NOVELIS (CHINA) ALUMINUM PRODUCTS CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR FOR THE YEAR ENDED 31 DECEMBER 2019

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

NOVELIS (CHINA) ALUMINUM PRODUCTS CO., LTD.

Financial Statements and Auditor's Report
For the year ended 31 December 2019
[English translation for reference only]

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[English Translation for Reference Only]

Auditor's Report

PwC ZT Shen Zi (2020) No. 25414

To the Board of Directors of Novelis (China) Aluminum Products Co., Ltd.:

Opinion

What we have audited

We have audited the accompanying financial statements of Novelis (China) Aluminum Products Co., Ltd. (the "Company"), which comprise:

- the balance sheet as at 31 December 2019;
- the income statement for the year then ended;
- the cash flow statement for the year then ended;
- the statement of changes in owners' equity for the year then ended; and
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the CASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

To the Board of Directors of Novelis (China) Aluminum Products Co., Ltd.:

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

In preparing these financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

[English Translation for Reference Only]

Auditor's Report (continued)

To the Board of Directors of Novelis (China) Aluminum Products Co., Ltd.:

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in these financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA: Zhiqin Yang

Shanghai, the People's Republic of China
08 May 2020

Signing CPA: Canty Dong

NOVELIS (CHINA) ALUMINUM PRODUCTS CO., LTD.

BALANCE SHEET
AS AT 31 DECEMBER 2019
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2019	31 December 2018
Current assets			
Cash at bank and on hand	6(1)	393,090,351.48	97,381,567.78
Financial assets at fair value through profit or loss	6(2)	799,196.96	4,621,933.71
Accounts receivables	6(3)	171,810,727.28	223,744,043.05
Advances to suppliers	6(5)	15,886,668.83	6,496,006.09
Other receivables	6(4)	6,245,587.49	2,575,169.71
Inventory	6(6)	317,027,495.65	479,326,450.85
Other current assets	6(7)	39,824,307.52	44,941,864.82
Total current assets		944,684,335.21	859,087,036.01
Non-current assets			
Fixed assets	6(8)	618,012,137.07	627,862,441.25
Construction in progress	6(9)	689,129,266.77	89,104,734.76
Intangible assets	6(10)	70,118,081.71	27,281,791.51
Deferred tax assets	6(16)	5,236,435.87	783,765.14
Other non-current assets		9,365,923.52	4,789,900.70
Total non-current assets		1,391,861,844.94	749,822,633.36
TOTAL ASSETS		2,336,546,180.15	1,608,909,669.37
LIABILITIES AND OWNER'S EQUITY			
Current liabilities			
Short-term borrowings	6(11)	-	334,040,323.37
Accounts payables		317,139,626.39	125,078,229.99
Advances from customers		13,593,464.86	10,784,092.33
Employee benefits payable	6(12)	2,098,420.14	2,214,684.03
Taxes payable	6(13)	36,141,150.65	28,755,032.41
Other payables	6(14)	204,931,706.00	76,064,294.49
Total current liabilities		573,904,368.04	576,936,656.62
Non-current liabilities			
Long-term borrowings	6(15),7(4)(e)	711,841,095.58	484,606,190.51
Other non-current liabilities		1,432,760.79	747,419.49
Total non-current liabilities		713,273,856.37	485,353,610.00
Total liabilities		1,287,178,224.41	1,062,290,266.62
Owner's equity			
Paid-in capital		847,309,012.82	454,284,563.38
Surplus reserve	6(17)	20,205,894.30	9,233,483.94
Undistributed profits		181,853,048.62	83,101,355.43
Total owner's equity		1,049,367,955.74	546,619,402.75
TOTAL LIABILITIES AND OWNER'S EQUITY		2,336,546,180.15	1,608,909,669.37

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Pablo Rivas	Pablo Rivas

NOVELIS (CHINA) ALUMINUM PRODUCTS CO., LTD.

