proportion of sales volume from trading of metal, the gross profit of which was lower than that from sales of manufactured products. Furthermore, the reversal of impairment loss of trade and other receivables as a result of continued improvement in the aging of trade receivable in the same period last year was larger than that in the first half of 2019. Financial costs also increased by approximately RMB8.0 million as compared to the same period last year, primarily due to the increase in overall borrowings and the strengthening of HKD against RMB in translating the interest expenses incurred in HKD for reporting purpose.

## CAPITAL STRUCTURE

As at 30 June 2019, the capital structure of the Group mainly consisted of shareholders' equity, bank and other borrowings and finance leases and convertible bonds. There is no material seasonality of borrowing requirements for the Group. The following table details the interest rate profile of the Group's total interest-bearing borrowings at the end of reporting periods:

	As at 30 June 2019		As at 31 December 2018	
	Weighted average effective interest rate %	Amount RMB'000	Weighted average effective interest rate %	Amount RMB'000
Fixed rate borrowings:				
Notes payable	13.00	31,669	12.00	17,524
Bank loans and other borrowings	8.04	586,945	8.69	548,548
Finance leases payable	—	—	27.79	4,940
Liability component of convertible bonds	13.71	596,506	15.07	576,854
Total fixed rate borrowings		1,215,120		1,147,866



The following table sets forth the maturity profile of the Group's interest-bearing borrowings at the dates indicated:

	As at 30 June 2019				As at 31 December 2018				
	Notes payable RMB'000	Interest-bearing bank and other borrowings RMB'000	Liability component of convertible bonds RMB'000	Total RMB'000	Notes payable RMB'000	Interest-bearing bank and other borrowings RMB'000	Obligations under finance leases payables RMB'000	Liability component of convertible bonds RMB'000	Total RMB'000
Within one year or repayable on demand	31,669	566,182	596,506	1,194,357	17,524	532,408	714	576,854	1,127,500
After one year but within two years	-	17,766	-	17,766	-	16,140	866	-	17,006
After two years but within five years	-	2,997	-	2,997	-	-	3,360	-	3,360
	31,669	586,945	596,506	1,215,120	17,524	548,548	4,940	576,854	1,147,866

## EXTENSION OF TERM OF CONVERTIBLE BONDS

In respect of the convertible bonds issued by the Company under the subscription agreement signed on 9 April 2017 ("Tranche II Convertible Bonds"), the Company was notified by Leading Sky Holdings Limited on 11 April 2018 that Leading Sky Holdings Limited has transferred the Tranche II Convertible Bonds in the principal amount of HK\$80,000,000 (the "Remaining Tranche II Convertible Bonds") to Peaceful Wealth International Limited (the "Transferee") and the Transferee has exercised its right to extend the maturity date of the Remaining Tranche II Convertible Bonds for one (1) year in accordance with the Tranche II Convertible Bonds terms and conditions. The Company was notified by the Transferee that the Transferee has exercised its right to further extend the maturity date of the Remaining Tranche II Convertible Bonds for one (1) year in accordance with the Tranche II Convertible Bonds terms and conditions. The Remaining Tranche II Convertible Bonds shall continue to be governed by the Tranche II Convertible Bonds terms and conditions. For detail, please refer to the announcements of the Company dated 9 April 2017, 12 April 2017, 11 August 2017, 12 April 2018 and 12 April 2019.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2019, the Group's cash and cash equivalents (excluding pledged deposits of RMB47.0 million) amounted to RMB21.8 million (as at 31 December 2018: RMB112.9 million).

The Group's inventories increased by RMB715 million to RMB1,147.5 million (as at 31 December 2018: RMB432.5 million). During the six months ended 30 June 2019, the inventory turnover days were 12.0 days as compared with 7.7 days for the year ended 31 December 2018. Such increase was mainly resulted from the Group enlarged scale of operations.

Trade and bills receivables decreased by RMB288.7 million to RMB590.6 million (as at 31 December 2018: RMB879.3 million). During the six months ended 30 June 2019, the receivables turnover days were 11.4 days as compared with 17.4 days for the year ended 31 December 2018. The decrease in receivable turnover days was due to the continued improvement in the aging of trade receivable.

Trade and bills payables decreased by RMB187.6 million to RMB355.7 million as at 30 June 2019 (as at 31 December 2018: RMB543.3 million) while the payable turnover days were 4.4 days, compared with 6.6 days for the year ended 31 December 2018. The payable turnover days were relatively stable as compared with the year.

The Group's total interest-bearing borrowings increased by RMB67.2 million to RMB1,215.1 million as at 30 June 2019 (31 December 2018: RMB1,147.9 million). The increase was mainly due to the increase of bank loans and other borrowings.

Bank loans and other borrowings included three entrusted loans totaled approximately RMB300.0 million from Mianyang Science Technology City Development Investment (Group) Co., Ltd. ("Mianyang Development Group"). Pursuant to the entrusted loan agreement signed among Mianyang Tongxin Copper Co., Ltd. ("Tongxin"), a wholly owned subsidiary of the Company, Mianyang Development Group and the entrusted bank, the entrusted loans expired on 27 August 2016, 23 September 2016 and 18 November 2016 respectively. Mianyang Development Group, the entrusted bank and Tongxin have agreed that, the entrusted loan would not be repayable until further agreed otherwise. As at 30 June 2019, the negotiation was still on going.

# Management Discussion and Analysis

The following table sets forth certain financial ratios of the Group as at the dates indicated:

	As at 30 June 2019	As at 31 December 2018
Current ratio	1.3	1.3
Quick ratio	0.8	1.1
Debt to equity ratio*	60.2%	60.2%
Net debt to equity ratio <sup>#</sup>	59.1%	54.3%

\* Total interest-bearing debts/Total equity.

<sup>#</sup> Total interest-bearing debts less cash and cash equivalents/Total equity.

The decrease of quick ratio as at 30 June 2019 compared with those as at 31 December 2018 was primarily attributable to the increase in inventory from RMB432.5 million as at 31 December 2018 to RMB1,147.5 million as at 30 June 2019.

The debt to equity ratio as at 30 June 2019 remained stable as compared with that as at 31 December 2018.

## CHARGE ON ASSETS

The following table sets forth the net book value of assets under pledge for certain banking facilities, bills payable facilities, obligations under finance leases and outstanding futures contracts as at the dates indicated:

	As at 30 June 2019 RMB'000	As at 31 December 2018 RMB'000
Property, plant and equipment	459,902	200,649
Right-of-use assets/lease prepayments	80,980	86,840
Inventories	43,840	10,000
Deposits with guarantee companies	4,420	4,375
Deposits with banks	12,900	12,900
Deposit with lessor of finance leases	—	4,800
Deposit with other companies	29,691	29,737
	631,733	349,301

## COMMODITY RISK

The major raw materials used in the production of our recycled copper products are scrap copper. We are exposed to fluctuations in the prices of raw materials as well as finished goods which are influenced by global as well as regional supply and demand conditions. Fluctuations in the copper prices could adversely affect our financial performance. The Group uses copper futures contracts to mitigate part of its exposure against price fluctuations of copper. The market value of futures contracts is based on the quoted market price as at the date of consolidated statement of financial position. The Group did not have any outstanding copper futures contracts as at 30 June 2019 (as at 31 December 2018: Nil). Net loss of RMB0.1 million was recognized for the six months ended 30 June 2019 (six months ended 30 June 2018: net gain of RMB1.0 million) from futures contracts.

## FOREIGN CURRENCY RISK

The functional currency of a majority of the entities within our Group is RMB and most of the transactions are settled in RMB. However, we are exposed to currency risk primarily related to the cash and cash equivalents, the convertible bonds and contingent consideration liabilities, all of which are mainly denominated in HKD. The balance of cash and cash equivalents as at 30 June 2019 including HK\$3.9 million and USD8,289 (in total equivalent to approximately RMB3.4 million) were held in banks in Hong Kong.

As at 30 June 2019, the Group's interest-bearing bank and other borrowings and finance lease payables were denominated in RMB but the convertible bonds were denominated in HKD, with an aggregate principal amount of HK\$680.0 million. During the year ended 31 December 2018, the Group has completed the acquisitions of certain target groups, the considerations are subject to adjustment pursuant to earn-out arrangements and will be settled partly by cash considerations in HKD and partly by allotment and issue of consideration shares which are denominated in HKD. The Group did not commit to any financial instruments to hedge its foreign exchange exposure during the six months ended 30 June 2019. During the six months ended 30 June 2019, the Company incurred an exchange difference on translation of financial statements of entities outside of mainland China equivalent to RMB5.1 million, part of which was resulted from translating the convertible bonds and contingent consideration liabilities from HKD to RMB.

## SIGNIFICANT INVESTMENTS HELD

Saved as disclosed elsewhere in this report, except for investments in subsidiaries and associates, the Group did not hold any significant investment in equity interests in any other companies during the six months ended 30 June 2019.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES**

On 15 December 2017, the Company entered into a sale and purchase agreement with Yuanxin Ventures Limited (“Yuanxin”), pursuant to which the Company agreed to purchase, and Yuanxin agreed to sell, 100% of the issued share capital in Silver Eminent Group Limited (“Silver Eminent”) for an aggregate maximum consideration of HK\$317,647,000, of which HK\$158,823,500 shall be settled in cash and HK\$158,823,500 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 Yuanxin, 41,796,000 shares will be issued under the sale and purchase agreement. Silver Eminent owns 100% equity interests in Mianyang Zhaofeng Copper Co., Ltd. (“Zhaofeng”) The transaction has been completed in March 2018. Please refer to the announcement of the Company dated 15 December 2017 and 29 December 2017 for further details.

For the year ended 31 December 2018, Silver Eminent and its subsidiaries made a net loss of RMB10,169,000 under IFRS. No consideration shares are issuable to Yuanxin in 2018 under the sale and purchase agreement.

On 7 February 2018, the Company entered into a sale and purchase agreement with Sure Victor Global Limited (“Sure Victor”), pursuant to which the Company agreed to purchase, and Sure Victor agreed to sell, 100% of the issued share capital in Value Link Developments Limited (“Value Link”) for an aggregate maximum 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 an 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. Value Link indirectly owns 100% equity interests in Hubei Rongsheng Copper Co., Ltd. (“Rongsheng”) The transaction has been completed in April 2018. Please refer to the announcement of the Company dated 7 February 2018 for further details.