CASH FLOW STATEMENT
FOR FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

	Notes	2019	2018
Revenues	6(18)	1,423,257,241.06	1,692,893,992.95
Less: Cost of sales	6(18),6(20)	(1,131,537,069.88)	(1,333,837,485.20)
Taxes and surcharges		(1,409,841.48)	(1,304,349.30)
Selling and distribution expenses	6(20)	(50,165,672.01)	(55,698,669.18)
General and administrative expenses	6(20)	(70,369,781.63)	(66,233,619.87)
Financial expenses - net	6(19)	(28,933,483.82)	(69,065,603.02)
Including: Interest expenses		(29,369,006.09)	(36,096,520.31)
Interest income		1,567,991.13	264,723.41
Add: Other Income	6(22)	5,324,703.77	165,633.85
Investment income	6(23)	6,360,080.13	-
(Losses)/ Gains arising from changes in fair value	6(21)	(3,822,736.75)	7,677,533.71
Asset impairment losses	6(24)	(2,380,917.96)	(4,739,743.41)
Operating profit		146,322,521.43	169,857,690.53
Add: Non-operating income		297,532.95	74,473.44
Less: Non-operating expenses		-	(120,000.00)
Total profits		146,620,054.38	169,812,163.97
Less: Income tax	6(25)	(36,895,950.83)	(44,204,015.81)
Net profits		109,724,103.55	125,608,148.16
Other comprehensive income, net of tax		-	-
Total comprehensive profits		109,724,103.55	125,608,148.16

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Pablo Rivas	Pablo Rivas

NOVELIS (CHINA) ALUMINUM PRODUCTS CO., LTD.

CASH FLOW STATEMENT
FOR FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

	Notes	2019	2018
1. Cash flows in/(from) operating activities			
Cash received from sales of goods or rendering of services		1,681,668,221.88	1,965,662,909.76
Refund of taxes and surcharges		4,028,523.06	5,633.85
Cash received relating to other operating activities		7,070,962.08	499,196.85
Sub-total of cash inflows		1,692,767,707.02	1,966,167,740.46
Cash paid for goods and services		(897,272,114.40)	(1,886,937,069.55)
Cash paid to and on behalf of employees		(38,143,978.64)	(35,569,682.76)
Payments of taxes and surcharges		(41,603,952.17)	(19,983,799.41)
Cash paid relating to other operating activities		(102,317,476.74)	(89,671,715.63)
Sub-total of cash outflows		(1,079,337,521.95)	(2,032,162,267.35)
Net cash flows in/(from) operating activities	6(26)(a)	613,430,185.07	(65,994,526.89)
2. Cash flows from investing activities			
Net cash received from disposal of fixed assets		-	186,400.00
Cash received from returns on investments		7,149,679.32	-
Sub-total of cash inflows		7,149,679.32	186,400.00
Cash paid to acquire fixed assets		(580,484,514.05)	(97,438,276.07)
Cash paid relating to other investing activities		(789,599.19)	-
Sub-total of cash inflows		(581,274,113.24)	(97,438,276.07)
Net cash flows from investing activities		(574,124,433.92)	(97,251,876.07)
3. Cash flows in financing activities			
Cash received from capital contributions		393,024,449.44	99,178,522.84
Cash received from borrowings		235,838,834.31	359,758,731.17
Sub-total of cash inflows		628,863,283.75	458,937,254.01
Cash repayments of borrowings		(364,040,323.37)	(278,981,353.38)
Cash payments for interest expenses		(8,693,333.54)	(9,942,177.63)
Sub-total of cash outflows		(372,733,656.91)	(288,923,531.01)
Net cash flows in financing activities		256,129,626.84	170,013,723.00
4. Effect of foreign exchange rate changes on cash		273,405.71	453,397.25
5. Net increase in cash	6(26)(b)	295,708,783.70	7,220,717.29
Add: Cash at beginning of the year	6(26)(b)	97,381,567.78	90,160,850.49
6. Cash at end of the year	6(26)(b)	393,090,351.48	97,381,567.78

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Pablo Rivas	Pablo Rivas

NOVELIS (CHINA) ALUMINUM PRODUCTS CO., LTD.