For the year ended 31 December 2018, Value Link and its subsidiaries made a net profit of RMB41,223,450 under IFRS, as such, 16,609,419 consideration shares will be issued to Sure Victor. The number of consideration shares to be issued is calculated on the following mathematic formula under the sale and purchase agreement:

$$(A \div B) \times (C + D \times \text{HK\$4.8}) - C/\text{HK\$4.8}$$

A = actual net profits of the target for the first year

B = performance target for the first year, i.e. RMB45,000,000

C = cash consideration, i.e. HK\$287,647,000

D = the maximum number of consideration shares to be issued for the first year, i.e. 23,621,000 Shares



On 19 October 2018, the Company entered into a sale and purchase agreement with Advance Splendid Limited (“Advance Splendid”), pursuant to which the Company agreed to purchase, and Advance Splendid agreed to sell, 100% of the issued share capital in the Sky Harvest Global Limited (“Sky Harvest”) for an aggregate maximum 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 an 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. Sky Harvest indirectly owns 100% equity interests in Chengxin Copper Copper Co., Ltd. (“Chengxin”) The transaction has been completed in November 2018. Please refer to the announcements of the Company dated 19 October 2018, 31 October 2018 and 16 November 2018 for further details.

Under the sale and purchase agreement, the first year of earn-out period is 2019, as such, no consideration shares are issuable to Advance Splendid in 2018.

During the six months ended 30 June 2019, the Group did not have any material acquisition or disposal of subsidiaries and affiliated companies.

## **CAPITAL EXPENDITURES**

For the six months ended 30 June 2019, the Group’s capital expenditures represent additions to property, plant and equipment (including construction in progress) and right of use of assets in respect of land use right of approximately RMB4.9 million (2018: RMB68.3 million). The capital expenditures were mainly financed from internal resources.

## **CAPITAL COMMITMENTS**

As at 30 June 2019, the capital commitments in respect of the acquisition of property, plant and equipment and right of use of assets in respect of land contracted for but not provided in the consolidated financial statements amounted to RMB45.4 million (as at 31 December 2018: RMB31.4 million).

## **CONTINGENT LIABILITIES**

Other than the contingent considerations of three acquisitions as mentioned above, the Group had no material contingent liabilities as at 30 June 2019.

## EQUITY LINKED AGREEMENTS

### SHARE OPTION SCHEME

Details of the Share Option Scheme of the Company are set out in the section below headed "SHARE OPTION SCHEMES".

### WARRANTS ISSUED IN 2015

On 19 January 2015, the Company issued 133,650,000 warrants to 7 subscribers at an issue price of HK\$0.001 per warrant. Each warrant will entitle its holder to subscribe for one share of the Company at a subscription price of HK\$1.30 per share. The warrants will be vested in phases according to the vesting conditions. The vesting condition is that the suppliers shall carry out the transactions under their respective annual procurement agreements, pursuant to which the suppliers in aggregate, agree to supply 49,500 tons of copper scrap raw materials to the Group in 2015 at a fixed discount of RMB1,000 per ton. Please refer to the announcement of the Company dated 19 December 2014 for further details. As at 30 June 2019, 9,612,578 shares would be issued upon exercise of these warrants.

Movements of the warrants during the six months ended 30 June 2019 are as follows:

Issue date of the warrants	Exercise price HK\$	Number of warrants held at 1 January 2019	Exercised	Number of warrants held at 30 June 2019	Funds raised from the exercise of warrants HK\$'000
19 January 2015	1.30	9,612,578	–	9,612,578	–

### ISSUE OF CONVERTIBLE BONDS ON 12 APRIL 2017

On 12 April 2017, the Company issued convertible bonds with an aggregate principal amount of HK\$250,000,000. The convertible bonds bear a fixed interest rate of 12% with interest to be paid on a quarterly basis. The original maturity date of the convertible bonds is the first anniversary of the issue date, subject to the bondholder's right to extend the maturity date initially for a period of up to one year (the "Extended Maturity") and also for a period of up to one year after the Extended Maturity by notice in writing to the Company (the "Further Extended Maturity"). The bondholder has the right to convert the principal amount of the convertible bonds into ordinary shares of HK\$0.1 each of the Company from the first business day following the first anniversary of the issue date up to and including the day preceding the Extended Maturity or Further Extended Maturity at an initial conversion price of HK\$3.0 per share (subject to adjustment). Please refer to the announcements of the Company dated 9 April 2017 and 12 April 2017 for further details.

On 12 April 2018, tranche II Convertible Bonds HK\$35,000,000 was repaid. The remaining tranche II Convertible Bonds was further extended for 1 year on 12 April 2019. Please refer to the announcement dated 12 April 2019 for further detail.

## **MATURITY OF CONVERTIBLE BONDS**

Reference is made to the convertible bonds in the aggregate principal amount of HK\$600,000,000 issued to China Huarong International Holdings Limited (“Huarong”) and Prosper Rich Investments Limited (“Prosper Rich”) by the Company on 11 August 2017 (the “Convertible Bonds”). The convertibles bonds issued on 11 August 2017 have matured on 11 August 2019. As at the date of this report, the Company and Huarong and Prosper Rich are still in negotiation in connection with the proposed extension of the instruments.

## **SIGNING OF ANNUAL PROCUREMENT AGREEMENTS INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE**

On 15 June 2018, the Company entered into respective annual procurement agreements with fourteen suppliers, pursuant to which each supplier agreed to supply a target amount of copper scrapped raw materials to the Company from 16 June 2018 to 15 June 2019, the purchase price of which shall be partly satisfied with cash and partly satisfied with consideration shares. For each ton of copper scrap raw materials supplied by a supplier, the Company will pay (i) up to RMB3,000 by way of issuance of a maximum number of 734 consideration shares at an issue price of HK\$5 per consideration share; and (ii) the remainder of the balance in cash. The arrangements under the annual procurement agreements are expected to encourage such suppliers to achieve the targeted raw material supply amount with a view to broadening the Group’s supplier base to cater for the Group’s production needs. As the targeted amount of supply of copper scrap raw materials from the suppliers is 160,000 tons in aggregate, the maximum number of consideration shares that the Company may issue pursuant to the annual procurement agreements is 117,440,000 shares. The Company is in the process of confirming the amount of copper scrapped raw materials supplied by each of the suppliers. Once this process is completed, relevant consideration shares will be allotted and issued to the respective subscribers. Each of the subscribers is a wholly-owned company of the relevant supplier. Please refer to the announcement of the Company dated 15 June 2018 for further details.

## **SIGNING OF SALE AND PURCHASE AGREEMENT INVOLVING ISSUE OF CONSIDERATION SHARES UNDER GENERAL MANDATE**

Details of the consideration shares under earn-out arrangements in the acquisitions of 100% issued share capital of Silver Eminent, Value Link and Sky Harvest are set out in the section above headed “MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES” in this report.

## **EVENTS AFTER THE REPORTING PERIOD**

The convertible bonds in the aggregate principal amount of HK\$600,000,000 (including the conversion rights) have matured on 11 August 2019 (the “maturity date”). As at the date of this report, these convertible bonds have not been repaid by the Group and the negotiation between the Group and the bondholders to settle these convertible bonds was still ongoing. The chairman of the Company, Mr. Yu Jianqiu, who is the major shareholder of the Company has provided financial support guarantee to the Group to ensure the Group to be able to meet its liabilities included but not limited to these convertible bonds as and when they fall due.

Except for the above, there is no significant event subsequent to 30 June 2019 which would materially affect the Group’s operating and financial performance as at the date of this report.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2019, the interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong ("SFO"), of the directors and chief executives of the Company which would have to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

### (1) LONG POSITIONS IN THE ORDINARY SHARES OF THE COMPANY:

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholdings <sup>(1)</sup>
Mr. Yu Jianqiu	Interest in a controlled corporation <sup>(2)</sup>	1,010,306,400	35.64%
Mr. Huang Weiping	Beneficial owner Interest in a controlled corporations <sup>(3)</sup>	30,964,000 310,317,000	1.18% 11.87%
Mr. Kwong Wai Sun Wilson	Beneficial owner	3,272,600	0.13%

Notes:

- (1) The percentage represents the number of ordinary shares divided by the number of the Company's issued shares as at 30 June 2019.
- (2) 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.
- (3) The shares were held by First Harvest Global Limited, Gold Wide Enterprises Limited and Ocean Through Limited. All these companies are wholly-owned by Mr. Huang Weiping.



## (2) LONG POSITIONS IN THE UNDERLYING SHARES OF THE COMPANY:

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholdings <sup>(1)</sup>
Mr. Huang Weiping	Beneficial owner <sup>(4)</sup>	667,000	0.03%
Ms. Zhu Yufen	Beneficial owner <sup>(5)</sup>	3,334,000	0.13%
Mr. Kwong Wai Sun Wilson	Beneficial owner <sup>(6)</sup>	5,000,000	0.19%
Mr. Lee Ting Bun Denny	Beneficial owner <sup>(7)</sup>	1,000,000	0.04%
Mr. Pan Liansheng	Beneficial owner <sup>(8)</sup>	1,000,000	0.04%
Ms. Ren Ruxian	Beneficial owner <sup>(9)</sup>	1,000,000	0.04%

Notes:

- (4) These equity derivatives were share options granted to Mr. Huang Weiping under the Share Option Scheme of the Company on 2 July 2014. Please see the section headed "Share Option Scheme" for further details.
- (5) These equity derivatives were share options granted to Ms. Zhu Yufen under the Share Option Scheme of the Company on 2 July 2014. Please see the section headed "Share Option Scheme" for further details.
- (6) These equity derivatives were share options granted to Mr. Kwong Wai Sun Wilson under the Share Option Scheme of the Company on 7 May 2015. Please see the section headed "Share Option Scheme" for further details.
- (7) These equity derivatives were share options granted to Mr. Pan Liansheng under the Share Option Scheme of the Company on 7 May 2015. Please see the section headed "Share Option Scheme" for further details.
- (8) These equity derivatives were share options granted to Mr. Lee Ting Bun Denny under the Share Option Scheme of the Company on 7 May 2015. Please see the section headed "Share Option Scheme" for further details.
- (9) These equity derivatives were share options granted to Ms. Ren Ruxian under the Share Option Scheme of the Company on 31 May 2016. Please see the section headed "Share Option Scheme" for further details.