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

Items	Paid-in capital	Surplus reserve	(Accumulated loss) /Undistributed profits	Total owner's equity
Balance at 1 January 2018	355,106,040.54	-	(33,273,308.79)	321,832,731.75
Movements for the year ended 31 December 2018				
Capital contribution by owners	99,178,522.84	-	-	99,178,522.84
Net profits	-	-	125,608,148.16	125,608,148.16
Appropriation to surplus reserves	-	9,233,483.94	(9,233,483.94)	-
Balance at 31 December 2018	454,284,563.38	9,233,483.94	83,101,355.43	546,619,402.75
Balance at 1 January 2019	454,284,563.38	9,233,483.94	83,101,355.43	546,619,402.75
Movements for the year ended 31 December 2019				
Capital contribution by owners	393,024,449.44	-	-	393,024,449.44
Net profits	-	-	109,724,103.55	109,724,103.55
Appropriation to surplus reserves	-	10,972,410.36	(10,972,410.36)	-
Balance at 31 December 2019	847,309,012.82	20,205,894.30	181,853,048.62	1,049,367,955.74

The accompanying notes form an integral part of these financial statements.

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Pablo Rivas	Pablo Rivas

1 General information

Novelis (China) Aluminum Products Co., Ltd. (the "Company") is a limited liability company incorporated in Changzhou, Jiangsu Province of the People's Republic of China on 18 June 2012 by Novelis Inc.. The Company has an approved operating period of 50 years. The registered capital was USD 40,000,000. Following the resolution of board of directors and amended articles on 15 June 2013 and the approval of Commerence Department of Jiangsu Province, the Company applied for increasing the registered capital by USD 16,700,000. And the paid-in capital is therefore raised to USD 56,700,000. In accordance with the shareholder's resolution of 28 June 2018 and the revised articles of association, with the approval of Jiangsu Provincial Department of Commerce, the company applied for an increase of registered capital of USD 72,000,000. The revised registered capital amount is USD 128,700,000 and the cumulative paid-in amount of registered capital is USD 128,700,000.00.

The Company's approved scope of business operations and the principal activities for the year ended 31 December 2019 includes research, develop and manufacture of special aluminum sheet for automobile use; sale of self-manufactured products; import and export, domestic wholesale and commissioned agency (excluding auction) of metal materials and products and provision of ancillary services (manufacturing projects can be only run by branches). In 2019, the company's actual main business is consistent with the approved business scope.

These financial statements were authorised for issue by the Company's legal representative on 08 May 2020.

2 Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

3 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2019 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as of 31 December 2019 and of its financial performance, cash flows and other information for the year ended 31 December 2019.

4 Summary of significant accounting policies and accounting estimates

(1) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

(2) Recording currency

The recording currency is Renminbi ("RMB"). The financial statements are presented in RMB.

(3) Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(4) Cash

Cash comprises cash on hand and deposits that can be readily drawn on demand.

(5) Financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Company's intention and ability to hold the financial assets. The major financial assets held by the Company are financial assets at fair value through profit or loss and receivables.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are forward contracts, which may be recognized as financial liabilities at fair value through profit or loss when losses arise from changes in fair value.

(b) Receivables

Receivables, including accounts receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (Note 4 (6)).

(c) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to acquisition of the financial assets are included in their initially recognised amounts. A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset have expired, or all the substantial risks and rewards of ownership of the financial asset have been transferred.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(5) Financial assets (Cont'd)

(c) Recognition and measurement (Cont'd)

Financial assets at fair value through profit or loss are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables are subsequently measured at amortised cost using the effective interest method.

Gains or losses arising from change in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss for the current period as 'Profit arising from changes in fair value'. Interests and cash dividends received during the period in which such financial assets are held, as well as gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

(d) Impairment of financial assets

The Comany assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset carried at amortized cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and the amount of reversal is recognized in profit or loss.

(6) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Company will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made at the difference between its carrying amount and the present value of its estimated future cash flows.

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(7) Inventories

Inventories include raw materials, work in progress, finished goods and turnover materials, and are measured at the lower of cost and net realisable value.

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity. Turnover materials include low value consumables and packaging materials. Low value consumables are amortised into expenses based upon numbers of usage, and the packaging materials are expensed when issued.

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realizable value. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

The Company adopts the perpetual inventory system.