## (3) SHORT POSITION IN THE UNDERLYING SHARES OF THE COMPANY

Name of Director	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholdings <sup>(1)</sup>
Mr. Yu Jianqiu	Interest in a controlled corporation <sup>(10)</sup>	133,779,264	5.12%

Note:

- (10) Huarong and Prosper Rich have entered into the call option agreement on 31 July 2017 whereby Prosper Rich has a right to request for the acquisition of the Convertible Bonds in the principal amount of HK\$200,000,000 from Huarong for an amount equal to the principal amount of such Convertible Bonds plus a premium, provided, however, Huarong has a right to decline such request from Prosper Rich. In the event that Huarong turns down the call option request by Prosper Rich under the call option, pursuant to the backup call option agreement entered into between Epoch Keen Limited and Prosper Rich on 31 July 2017, Epoch Keen Limited has agreed to, amongst other things, grant Prosper Rich a call option over such number of Shares Prosper Rich would have been entitled to under the call option had Huarong consented to Prosper Rich's exercise of option, at a price per Shares equivalent to HK\$2.990 per share on the date of exercising the Call Option and in such case, pay Prosper Rich a fee. At the option of Epoch Keen Limited, Epoch Keen Limited may cash settle its obligations under the backup call option. Prosper Rich also can require the lending of certain Shares from Epoch Keen Limited upon occurrence of certain events.

Save as disclosed above, as at 30 June 2019, so far as is known to any director or the chief executive of the Company, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Saved as otherwise disclosed in this report, no rights to acquire benefits by means of the acquisition of shares or debentures of the Company were granted to any director or their respective spouse or children under 18 years of age, nor were any such rights exercised by them, nor was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate during the six months ended 30 June 2019.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY**

At 30 June 2019, the following persons (not being a director or chief executive of the Company) had interests of 5% or more of the issued share capital and underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

#### **(1) LONG POSITIONS IN THE UNDERLYING SHARES OF THE COMPANY:**

<b>Name</b>	<b>Note</b>	<b>Capacity in which interests are held</b>	<b>Number of shares held</b>	<b>Approximate percentage of shareholdings<sup>(1)</sup></b>
Mianyang Science Technology City Development Investment (Group) Co., Ltd.	1	Persons having a security interests in shares	310,317,000	11.87%
China Huarong Asset Management Co., Ltd	2	Interests in a controlled corporation	502,660,559	19.22%

### Notes:

- (1) On 15 August 2014, Silver Harvest Holdings Limited, Ocean Through Limited, First Harvest Global Limited and Gold Wide Enterprises Limited, shareholders of the Company, has each entered into share charges in respect of their respective shareholding of 103,205,200, 39,401,600, 167,952,400 and 102,963,000 shares of the Company in favour of Mianyang Development Group as the secured party. On 10 November 2014, Epoch Keen entered into a share charge with Mianyang Development Group, pursuant to which Epoch Keen agreed to charge by way of first fixed charge all its rights, title, interest and benefit in 200,000,000 ordinary shares of the Company in favour of Mianyang Development Group as the secured party. On 31 December 2015, share charges were released for Silver Harvest Holdings Limited and Epoch Keen Limited in respect of 103,205,200 and 200,000,000 shares of the Company.
- (2) Pursuant to Huarong CB 2017, assuming full conversion of the convertible bonds at an initial conversion price of HK\$2.99 per share, the convertible bonds will be convertible into approximately 133,779,264 new shares (subject to adjustment).

On 8 August 2017, Epoch Keen Limited entered into a share charge with Huarong pursuant to which Epoch Keen Limited charged 278,000,000 shares in favour of the Huarong as security for the payment and discharge of obligations owing from the Company to the Investor pursuant to, amongst others, the Investor Subscription Agreement and the convertible bonds.

According to the disclosure forms filed by China Huarong Asset Management Co., Ltd. on 21 December 2018, the following interest in shares of the Company were held as follows:

Name of controlled corporation	Name of controlling shareholder	% control	Direct interest (Y/N)	Number of shares	
Huarong Real Estate Co., Ltd.	China Huarong Asset Management Co., Ltd.	100	N	Long position	502,660,559
Huarong Zhiyuan Investment & Management Co. Ltd.	China Huarong Asset Management Co., Ltd.	100	N	Long position	502,660,559
Huarong	Huarong Real Estate Co., Ltd.	88.1	Y	Long position	502,660,559
Huarong	Huarong Zhiyuan Investment & Management Co. Ltd.	11.9	Y	Long position	502,660,559

**(2) SHORT POSITIONS IN THE UNDERLYING SHARES OF THE COMPANY:**

<b>Name</b>	<b>Capacity in which Note interests are held</b>	<b>Number of shares held</b>	<b>Approximate percentage of shareholdings<sup>(1)</sup></b>
China Huarong Asset Management Co., Ltd.	3 Interests in a controlled Corporation	66,889,632	2.56%

Note:

- (3) Huarong and Prosper Rich have entered into the call option agreement on 31 July 2017 whereby Prosper Rich has a right to request for the acquisition of the convertible bonds in the principal amount of HK\$200,000,000 from Huarong for an amount equal to the principal amount of such convertible bonds plus a premium, provided, however, Huarong has a right to decline such request from Prosper Rich.

According to the disclosure forms filed by China Huarong Asset Management Co., Ltd. on 21 December 2018, the following interest in shares of the Company were held as follows:

<b>Name of controlled corporation</b>	<b>Name of controlling shareholder</b>	<b>% control</b>	<b>Direct interest (Y/N)</b>	<b>Number of shares</b>
Huarong Real Estate Co., Ltd.	China Huarong Asset Management Co., Ltd.	100	N	Short position 66,889,632
Huarong Zhiyuan Investment & Management Co. Ltd.	China Huarong Asset Management Co., Ltd.	100	N	Short position 66,889,632
Huarong	Huarong Real Estate Co., Ltd.	88.1	Y	Short position 66,889,632
Huarong	Huarong Zhiyuan Investment & Management Co. Ltd.	11.9	Y	Short position 66,889,632

Other than as disclosed above, as at 30 June 2019, the directors had not been notified by any person (not being the directors or chief executive of the Company) who had 5% or more interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.



## SHARE OPTION SCHEME

The Company operates a share option scheme (the “Share Option Scheme”) to provide incentive and/or reward to eligible persons for their contribution to, and continuing efforts to promote the interests of the Company. The Share Option Scheme was conditionally approved by a written resolution of the then shareholders of the Company on 28 January 2014 and has come into effect upon the Company’s Listing on 21 February 2014. The Scheme Mandate Limit was refreshed by a resolution passed at the annual general meeting held on 9 June 2015.

Details of share options granted, exercised, cancelled/lapsed and outstanding under the Share Option Scheme during the review period are as follows:

Category/name	Date of grant	Changes during the period				Number of share options held at 30 June 2019	Exercise period	Exercise price HK\$	Price of the share of the Company at the grant date of share options HK\$
		Number of share options held at 1 January 2019	Granted	Exercised	Lapsed/ Cancelled				
Directors									
Mr. Huang Weiping	2 July 2014	667,000	–	–	–	667,000	2 July 2014 to 1 July 2024	1.13	1.07
Ms. Zhu Yufen	2 July 2014	3,334,000	–	–	–	3,334,000	2 July 2014 to 1 July 2024	1.13	1.07
Mr. Kwong Wai Sun Wilson	7 May 2015	5,000,000	–	–	–	5,000,000	7 May 2015 to 6 May 2025	1.68	1.68
Mr. Pan Liansheng	7 May 2015	1,000,000	–	–	–	1,000,000	7 May 2015 to 6 May 2025	1.68	1.68
Mr. Lee Ting Bun Denny	7 May 2015	1,000,000	–	–	–	1,000,000	7 May 2015 to 6 May 2025	1.68	1.68
Ms. Ren Ruxian	31 May 2016	1,000,000	–	–	–	1,000,000	31 May 2016 to 30 May 2026	3.66	3.05
Eligible person other than directors									
Eligible persons other than directors	2 July 2014	7,927,000	–	–	–	7,927,000	2 July 2014 to 1 July 2024	1.13	1.07
Eligible persons other than directors	7 May 2015	81,470,000	–	–	(350,000)	81,120,000	7 May 2015 to 6 May 2025	1.68	1.68
Eligible persons other than directors	31 May 2016	30,640,000	–	–	(50,000)	30,590,000	31 May 2016 to 30 May 2026	3.66	3.05
Eligible persons other than directors	12 December 2017	29,564,000	–	–	–	29,564,000	12 December 2017 to 11 December 2022	3.70	3.70
Total		161,602,000	–	–	(400,000)	161,202,000			

## VALUE OF SHARE OPTIONS

The fair value of the relevant share options granted was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the relevant share options were granted.

The following table sets out the inputs to the model used:

Grant date	2 July 2014		7 May 2015		31 May 2016		12 December 2017	
	Share options granted to		Share options granted to		Share options granted to		Share options granted to	
	Executive directors	Other employees	Executive directors	Other employees	Executive directors	Other employees	Certain eligible participants	Certain eligible participants
Fair value at measurement date (HK\$)	0.44	0.39	0.71	0.58	1.22	1.17	1.45	1.45
Share price (HK\$)	1.07	1.07	1.68	1.68	3.05	3.05	3.05	3.70
Exercise price (HK\$)	1.13	1.13	1.68	1.68	3.66	3.66	3.66	3.70
Expected volatility	45.54%	45.54%	46.20%	46.20%	50.00%	50.00%	50.00%	41.61%
Expected life	10 years	10 years	10 years	10 years	10 years	10 years	10 years	6.3 years
Expected dividends	3%	3%	3%	3%	1.47%	1.47%	1.47%	0.92%
Risk-free interest rate based on Hong Kong Exchange Fund Notes)	2.059%	2.059%	1.745%	1.745%	1.286%	1.286%	1.286%	1.642%
Exercise multiple	2.8	2.2	2.8	2.2	2.8	2.2	–	–
Post-vesting exit rate	0%	5.44%	0%	16.12%	9.22%	9.22%	–	–

No other feature of the relevant Share Options was incorporated into the measurement of fair value.