(8) Fixed assets

Fixed assets comprise buildings, machinery and equipment, tools, motor vehicles and computer and electronic equipment. Fixed assets purchased or constructed by the Company are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Company and the related cost can be reliably measured. The carrying amount of the replaced part is derecognized. All the other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rates
Buildings	20-40 years	5%	2%-5%
Machinery and equipment	10-25 years	5%	4%-10%
Tools	5 years	5%	19%
Motor vehicles	4-5 years	5%	19%-24%
Computer and electronic equipment	3-5 years	5%-10%	18%-32%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(9) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

(10) Intangible assets

Intangible assets are land use rights and softwares measured at cost.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period of 50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Softwares

Softwares are amortised on the straight-line basis over their estimated useful lives, generally 5 to 10 years.

(c) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortization method is performed at each year-end, with adjustment made as appropriate.

(11) Impairment of long-term assets

Fixed assets, construction in progress and intangible assets with finite useful lives are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets that are not yet avaialbe for their intended use are tested for impairment at least annually, irrespective of whether there is any indication of impairment.If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognized, it will not be reversed for the value recovered in the subsequent periods.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(12) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of an asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

(13) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using the effective interest method. Borrowings of which the period is within one year (including one year) are classified as the short-term borrowings, and the others are classified as long-term borrowings.

(14) Employee benefits

Employee benefits include short-term employee benefits and post-employment benefits, provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognized in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Company's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

Basic pensions

The Company's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognized as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(15) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Company and the same taxation authority; and,
- that tax payer within the Company has a legally enforceable right to offset current tax assets against current tax liabilities.

(16) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, rebates, discounts and returns.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Company, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Company's activities as described below:

(a) Sale of goods

Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

(b) Rendering of processing services

The Company provides processing sevices to related parties. The related revenue is recognised according to the processing fees agreed upon the contract.

(c) Transfer of asset use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(17) Government Grants

Government grants refer to the monetary or non-monetary assets obtained by the Company from the government, including tax return, financial subsidy and etc.

Government grants are recognised when the grants can be received and the Company can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Company for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deuducted against related costs, expenses or losses directly in current period. The Company applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

(18) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

Lease payments under an operating lease are recognized on a straight-line basis over the period of the lease, and are either capitalized as part of the cost of related assets, or charged as an expense for the current period.

(19) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. Valuation techniques include using prices of recent market transactions between knowledgeable and willing parties, reference to the current fair value of another financial asset that is substantially the same with this instrument, and discounted cash flow analysis, etc. When a valuation technique is used to establish the fair value of a financial instrument, it makes the maximum use of market inputs and relies as little as possible on entity-specific inputs.

(20) Critical accounting estimates and judgments

The Company continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(20) Critical accounting estimates and judgments(Cont'd)

(a) Critical accounting estimates and key assumptions

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Provision for bad debts of receivables

The impairment for receivables is based on the assessment of the collectability of receivables. Management assesses the impairment for receivables by using judgment and estimates. The differences between actual results and the original estimates will impact the carrying amount of the receivables and provision or reversal of provision for bad debts of the receivables during the period of changes of estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. These estimates are made based on current market conditions and historical experiences of selling products of similar nature, which may change due to the changes of customer's needs and the changes in the different stage of business cycle. The management assesses the reasonableness of this estimate on each financial statements date.

(iii) Useful lives and residual values of fixed assets

The management of the Company determines the estimated useful lives and estimated residual values of fixed assets. This estimate is based on the historical experience of the actual useful lives and residul value of fixed assets of similar nature and functions. It could change significantly as a result of changes in the actual usage and renovation conditions, technical innovations, industry cycles and other conditions. Where the actual useful lives and residual values are different from the estimates, the management will adjust them accordingly.

(iv) Income tax, deferred tax assets and deferred tax liabilities

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Company in determining the provision for income tax in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Expected applicable tax rate is determined according to current tax regulation and status of the Company.

The Company management recognizes deferred tax assets according to expected taxable income gained with great possibility which will deduct temporary difference for coming years.If expected taxable income for coming year changes, the Company management will adjust deferred tax assets accordingly.