The value of the relevant Share Options is subject to the limitations of the binomial model and a number of assumptions which are subjective and difficult to ascertain. Changes in the subjective input assumptions could materially affect the fair value estimate.

Further details relating to the Share Option Scheme and share options granted thereunder are set out in the announcements of the Company dated 2 July 2014, 7 May 2015, 31 May 2016 and 12 December 2017. Apart from the above, the Company had not granted any share options under the Share Option Scheme to any other persons as required to be disclosed under the Rule 17.07 of the Listing Rules during the six months ended 30 June 2019.

### **PLEDGE OF SHARES BY CONTROLLING SHAREHOLDER PURSUANT TO RULE 13.17 OF THE LISTING RULES**

On 8 August 2017, Epoch Keen entered into 2017 Share Charge with Huarong. Please refer to the announcement of the Company dated 8 August 2017 for further details.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company during the six months ended 30 June 2019.

### **CORPORATE GOVERNANCE**

During the six months ended 30 June 2019, the Company has applied the principles of and is in compliance with all code provisions of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules save as disclosed below.

Code Provision A.2.1 provides that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established and set out in writing. Currently, Mr. Yu Jianqiu is both the Chairman and Chief Executive Officer of the Company. As Mr. Yu is the founder of the Group and has extensive experience in operations and management, the Board believes that it is in the best interest of the Group to have Mr. Yu taking up both roles for continuous effective management and business development of the Group.

Code provision A.6.7 provides that the independent non-executive Directors and non-executive Directors should attend general meetings of the Company. Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Due to other business engagements, two executive Directors and two independent non-executive Directors were not able to attend the annual general meeting of the Company held on 6 June 2019. In the future, the Company has arranged and will continue to arrange to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the schedule in such a cautious way that all Directors can attend the general meetings.

### **CHANGE IN DIRECTORS' BIOGRAPHIES PURSUANT TO RULE 13.51B OF THE LISTING RULES**

Pursuant to Rule 13.51B of the Listing Rules, the Company set out the changes in information about Directors during the six months ended 30 June 2019.

1. Mr. Lee was involved in a securities class action lawsuit (the Lawsuit) filed in the Supreme Court of the State of New York County of Kings against NIO, Inc. (NIO), a company listed on the New York Stock Exchange with stock code NIO, regarding an alleged misrepresentation in the registration statement and the prospectus filed in connection with NIO's initial public offering (the IPO). Mr. Lee, in his capacity as an independent non-executive director of NIO, is named as one of the defendants together with certain current and former directors and senior officers of NIO and the underwriters of the IPO in the Lawsuit.
2. Ms. Ren Ruxian ceased to be head of finance of a leading group in China performing live video matching communication platform for overseas markets.
3. Mr. Kwong Wai Sun Wilson has also started serving as independent non-executive director of Koolearn Technology Holding Limited since 15 March 2019.

### **COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted a code of conduct regarding the directors' securities transactions on terms not less exacting than the required standard set out in the Model Code in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all directors confirmed that they had complied with the required standards set out in the Model Code and the code of conduct regarding the directors' securities transactions throughout the six months ended 30 June 2019.

### REVIEW OF INTERIM REPORT

The audit and corporate governance committee of the Company (the “Audit Committee”) has three members, all of them are independent non-executive directors, namely Mr. Lee Ting Bun Denny (Chairman of the Audit Committee), Mr. Pan Liansheng and Ms. Ren Ruxian, with written terms of reference in compliance with the Listing Rules.

The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the accounting policy, financial position and financial reporting procedures of the Group; and to assess the financial reporting system, internal control procedures and risk management function of the Group and make recommendations thereof.

The Audit Committee has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2019.

### ACKNOWLEDGEMENT

The Board would like to take this opportunity to express its gratitude to all shareholders and business associates for their continuous support and to all employees for their dedication and contribution to the Group.

By Order of the Board  
**China Metal Resources Utilization Limited**  
**YU Jianqiu**  
*Chairman*

Hong Kong, 29 August 2019

# Interim Condensed Consolidated Statement of Profit or Loss

(Expressed in Renminbi) For the six months ended 30 June 2019

	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
<b>Revenue</b>	4	<b>11,694,871</b>	9,658,380
Cost of sales		(11,824,159)	(9,712,100)
<b>Gross loss</b>		<b>(129,288)</b>	(53,720)
Other income and gain, net	5	285,395	213,042
Selling and distribution expenses		(16,574)	(8,965)
Administrative expenses		(58,034)	(54,134)
Reversal of provision for doubtful debts, net		54,766	51,696
Finance costs		(78,267)	(70,249)
Share of profits of associates		534	14,494
<b>Profit before tax</b>	6	<b>58,532</b>	92,164
Income tax expense	7	(14,506)	(31,931)
<b>Profit for the period attributable to owners of the Company</b>		<b>44,026</b>	60,233
<b>Earnings per share</b>	8		
Basic (RMB)		0.02	0.02
Diluted (RMB)		0.02	0.02

The notes on pages 34 to 76 form part of this interim financial report.

# Interim Condensed Consolidated Statement of Comprehensive Income

(Expressed in Renminbi) For the six months ended 30 June 2019

	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
<b>Profit for the period</b>	<b>44,026</b>	60,233
<b>Other comprehensive loss for the period</b>		
<i>Other comprehensive loss that will not be reclassified to profit or loss in subsequent period:</i>		
Exchange differences on translation of the Company	(5,061)	(14,046)
<b>Total comprehensive income for the period, attributable to owners of the Company</b>	<b>38,965</b>	46,187

The notes on pages 34 to 76 form part of this interim financial report.



# Interim Condensed Consolidated Statement of Financial Position

(Expressed in Renminbi) At 30 June 2019

	Note	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9	620,913	643,845
Prepaid land lease payments		–	120,317
Interests in associates		185,182	184,648
Goodwill		685,778	685,778
Right of use assets		126,459	–
Pledged deposits		–	4,800
Prepayments, other receivables and other assets	11	24,885	29,946
Deferred tax assets		18,608	19,638
		<b>1,661,825</b>	<b>1,688,972</b>
<b>Current assets</b>			
Inventories	10	1,147,461	432,525
Trade and bills receivables	11	590,565	879,331
Prepayments, other receivables and other assets	11	1,368,505	1,537,701
Amounts due from associates		4,819	5,038
Amounts due from related parties		10	10
Pledged deposits		47,011	47,012
Cash and cash equivalents		21,808	112,935
		<b>3,180,179</b>	<b>3,014,552</b>
<b>Current liabilities</b>			
Trade and bills payables	12	355,737	543,355
Note payable		31,669	17,524
Other payables and accruals	12	725,409	539,649
Finance leases payables		–	714
Interest-bearing bank and other borrowings	13	566,182	532,408
Amounts due to associates		148,690	103,709
Amount due to a related party		5,396	5
Liability component of convertible bonds		596,506	576,854
Tax payable		39,427	50,420
		<b>2,469,016</b>	<b>2,364,638</b>
<b>Net current assets</b>		<b>711,163</b>	<b>649,914</b>
<b>Total assets less current liabilities</b>		<b>2,372,988</b>	<b>2,338,886</b>

The notes on pages 34 to 76 form part of this interim financial report.

# Interim Condensed Consolidated Statement of Financial Position

(Expressed in Renminbi) At 30 June 2019

	Note	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>Non-current liabilities</b>			
Interest-bearing bank and other borrowings	13	20,763	16,140
Finance leases payable		–	4,226
Contingent consideration liabilities		327,260	407,667
Deferred government grants		4,602	5,076
Deferred tax liabilities		742	–
		<b>353,367</b>	<b>433,109</b>
<b>NET ASSETS</b>		<b>2,019,621</b>	<b>1,905,777</b>
<b>EQUITY</b>			
Share capital	14	210,244	210,244
Reserves		1,809,377	1,695,533
<b>TOTAL EQUITY</b>		<b>2,019,621</b>	<b>1,905,777</b>

The notes on pages 34 to 76 form part of this interim financial report.

# Interim Condensed Consolidated Statement Of Changes In Equity

(Expressed in Renminbi) For the six months ended 30 June 2019

	Attributable to owners of the Company											
	Share capital	Share premium	Exchange reserve	Capital reserve	Statutory reserves	Share-based payment reserve	Warrant reserve	Convertible bonds equity reserve	Consideration share reserve	Accumulated losses	Revaluation reserve	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Balance at 31 December 2018</b>	210,244	1,468,419	(62,783)	132,055	110,023	80,475	3,560	40,539	64,576	(150,931)	9,600	1,905,777
Effect of adoption of IFRS 16	-	-	-	-	-	-	-	-	-	(89)	-	(89)
<b>At 1 January 2019 (restated) (unaudited)</b>	210,244	1,468,419	(62,783)	132,055	110,023	80,475	3,560	40,539	64,576	(151,020)	9,600	1,905,688
Profit for the period	-	-	-	-	-	-	-	-	-	44,026	-	44,026
Other comprehensive loss	-	-	(5,061)	-	-	-	-	-	-	-	-	(5,061)
<b>Total comprehensive income</b>	-	-	(5,061)	-	-	-	-	-	-	44,026	-	38,965
Equity settled share-based transactions	-	-	-	-	-	1,059	-	-	-	-	-	1,059
Share options lapsed	-	-	-	-	-	(196)	-	-	-	196	-	-
Issuance of consideration shares	-	-	-	-	-	-	-	-	73,909	-	-	73,909
Appropriation of statutory reserve	-	-	-	-	11,662	-	-	-	-	(11,662)	-	-
<b>Balance at 30 June 2019 (unaudited)</b>	210,244	1,468,419	(67,844)	132,055	121,685	81,338	3,560	40,539	138,485	(118,460)	9,600	2,019,621

The notes on pages 34 to 76 form part of this interim financial report.

# Interim Condensed Consolidated Statement Of Changes In Equity

(Expressed in Renminbi) For the six months ended 30 June 2019

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Share-based payment reserve RMB'000	Warrant reserve RMB'000	Convertible bonds equity reserve RMB'000	Consideration share reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
<b>Balance at 1 January 2018</b>	197,495	1,016,229	(11,529)	132,055	87,128	81,270	12,079	40,696	48,970	(68,017)	1,536,376
Profit for the period	-	-	-	-	-	-	-	-	-	60,233	60,233
Other comprehensive loss	-	-	(14,046)	-	-	-	-	-	-	-	(14,046)
Total comprehensive income	-	-	(14,046)	-	-	-	-	-	-	60,233	46,187
Exercise of share options	1,394	19,730	-	-	-	(5,374)	-	-	-	-	15,750
Equity settled share-based transactions	-	-	-	-	-	5,038	-	-	-	-	5,038
Share options lapsed	-	-	-	-	-	(2,671)	-	-	-	2,671	-
Exercise of warrant	1,462	27,412	-	-	-	-	(8,519)	-	-	-	20,355
Issuance of consideration shares	-	-	-	-	-	-	-	-	36,525	-	36,525
Appropriation of statutory reserve	-	-	-	-	8,262	-	-	-	-	(8,262)	-
Repayment of convertible bonds	-	-	-	-	-	-	-	(157)	-	-	(157)
<b>Balance at 30 June 2018 (unaudited)</b>	200,351	1,063,371	(25,575)	132,055	95,390	78,263	3,560	40,539	85,495	(13,375)	1,660,074

The notes on pages 34 to 76 form part of this interim financial report.

# Interim Condensed Consolidated Statement of Cash Flow

(Expressed in Renminbi) For the six months ended 30 June 2019

	30 June 2019 (Unaudited) RMB'000	30 June 2018 (Unaudited) RMB'000
Net cash flows generated from/(used in) operating activities	(145,055)	101,786
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of items of property, plant and equipment	(4,867)	(18,083)
Interest received	277	191
Decrease in pledged deposits	—	(1,428)
Acquisition of subsidiaries	—	(357,568)
Acquisition of a prepaid land lease payment	—	(11,244)
Net cash flows used in investing activities	(4,590)	(388,132)
<b>FINANCING ACTIVITIES</b>		
Proceeds from bank loans and other borrowings	209,871	418,670
Repayment of bank loans and other borrowings	(180,468)	(139,872)
Proceeds from new note payable	31,669	—
Repayment of note payable	(17,524)	—
Advance from related parties and associates	50,590	90,418
Increase/(decrease) in pledged deposits	4,801	(1,300)
Interest paid	(37,186)	(73,580)
Guarantee fees and other charges	(36)	(500)
Principal portion of lease liabilities/finance lease payments	(3,260)	(7,172)
Net proceeds from exercise of warrants	—	20,356
Proceeds from exercise of share options	—	15,749
Repayment of convertible bonds	—	(28,173)
Net cash flows generated from financing activities	58,457	294,596
<b>NET INCREASE IN/(DECREASE IN) CASH AND CASH EQUIVALENTS</b>	(91,188)	8,250
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>112,935</b>	<b>109,595</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>61</b>	<b>419</b>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<b>21,808</b>	<b>118,264</b>

The notes on pages 34 to 76 form part of this interim financial report.

## 1 GENERAL INFORMATION AND BASIS OF PREPARATION

### (a) GENERAL INFORMATION

China Metal Resources Utilization Limited (the “Company”) was incorporated in the Cayman Islands on 22 February 2013.

The Company and its subsidiaries (together referred to as the “Group”) are principally engaged in the manufacturing, sales and trading of copper, aluminium and related products. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) since 21 February 2014. In the opinion of the directors, the holding company and ultimate holding company of the Company is Epoch Keen Limited (“Epoch Keen”), which is incorporated in the British Virgin Islands (“BVI”).

### (b) BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 29 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## 1 GENERAL INFORMATION AND BASIS OF PREPARATION (continued)

### (b) BASIS OF PREPARATION (continued)

This interim financial report contains unaudited interim condensed consolidated financial information and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The unaudited condensed consolidated interim financial information and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the IASB.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Group's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory annual consolidated financial statements for the year ended 31 December 2018 are available from the Group's registered office.

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised IFRSs effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i>	<i>Amendments to HKFRS 3, IFRS 11, IAS 12 and</i>
<i>2015-2017 Cycle</i>	<i>IAS 23</i>



## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Other than as explained below regarding the impact of IFRS 16 Leases, Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* and IFRIC-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards have no significant impact to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

### (a) ADOPTION OF IFRS 16

IFRS 16 replaces IAS 17 *Leases*, IFRIC-Int 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases — Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

#### New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (a) ADOPTION OF IFRS 16 (continued)

#### **New definition of a lease (continued)**

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

#### **As a lessee — Leases previously classified as operating leases**

##### *Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (a) ADOPTION OF IFRS 16 (continued)

#### **As a lessee — Leases previously classified as operating leases (continued)**

##### *Impacts on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB4,603,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease.

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (a) ADOPTION OF IFRS 16 (continued)

#### As a lessee — Leases previously classified as operating leases (continued)

##### *Impacts on transition (continued)*

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	RMB\$'000 (Unaudited)
<b>Assets</b>	
Increase in right-of-use assets	129,939
Decrease in property, plant and equipment	(4,603)
Decrease in prepaid land lease payments	(120,317)
Increase in total assets	5,019
<b>Liabilities</b>	
Increase in interest-bearing bank and other borrowings	10,048
Decrease in finance lease payable	(4,940)
Increase in total liabilities	5,108
Increase in accumulated losses	(89)

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (a) ADOPTION OF IFRS 16 (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
<b>Operating lease commitments as at 31 December 2018</b>	5,426
Incremental borrowing rate as at 1 January 2019	3.25%
Discounted operating lease commitments as at 1 January 2019	5,108
Add: Commitments relating to leases previously classified as finance leases	4,940
<b>Lease liabilities as at 1 January 2019</b>	10,048

### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

#### *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (a) ADOPTION OF IFRS 16 (continued)

#### Summary of new accounting policies (continued)

##### *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (a) ADOPTION OF IFRS 16 (continued)

#### Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

#### Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right-of-use assets				
	Operating lease RMB'000	Plant and machinery RMB'000	Prepaid land lease payments RMB'000	Total RMB'000	Lease liabilities RMB'000
<b>As at 1 January 2019 (unaudited)</b>	5,019	4,603	120,317	129,939	10,048
Additions	407	106	83	596	596
Depreciation charge	(1,808)	(477)	(1,791)	(4,076)	-
Interest expense	-	-	-	-	998
Payments	-	-	-	-	(3,260)
<b>As at 30 June 2019 (unaudited)</b>	3,618	4,232	118,609	126,459	8,382



## 2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.
- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

## 3 SEGMENT REPORTING

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) Recycled copper products segment: use of scrap copper and electrolytic copper for the manufacturing and trading of recycled copper products, and trading of electrolytic copper and nickel products;
- (b) Power transmission and distribution cables segment: manufacturing and sales of power transmission and distribution cables; and
- (c) Communication cables segment: manufacturing and sales of communication cables.

### (a) SEGMENT RESULTS

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that certain interest income, corporate and other unallocated income/(expenses), certain finance costs as well as share of profits of associates are excluded from such measurement.

A measurement of segment assets and liabilities is not provided regularly to the Group's most senior executive management and accordingly, no segment assets or liabilities information is presented.

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 3 SEGMENT REPORTING (continued)

### (a) SEGMENT RESULTS (continued)

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods is set out below:

	For the six months ended 30 June 2019			
	Recycled copper products (Unaudited) RMB'000	Power transmission and distribution cables (Unaudited) RMB'000	Communication cables (Unaudited) RMB'000	Total (Unaudited) RMB'000
Sales to external customers	11,661,892	16,445	16,534	11,694,871
Intersegment sales	105,496	238	4,758	110,492
	11,767,388	16,683	21,292	11,805,363
<i>Reconciliation:</i> Elimination of intersegment sales				(110,492)
Revenue				11,694,871
Segment results	80,022	(5,397)	(837)	73,788
Interest income	129	3	88	220
Corporate and other unallocated income				18,746
Finance costs	(28,376)	(1,123)	(5,257)	(34,756)
Share of profits of associates				534
Profit before tax				58,532
<b>Other segment information</b>				
Depreciation of property, plant and equipment	(17,453)	(3,688)	(1,347)	(22,488)
VAT refunds, government grants and subsidies	194,181	91	1,804	196,076
Reversal of provision for doubtful debts, net	50,656	1,165	2,945	54,766

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 3 SEGMENT REPORTING (continued)

### (a) SEGMENT RESULTS (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods is set out below:

	For the six months ended 30 June 2018			
	Recycled copper products (Unaudited) RMB'000	Power transmission and distribution cables (Unaudited) RMB'000	Communication cables (Unaudited) RMB'000	Total (Unaudited) RMB'000
Sales to external customers	9,618,477	16,669	23,234	9,658,380
Intersegment sales	120,724	289	7,181	128,194
	9,739,201	16,958	30,415	9,786,574
<i>Reconciliation:</i>				
Elimination of intersegment sales				(128,194)
Revenue				9,658,380
Segment results	163,305	(3,094)	4,875	165,086
Interest income	42	5	114	161
Corporate and other unallocated expenses				(69,403)
Finance costs	(18,174)	–	–	(18,174)
Share of profits of associates	–	–	–	14,494
Profit before tax				92,164
<b>Other segment information</b>				
Depreciation and amortisation	(14,297)	(4,160)	(1,543)	(20,000)
VAT refunds, government grants and subsidies	212,436	2,719	4,215	219,370
Reversal of provision for doubtful debts, net	41,446	7,565	2,685	51,696

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 3 SEGMENT REPORTING (continued)

### (b) GEOGRAPHIC INFORMATION

The Group carried out its business operations in the People's Republic of China ("PRC"), thus no separate geographical segment analysis based on the location of assets and the revenue and profit or loss are presented.

### (c) INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from each of the major customers, which contributed 10% or more of the Group's revenue, is set out below:

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Recycled copper product segment		
Customer A	2,053,600	4,935,073
Customer B	1,528,517	1,215,447
	3,582,117	6,150,520

## 4 REVENUE

Revenue from contracts with customers are mainly derived from manufacturing and sales of copper and related products in the PRC, of which the revenue was recognised at a point of time when goods were transferred.