4 Summary of significant accounting policies and accounting estimates (Cont'd)

(21) Significant changes in accounting policies

In 2019, the Ministry of Finance issued the *'Circular on the Amendment to the Formats of Corporate Financial Statements for the Year of* 2019' (Cai Kuai [2019] 06), the revised *CAS 7 Exchange of Non-Monetary Assets* ('the revised CAS 7') and the revised *CAS 12 Debt Restructuring* ('the revised CAS 12'). The financial statements are prepared in accordance with the above circular and standards. The above circular and standards have no significant impact on the financial statements of the Group and the Company.

5 Taxation

The main categories and rates of taxes applicable to the Company are set out below:

Category	Tax rate	Taxable base
Enterprise income tax	25%	Taxable income
Value added tax ("VAT")(a)	6%, 16% and 13%	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate.)

(a) The Company's sales of products are subject to VAT. The applicable tax rate for domestic sales is 13% and 16%, and the Company has been approved to use the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 13%.

Pursuant to the *'Announcement on Relevant Policies for Deepening the Value-added Tax Reform'* (Cai Shui Haiguan [2019] 39) jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, the Company's revenue from main operations is subject to VAT at the rate of 13% from 1 April 2019. Before then, the revenue from such business was subject to VAT at the rate of 16%.

6 Notes to the financial statements

(1) Cash at bank and at hand

	31 December 2019	31 December 2018
Cash at bank	393,090,351.48	97,381,567.78

(2) Financial assets at fair value through profit or loss

	31 December 2019	31 December 2018
Unrealized forward contracts	799,196.96	4,621,933.71

6 Notes to the financial statements(Cont'd)

(3) Accounts receivables

	31 December 2018			31 December 2019
Accounts receivable	223,744,043.05			171,810,727.28
		Increase in current year	Decrease in current year	
Less: provision for bad debts	-	-	-	-
	223,744,043.05			171,810,727.28

The aging of accounts receivable and related provision for bad debts are analysed below:

Aging	31 December 2019			31 December 2018		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	157,853,968.47	91.87%	-	208,469,260.93	93.17%	-
1 to 2 years	5,096,194.28	2.97%	-	15,274,782.12	6.83%	-
2 to 3 years	8,860,564.53	5.16%	-	-	-	-
	171,810,727.28	100.00%	-	223,744,043.05	100.00%	-

As at 31 December 2019, accounts receivable of RMB 6,761,366.38 (31 December 2018: RMB 16,422,550.72) were past due, but based on the analysis of the customers' financial status and previous credit record, no individual provisions for bad debts were provided, The past-due ageing of these accounts receivables was analysed as follows:

	31 December 2019	31 December 2018
Within 1 year	6,761,366.38	16,422,550.72

Accounts receivable are analysed by customers categories as follows:

	31 December 2019			31 December 2018		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Receivables from related parties(Note 7(4))	44,064,710.61	25.65%	-	53,176,659.87	23.77%	-
Receivables from third parties	127,746,016.67	74.35%	-	170,567,383.18	76.23%	-
	171,810,727.28	100.00%	-	223,744,043.05	100.00%	-

6 Notes to the financial statements(Cont'd)

(4) Other receivables

	31 December 2018			31 December 2019
Deposits	2,575,169.71			5,570,064.42
Others	-			675,523.07
		Increase in current year	Decrease in current year	
Less: provision for bad debts	-	-	-	-
	2,575,169.71			6,245,587.49

The aging of other receivables and related provisions for bad debts are analysed below:

Aging	31 December 2019			31 December 2018		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	3,670,417.78	58.77%	-	2,253,049.71	87.49%	-
1 to 2 years	2,253,049.71	36.07%	-	-	-	-
2 to 3 years	-	-	-	22,120.00	0.86%	-
3 to 4 years	322,120.00	5.16%	-	300,000.00	11.65%	-
	6,245,587.49	100.00%	-	2,575,169.71	100.00%	-

(5) Advances to suppliers

The aging of advances to suppliers is analysed below:

Aging	31 December 2019		31 December 2018	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	15,886,668.83	100.00%	6,272,289.51	96.56%
1 to 2 years	-	-	223,716.58	3.44%
	15,886,668.83	100.00%	6,496,006.09	100.00%