The amount of each significant category of revenue is as follows:

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue from trading of electrolytic copper	8,315,856	6,707,436
Sales of recycled copper products	3,323,894	2,819,678
Sales of power transmission and distribution cables	16,445	16,669
Sales of communication cables	16,534	23,234
Sales of scrap steel	—	3,108
Sales of scrap materials	17,977	40,399
Revenue from trading of electrolytic nickel	—	43,681
Others	4,165	4,175
	11,694,871	9,658,380

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 4 REVENUE (continued)

### DISAGGREGATED REVENUE INFORMATION

For the six months ended 30 June 2019				
	Recycled copper products (Unaudited) RMB'000	Power transmission and distribution cables (Unaudited) RMB'000	Communication cables (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue from trading of electrolytic copper	8,315,856	–	–	8,315,856
Sales of recycled copper products	3,323,894	–	–	3,323,894
Sales of power transmission and distribution cables	–	16,445	–	16,445
Sales of communication cables	–	–	16,534	16,534
Sales of scrap materials	17,977	–	–	17,977
Others	4,165	–	–	4,165
	11,661,892	16,445	16,534	11,694,871

For the six months ended 30 June 2018				
	Recycled copper products (Unaudited) RMB'000	Power transmission and distribution cables (Unaudited) RMB'000	Communication cables (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue from trading of electrolytic copper	6,707,436	–	–	6,707,436
Sales of recycled copper products	2,819,678	–	–	2,819,678
Sales of power transmission and distribution cables	–	16,669	–	16,669
Sales of communication cables	–	–	23,234	23,234
Sales of scrap steel	3,108	–	–	3,108
Sales of scrap materials	40,399	–	–	40,399
Revenue from trading of electrolytic nickel	43,681	–	–	43,681
Others	4,175	–	–	4,175
	9,618,477	16,669	23,234	9,658,380

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 4 REVENUE (continued)

### DISAGGREGATED REVENUE INFORMATION (continued)

#### Performance obligations

Information about the Group's performance obligations is summarised below:

#### SALE OF GOODS

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 3 months from delivery, except for new customers, where payment in advance is normally required.

## 5 OTHER INCOME AND GAIN, NET

		For the six months ended 30 June	
	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
VAT refunds			
— Comprehensive utilisation of resources	(i)	94,036	76,231
— Others		1,273	5,666
Government grants	(ii)	100,159	60,490
Government subsidies	(iii)	608	76,983
Interest income		278	191
Net loss on copper futures contracts upon settlement		(68)	(1,010)
Foreign exchange differences, net		2,651	(2,110)
Loss on disposal of property, plant and equipment		(135)	(2)
Changes in fair value of contingent considerations liabilities		86,890	(1,038)
Others		(297)	(2,359)
		285,395	213,042



# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 5 OTHER INCOME, GAIN/(LOSS), NET (continued)

Notes:

- (i) The Group is entitled to government grants for refunds of 30% for the six months ended 30 June 2019 (2018: 30%) of the net VAT paid/payable. The Ministry of Finance and the State Administration of Taxation jointly issued a notice concerning the "Catalogue on Products and Labour Services relating to Comprehensive Utilisation of Resources Eligible for Concessions of Value-added Tax" (Cai Shui 2015 (No. 78)) (the "New VAT Policy") on 12 June 2015, which replaced, amongst others, Cai Shui 2011 No. 115 (the "Former VAT Policy"). Under the Former VAT Policy, certain subsidiaries of the Group are entitled to government grants for refunds of 50% of the net VAT paid/payable. The New VAT Policy took effect on 1 July 2015. According to the New VAT Policy, the applicable VAT refund for such subsidiaries has been reduced from 50% to 30%.
- (ii) The amounts represent local government grants received by operating subsidiaries of the Group in the PRC for the purpose of providing immediate financial support to those subsidiaries for general operating use with no future related costs. No specific conditions are required to meet in connection with these grants.
- (iii) For the six months ended 30 June 2019, the Group was granted unconditional government subsidies of RMB608,000 (2018: RMB76,983,000) from Youxian District Finance Bureau, Mianyang City, Sichuan Province. The subsidies were received through Sichuan Baohe Fushan Resources Recycling Development Co., Ltd. ("Baohe Fushan"), an associate of the Group. Baohe Fushan is principally engaged in the operation and the development of an industrial park in Mianyang City, Sichuan Province, where most of the Group's subsidiaries are located.

## 6 PROFIT BEFORE TAX

Profit before taxation is arrived at after charging:

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Cost of sales (Note)	11,824,159	9,712,100
Staff costs	27,363	24,152
Depreciation of property, plant and equipment	22,488	18,864
Depreciation of right-of-use assets	4,076	-
Amortisation of prepaid land lease prepayments	1,791	1,136
Write-down of inventories	-	6,733

Note: Cost of sales includes RMB30,192,000 (30 June 2018: RMB22,335,000) relating to staff cost, depreciation and amortisation, which amount is also included in the respective total amounts.

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 7 INCOME TAX

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
<b>Current tax — PRC corporate income tax</b>		
Provision for the period	12,166	24,796
Under provision in respect of prior periods	568	269
	12,734	25,065
Deferred tax	1,772	6,866
	14,506	31,931

Notes:

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during the current and prior periods.
- (iii) The Company's PRC subsidiaries are subject to PRC corporate income tax applicable for each subsidiary.

## 8 EARNINGS PER SHARE

### (a) BASIC

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB44,026,000 (six months ended 30 June 2018: RMB60,233,000) and the weighted average number of 2,639,835,589 ordinary shares (six months ended 30 June 2018: 2,493,972,097 shares) issued during the interim period.

### (b) DILUTED

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to owners of the Company of RMB44,026,000 (six months ended 30 June 2018: RMB60,233,000), adjusted to reflect the interest on convertible bonds of RMB41,912,000 (six months ended 30 June 2018: RMB39,351,000). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation of 2,475,942,451 shares (six months ended 30 June 2018: 2,493,972,097 shares) and the weighted average number of ordinary shares assumed to have been issued at no consideration of warrant, share options and contingent consideration shares into ordinary shares totalling 86,702,105 shares (six months ended 30 June 2018: 111,897,153 shares).

## 9 PROPERTY, PLANT AND EQUIPMENT

### (a) ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2019, the Group's additions to property, plant and equipment amounted to RMB4,295,000 (six months ended 30 June 2018: RMB68,468,000). No material disposal of property, plant and equipment was made during the six months ended 30 June 2019 and 2018.

(b) All of the Group's property, plant and equipment are located in the PRC. As at 30 June 2019, property, plant and equipment with the net book value of RMB459,902,000 (31 December 2018: RMB200,649,000) were pledged for certain banking facilities granted to the Group (see note 13(b)).

## 10 INVENTORIES

As at 30 June 2019, inventories of RMB43,840,000 (31 December 2018: RMB10,000,000) were pledged for banking facilities granted to the Group (see note 13(b)).

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 11 TRADE AND BILLS RECEIVABLES, PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

As at the end of the reporting period, the ageing analysis of trade debtors and bills receivables, based on invoice date and net of allowance for impairment loss is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 30 days	314,563	426,325
31 to 60 days	164,812	208,843
61 to 180 days	90,347	150,201
Over 180 days	20,843	93,962
Trade and bills receivables, net of allowance for doubtful debts	590,565	879,331
Advance payments to suppliers	1,166,864	1,334,435
Government grants receivable	96,522	98,927
Other deposits, prepayments and receivables	130,004	134,285
Total prepayments, other receivables and other assets	1,393,390	1,567,647
Less: non-current portion	(24,885)	(29,946)
Current portion	1,368,505	1,537,701

Trade and bills receivables are normally due within 90 days from the date of billing.

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 12 TRADE AND BILL PAYABLES, OTHER PAYABLES AND ACCRUALS

As at the end of the reporting period, the ageing analysis of the trade and bills payables, based on transaction date, is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 30 days	258,162	155,146
31 to 60 days	32,475	32,121
61 to 180 days	32,380	111,767
Over 180 days	32,720	244,321
Trade and bills payables	355,737	543,355
Contract liabilities	224,411	30,578
Accrued expenses and other payables	500,998	509,071
Other payables and accruals	725,409	539,649

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 13 INTEREST-BEARING BANK AND OTHER BORROWINGS

(a) As at 30 June 2019, the analysis of borrowings is as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Bank loans — secured	249,407	248,901
Other borrowings — secured	30,040	531
Entrusted loans — secured (Note)	299,116	299,116
Lease liabilities	8,382	—
	<b>586,945</b>	<b>548,548</b>
Less: non-current portion	20,763	16,140
Current portion	<b>566,182</b>	<b>532,408</b>
<b>Represented by:</b>		
Within 1 year or on demand	566,182	532,408
After 1 year but within 2 years	17,766	16,140
After 2 years but within 5 years	2,997	—
	<b>586,945</b>	<b>548,548</b>

Note:

As at 30 June 2019, entrusted loans are repayable within one year or on demand, and were interest-bearing at 9% to 12% (2018: 9% to 12%) per annum.

The Group has defaulted in its repayment of entrusted loans which matured in August and September 2016 ("the loans payable"). The loans payable of RMB299,116,000 were secured by 310,317,000 ordinary shares (2018: 310,317,000 ordinary shares) in the Company held by Mr. Huang Weiping, key management personnel of the Group, representing 11.9% (31 December 2018: 11.9%) of the issued share capital of the Company as at 30 June 2019. At 30 June 2019, the negotiation to settle the outstanding entrusted loans of RMB299,116,000 (2018: RMB299,116,000) was still ongoing. The abovementioned defaulted loans were recorded in current liabilities as at 30 June 2019.

## 13 INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

(b) The banking facilities of the Group were secured by the following assets:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Property, plant and equipment (note 9(b))	459,902	200,649
Right-of-use assets/lease prepayments	80,980	86,840
Inventories (note 10)	43,840	10,000
Pledged deposits	47,011	51,812
	631,733	349,301

## 14 CAPITAL, RESERVES AND DIVIDENDS

### (a) DIVIDENDS

No interim dividend (six months ended 30 June 2018: Nil) was declared during the six months ended 30 June 2019.

No dividend payable to equity shareholders attributable to the previous financial year (six months ended 30 June 2018: Nil) was approved or paid during the period.

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 14 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (b) SHARE CAPITAL

#### Authorised and issued share capital

	Par value HK\$	No. of shares	Nominal value of ordinary shares HK\$'000
<b>Authorised:</b>			
At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	0.10	100,000,000,000	10,000,000
	<b>No. of shares</b>	<b>HK\$'000</b>	<b>RMB'000</b>
<b>Issued and fully paid:</b>			
At 1 January 2018	2,466,900,969	246,689	197,495
Exercise of share options	17,282,000	1,728	1,394
Exercise of warrants	18,101,372	1,810	1,462
Issuance of consideration shares	36,730,078	3,673	3,206
Issuance of ordinary shares	75,980,000	7,598	6,687
At 31 December 2018, 1 January 2019 and 30 June 2019	2,614,994,419	261,498	210,244



## 14 CAPITAL, RESERVES AND DIVIDENDS (continued)

### (c) STATUTORY RESERVES

In accordance with the Wholly Foreign Owned Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make appropriations to the Statutory Reserve Fund (the "SRF"). At least 10% of the after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiaries' registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiaries. The SRF is not available for dividend distribution to shareholders.

### (d) SHARE PREMIUM

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

### (e) SHARE-BASED PAYMENT RESERVE

Share-based payment reserve represents the portion of the fair value of unexercised share options granted to employees of the Group at grant date that has been recognised in accordance with the accounting policy adopted for equity-settled share option expense to the financial statements.

The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is lapsed or forfeited.

### (f) CONVERTIBLE BONDS EQUITY RESERVE

Convertible bonds equity reserve arises from the residual amount of the net proceeds of convertible bonds less the fair value of liability component and derivative component at the date of issuance. The equity component will remain as a separate line item within equity until the conversion option is exercised (in which case the corresponding portion of the equity component will be transferred to share capital and share premium). Where the conversion option remains unexercised at the expiry date, the balance will be released to the retained earnings/accumulated losses.

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 15 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 28 January 2014 and has come into effect upon the Company's listing on 21 February 2014 whereby the directors of the Company, are authorised, at their discretion, to invite any director or employee of the Group and any other person who in the sole discretion of the directors has contributed or will contribute to the Group to take up options to subscribe for shares of the Company. For detailed share option scheme, please refer to the Company's announcements on 2 July 2014, 7 May 2015, 23 July 2015, 31 May 2016 and 12 December 2017.

The number and weighted-average exercise prices of share options under the share option scheme were as follows:

In thousands of options	Number of options for the six months ended 30 June 2019 '000	Weighted-average exercise price for the six months ended 30 June 2019 HK\$	Number of options for the year ended 31 December 2018 '000	Weighted-average exercise price for the year ended 31 December 2018 HK\$
Outstanding at 1 January	161,602	2.40	187,998	2.25
Lapsed during the period/year	(400)	(1.93)	(9,114)	(1.83)
Exercised during the period/year	–	–	(17,282)	(1.13)
Outstanding at the end of the period/year	161,202	2.40	161,602	2.40
Exercisable at the end of the period/year	159,909	2.40	120,149	1.98

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 16 BUSINESS COMBINATION

- (a) On 27 March 2018, the Group acquired 100% interest in Silver Eminent Limited ("Silver Eminent") and its subsidiaries ("Silver Eminent Group"). Silver Eminent is engaged in trading of copper products through Zhaofeng, its subsidiary in the PRC. The acquisition was made as part of the Group's strategy to expand its market share of recycled copper products in the PRC. The purchase consideration for the acquisition was in the form of cash amounting to RMB139,161,000 (equivalent to HK\$158,824,000) of which RMB63,567,000 (equivalent to HK\$79,412,000) was paid in March 2018 with the remaining subject to earn-out arrangement as further discussed below and by way of allotment and issuance of consideration shares, which are also subject to earn-out arrangement as further detailed below, with an estimated value of RMB467,000 at the acquisition date.

The fair values of the identifiable assets and liabilities of Silver Eminent Group as at the date of acquisition were as follows:

	<b>Fair value recognised on acquisition RMB'000</b>
Property, plant and equipment	17
Inventories	432
Trade and other receivables, gross	106,775
Provision for impairment of trade and other receivables	–
Cash and cash equivalents	15
Trade and other payables	(106,769)
Total identifiable net assets at fair value	470
Goodwill on acquisition	63,564
Consideration	64,034
Consideration	
— Satisfied by cash	63,567
— Shares subject to earn-out payment (note)	467
	64,034

## 16 BUSINESS COMBINATION (continued)

### (a) (continued)

Note:

As part of the sale and purchase agreement, contingent consideration, in the form of cash and shares ("Contingent Shares"), is payable, which is dependent on net profits of Silver Eminent Group during the 36-month period subsequent to the acquisition. The initial amounts recognised were based on the closing market price of the Company on the Stock Exchange at the date of acquisition and the probability to meet the net profit target and is within Level 3 fair value measurement. The consideration is due for final measurement and payment to the former shareholders 90 days after the financial statements approved. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

- Sales volume growth ranging from 6% to 15% from 2018 to 2020; and
- Pre-tax discount rate at 8.33%.

A significant increase/(decrease) in the net profit of Silver Eminent Group would result in a significant increase/(decrease) in the fair value of the contingent consideration liability. A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) in the fair value of the contingent consideration liability.

Based on the sale and purchase agreement dated 15 December 2017, the contingent consideration will be satisfied by the issuance of Contingent Shares in three tranches in the following manner:

- (i) If Silver Eminent Group achieves net profits of RMB25,000,000 for the year ended 31 December 2018, a maximum of 11,610,000 Contingent Shares shall be issued;
- (ii) If Silver Eminent Group achieves net profits of RMB55,000,000 for the two years ending 31 December 2019, a maximum of 37,305,000 Contingent Shares shall be issued; and
- (iii) If Silver Eminent Group achieves net profits of RMB95,000,000 for the three years ending 31 December 2020, a maximum of 41,796,000 Contingent Shares shall be issued.

## 16 BUSINESS COMBINATION (continued)

### (a) (continued)

Note: (continued)

Assuming the maximum number of Contingent Shares is being allotted and issued to the seller, 41,796,000 shares will be issued under the sale and purchase agreement, representing approximately 1.69% of the issued share capital of the Company as at the acquisition date and approximately 1.67% of the issued share capital of the Company as enlarged by the allotment and issue of the Contingent Shares. The Contingent Shares to be issued will rank pari passu in all respect with the shares then in issue on the relevant issue date.

The fair values of the trade and other receivables as at the date of acquisition amounted to RMB106,775,000. The gross contractual amounts of trade and other receivables was RMB106,775,000. No trade and other receivables are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	63,567
Cash and bank balances acquired	(15)
Net outflow of cash and cash equivalents included in cash flows from investing activities	63,552

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 16 BUSINESS COMBINATION (continued)

- (b) On 4 April 2018, the Group acquired a 100% interest in Value Link Developments Limited ("Value Link") and its subsidiaries ("Value Link Group"). Value Link is engaged in production of copper products through Rongcheng, its subsidiary in the PRC. The acquisition was made as part of the Group's strategy to expand its market share of recycled copper products in the PRC. The purchase consideration for the acquisition was in the form of cash amounting to RMB115,309,000 (equivalent to HK\$131,601,000), by way of allotment and issuance of Contingent Shares estimated at RMB61,266,000 at the acquisition date and by way of assumption of a loan issued by Sure Victor Global Limited ("Sure Victor"), the seller, to China Rongsheng Metal Limited, a subsidiary of Value Link, at the prevailing benchmark interest rate as specified by the People's Bank of China ("PBOC") per annum for a term commencing from the completion date to 31 March 2021, estimated at RMB115,309K at the acquisition date. Both the Contingent Shares and the loan are subject to an earn-out arrangement as further detailed below.

The fair values of the identifiable assets and liabilities of Value Link Group as at the date of acquisition were as follows:

	<b>Fair value recognised on acquisition RMB'000</b>
Property, plant and equipment	5,506
Inventories	54,714
Trade and other receivables, gross	20,542
Provision for impairment of trade and other receivables	—
Cash and cash equivalents	168
Trade and other payables	(75,741)
Obligation under finance leases	(4,282)
Total identifiable net assets at fair value	907
Goodwill on acquisition	290,977
Consideration	291,884
Consideration	
— Satisfied by cash	115,309
— Shares subject to earn-out payment (note (i))	61,266
— Loan subject to earn-out payment (note (ii))	115,309
	291,884

## 16 BUSINESS COMBINATION (continued)

### (b) (continued)

Notes:

- (i) As part of the sale and purchase agreement, Contingent Shares are to be settled is payable, which is dependent on net profits of Value Link Group during the 36-month period subsequent to the acquisition. The initial amounts recognised were based on the closing market price of the Company on the Stock Exchange at the date of acquisition and the probability to meet the net profit target and is within Level 3 fair value measurement. The consideration is due for final measurement and payment to the former shareholders 90 days after financial statements approved. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

- Sales growth ranging from 6 to 15% from 2018 to 2020; and
- Pre-tax discount rate at 8.33%.

A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) in the fair value of the contingent consideration liability.

Based on the sale and purchase agreement dated 7 February 2018, the Contingent Shares will be issued in three tranches in the following manner:

- (a) If Value Link Group achieves net profits of RMB45,000,000 for the year ended 31 December 2018, a maximum of 23,621,000 Contingent Shares shall be issued;
- (b) If Value Link Group achieves net profits of RMB105,000,000 for the two years ending 31 December 2019, a maximum of 55,116,000 Contingent Shares shall be issued; and
- (c) If Value Link Group achieves net profits of RMB180,000,000 for the three years ending 31 December 2020, a maximum of 94,485,000 Contingent Shares shall be issued.

Assuming the maximum number of Contingent Shares is being allotted and issued to the seller, 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 acquisition date and approximately 3.69% of the issued share capital of the Company as enlarged by the allotment and issue of the Contingent Shares. The Contingent Shares to be issued will rank pari passu in all respect with the shares then in issue on the relevant issue date.

- (ii) If Value Link Group 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 the loan.

## 16 BUSINESS COMBINATION (continued)

### (b) (continued)

The fair values of the trade and other receivables as at the date of acquisition amounted to RMB20,542,000. The gross contractual amounts of trade and other receivables was RMB20,542,000. No trade and other receivables are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	115,309
Cash and bank balances acquired	(168)
Net outflow of cash and cash equivalents included in cash flows from investing activities	115,141

- (c) On 19 October 2018, the Group acquired a 100% interest in Sky Harvest Global Limited ("Sky Harvest") and its subsidiaries ("Sky Harvest Group"). Sky Harvest Group is engaged in production of copper products through Chengxin, its subsidiary in the PRC. The acquisition was made as part of the Group's strategy to expand its market share of recycled copper products in the PRC. The purchase consideration for the acquisition was in the form of cash amounting to RMB88,532,000 (equivalent to HK\$101,040,900), by way of allotment and issue of Contingent Shares estimated at RMB195,428,000 (equivalent to HK\$223,040,000) at the acquisition date and by way of assumption of a loan issued by Advance Splendid Limited ("Advance Splendid"), the seller, to China Sanmei Copper Limited, a subsidiary of Sky Harvest, at the prevailing benchmark interest rate as specified by The Peoples Bank of China per annum for a term commencing from the completion date to 31 March 2021, estimated at RMB70,826,000 (equivalent to HK\$80,833,000) at the acquisition date. Both the Contingent Shares and the loan are subject to an earn-out arrangement as further detailed below.



# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 16 BUSINESS COMBINATION (continued)

### (c) (continued)

The fair values of the identifiable assets and liabilities of Sky Harvest Group as at the date of acquisition were as follows:

	<b>Fair value recognised on acquisition RMB'000</b>
Property, plant and equipment	22,971
Prepaid land lease payments	10,070
Inventories	13
Trade and other receivables, gross	13,318
Provision for impairment of trade and other receivables	—
Cash and cash equivalents	404
Total identifiable net assets at fair value	46,776
Goodwill on acquisition	308,010
Consideration	354,786
Consideration	
— Satisfied by cash	88,532
— Shares subject to earn-out payment (note (i))	195,428
— Loan subject to earn-out payments (note (ii))	70,826
	354,786

## 16 BUSINESS COMBINATION (continued)

### (c) (continued)

Notes:

- (i) As part of the sale and purchase agreement, Contingent Shares are to be issued, which is dependent on net profits of Sky Harvest Group during the 36-month period subsequent to the acquisition. The initial amount recognised were based on the closing market price of the Company on the Stock Exchange at the date of acquisition and the probability to meet the net profit target and is within Level 3 fair value measurement. The consideration is due for final measurement and payment to the former shareholders 90 days after the financial statements approved. At the date of approval of these financial statements, no further significant changes to the consideration are expected.

Significant unobservable valuation inputs for the fair value measurement of contingent consideration are as follows:

- Sales volume growth from 6% to 15% from 2018 to 2020; and
- Pre-tax discount rate is at 8.33%.

A significant increase/(decrease) in the net profit of Sky Harvest Group would result in a significant increase (decrease) in the fair value of the contingent consideration liability. A significant increase/(decrease) in the discount rate would result in a significant decrease/(increase) in the fair value of the contingent consideration liability.

Based on the sale and purchase agreement dated 19 October 2018, the Contingent Shares will be issued in three tranches in the following manner:

- (a) If Sky Harvest Group achieves net profits of RMB35,000,000 for the year ending 31 December 2019, a maximum of 15,361,000 Contingent Shares shall be issued;
- (b) If Sky Harvest Group achieves net profits of RMB85,000,000 for the two years ending 31 December 2020, a maximum of 37,305,000 Contingent Shares shall be issued; and
- (c) If Sky Harvest Group achieves net profits of RMB150,000,000 for the three years ending 31 December 2021, a maximum of 65,833,000 Contingent Shares shall be issued.

Assuming the maximum number of Contingent Shares is being allotted and issued to the seller, 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 acquisition date and approximately 2.46% of the issued share capital of the Company as enlarged by the allotment and issue of the Contingent Shares. The Contingent Shares to be issued will rank pari passu in all respect with the shares then in issue on the relevant issue date.

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 16 BUSINESS COMBINATION (continued)

### (c) (continued)

Notes:

- (ii) If Sky Harvest Group fails to achieve an aggregate net profits of approximately RMB53,028,000 for the three years ending 31 December 2021, Advance Splendid shall unconditionally waive a maximum of 100% of the loan.

The fair values of the trade and other receivables as at the date of acquisition amounted to RMB13,318,000. The gross contractual amounts of trade and other receivables was RMB13,318,000. No trade and other receivables are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of subsidiaries is as follows:

	RMB'000
Cash consideration	88,532
Cash and bank balances acquired	(404)
Net outflow of cash and cash equivalents included in cash flows from investing activities	88,128

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

### FINANCIAL ASSETS

	30 June 2019 Financial assets at amortised cost (Unaudited) RMB'000	31 December 2018 Financial assets at amortised cost (Audited) RMB'000
Trade and bills receivables	590,565	879,331
Financial assets included in prepayments, other receivables and other assets	1,368,509	1,362,431
Amounts due from associates	4,819	5,038
Amounts due from related parties	10	10
Pledged deposits	47,011	51,812
Cash and cash equivalents	21,808	112,935
	2,032,722	2,411,557

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 17 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

### FINANCIAL LIABILITIES

	30 June 2019 Financial liabilities at amortised cost (Unaudited) RMB'000	31 December 2018 Financial liabilities at amortised cost (Audited) RMB'000
Trade and bills payables	355,737	543,355
Note payable	31,669	17,524
Financial liabilities included in other payables and accruals	267,919	102,482
Liability component of convertible bonds	596,506	576,854
Interest-bearing bank and other borrowings	586,945	548,548
Finance leases payable	—	4,940
Amounts due to associates	148,690	103,709
Amount due to a related party	5,396	5
	1,992,862	1,879,417

## 18 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>Financial liability</b>				
Liability component of convertible bonds	596,506	576,854	596,506	576,854
Contingent consideration liabilities	327,260	407,667	327,260	407,667

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to associates, amounts due from/to related parties, current portion of pledged deposits and current portion of note payable and interest bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

## 18 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Other than the calculation method of fair value of contingent consideration liabilities which is based on discounted cash flows forecasts prepared by the management, the fair values of the non-current portion of pledged deposits and non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance leases payable and interest-bearing bank and other borrowings as at 30 June 2019 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

### FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Liabilities measured at fair value:

##### As at 30 June 2019 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration liabilities	–	–	327,260	327,260

##### As at 31 December 2018 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Contingent consideration liabilities	–	–	407,667	407,667

**18 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)****FAIR VALUE HIERARCHY (continued)**

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 (Unaudited) RMB'000
At 1 January	407,667
Gain recognised in the consolidated statement of profit or loss	(86,890)
Loss recognised in other comprehensive loss	6,483
At 30 June	327,260

	2018 (Audited) RMB'000
At 1 January	—
Contingent consideration liabilities recognised upon business combinations	443,296
Gains recognised in the consolidated statement of profit or loss	(1,696)
Gains recognised in other comprehensive loss	(33,933)
At 31 December	407,667

During the period/year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).



# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 18 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### FAIR VALUE HIERARCHY (continued)

Liabilities for which fair values are disclosed:

#### As at 30 June 2019 (Unaudited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Liability component of convertible bonds	–	–	596,506	596,506

#### As at 31 December 2018 (Audited)

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Liability component of convertible bonds	–	–	576,854	576,854

# Notes to Interim Condensed Consolidated Financial Information

(Expressed in Renminbi unless otherwise indicated)

## 19 COMMITMENTS

Capital commitments contracted but not provided for as at 30 June 2019 were as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Contracted for		
— property, plant and equipment	32,808	18,841
— land use rights	12,545	12,545
	45,353	31,386

## 20 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the related party transactions disclosed elsewhere in this interim financial report, the Group entered into the following significant related party transactions during the current and prior periods.

### OTHER RELATED PARTIES TRANSACTIONS

		For the six months ended 30 June	
	Notes	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Interest expense on loan from Epoch Keen Limited, a private company controlled by Mr. Yu Jianqiu	(i)	119	2,000
Delivery cost charged by Mianyang Jin Xunhuan Finance Storage Limited, a subsidiary of associate	(ii)	6,128	5,622
Security provided by Baohe Fushan, an associate of the Group	(iii)	—	31,000
Security provided by Gushan Vegetable, a private company controlled by Mr. Yu Jianqiu	(iv)	17,000	10,000
		23,247	48,622

## 20 MATERIAL RELATED PARTY TRANSACTIONS (continued)

### OTHER RELATED PARTIES TRANSACTIONS (continued)

Notes:

- (i) The loan from Epoch Keen which is unsecured, bears interest at 4.35% per annum and repayable on demand.
- (ii) The delivery cost is charged at a rate ranging from RMB28 per ton to RMB390 per ton.
- (iii) In the prior period, bank loans of RMB31,000,000 were secured by prepayment for lease payment of Baohe Fushan.
- (iv) At 30 June 2019, bank loans of RMB17,000,000 (2018: RMB10,000,000) were secured by property, plant and equipment of Gushan Vegetable.

### COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

The total compensation of key management personnel amounted to RMB6,489,000 (2018: RMB7,279,000) during the period ended 30 June 2019.

## 21 EVENT AFTER THE REPORTING PERIOD

The convertible bonds in the aggregate principal amount of HK\$600,000,000 (including the conversion rights) have matured on 11 August 2019 (the “maturity date”). As at the date of this report, these convertible bonds have not been repaid by the Group and the negotiation between the Group and the bondholders to settle these convertible bonds was still ongoing. The chairman of the Company, Mr. Yu Jianqiu, who is the major shareholder of the Company has provided financial support guarantee to the Group to ensure the Group to be able to meet its liabilities included but not limited to these convertible bonds as and when they fall due.

Except for the above, there is no significant event subsequent to 30 June 2019 which would materially affect the Group’s operating and financial performance as at the date of this report.



**China Metal Resources Utilization Limited**  
**中國金屬資源利用有限公司**



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