6 Notes to the financial statements(Cont'd)

(6) Inventories

	31 December 2018			31 December 2019
Cost -				
Raw materials	268,712,689.54			144,201,327.97
Work in progress	3,679,240.56			16,440,597.51
Finished goods	171,990,523.87			122,352,901.45
Turnover materials	34,943,996.88			34,032,668.72
	479,326,450.85			317,027,495.65
		Increase in current year	Decrease in current year	
Less: Provision for declines in the value of inventories	-	-	-	-
	479,326,450.85			317,027,495.65

(7) Other current assets

	31 December 2019	31 December 2018
Input VAT to be deducted	39,824,307.52	44,941,864.82

6 Notes to the financial statements (Cont'd)

(8) Fixed assets

	Buildings	Machinery and equipment	Tools	Motor Vehicles	Computer and electronic equipment	Total
Cost						
31 December 2018	148,498,835.79	560,776,646.03	7,127,069.80	6,430,888.56	6,558,385.81	729,391,825.99
Transfers from contruction in progress (Note 6(9))	-	9,943,818.25	9,704,680.05	369,827.59	6,217,891.22	26,236,217.11
Decrease in current year	(2,521,096.37)	(65,000.00)	(34,102.56)	-	(490,529.73)	(3,110,728.66)
31 December 2019	145,977,739.42	570,655,464.28	16,797,647.29	6,800,716.15	12,285,747.30	752,517,314.44
Accumulated depreciation						
31 December 2018	(11,662,765.86)	(78,237,786.19)	(4,068,578.73)	(4,208,490.67)	(3,351,763.29)	(101,529,384.74)
Increase in current year	(3,503,087.82)	(24,636,692.39)	(2,154,802.85)	(1,236,234.60)	(2,174,785.67)	(33,705,603.33)
Decrease in current year	228,269.57	9,619.99	25,917.95	-	466,003.19	729,810.70
31 December 2019	(14,937,584.11)	(102,864,858.59)	(6,197,463.63)	(5,444,725.27)	(5,060,545.77)	(134,505,177.37)
Net book value						
31 December 2019	131,040,155.31	467,790,605.69	10,600,183.66	1,355,990.88	7,225,201.53	618,012,137.07
31 December 2018	136,836,069.93	482,538,859.84	3,058,491.07	2,222,397.89	3,206,622.52	627,862,441.25

In 2019, the amount of depreciation expense charged to cost of sales, selling expenses and general and administrative expenses were RMB 27,631,814.05 (2018: RMB 26,336,630.42), RMB 1,209,856.13 (2018: RMB 25,896.69) and RMB 4,863,933.15 (2018: RMB 5,038,407.97).

6 Notes to the financial statements (Cont'd)

(9) Construction in progress

Name of project	31 December 2018	Increase in current year	Transfer to fixed assets (Note 6(8))	Transfer to intangible assets (Note 6(10))	31 December 2019
Novelis Changzhou construction program	88,615,737.91	594,381,107.81	-	-	682,996,845.72
Software installation	488,996.85	808,931.41	-	(1,297,928.26)	-
Machinery and equipment	-	10,596,220.19	(9,943,818.25)	-	652,401.94
Computer and electronic equipment	-	6,217,891.22	(6,217,891.22)	-	-
Tools	-	9,704,680.05	(9,704,680.05)	-	-
Vehicle	-	369,827.59	(369,827.59)	-	-
Land	-	45,681,873.83	-	(45,681,873.83)	-
Shanghai R&D	-	5,480,019.11	-	-	5,480,019.11
Including: Capitalised borrowing costs	-	1,341,778.89	-	-	1,341,778.89
Less: provision for impairment of construction in progress	-	-	-	-	-
	89,104,734.76	673,240,551.21	(26,236,217.11)	(46,979,802.09)	689,129,266.77

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The capitalisation rate used to determine the borrowing costs eligible for capitalisation in 2019 is 4.90% per annum.

(10) Intangible assets

	Cost	31 December 2018	Transfer from construction in progress (Note 6(9))	Amortisation charged in current year	31 December 2019	Accumulated amortisation
Land use right	14,106,702.14	12,390,360.73	45,681,873.83	(738,952.19)	57,333,282.37	(2,455,293.60)
Software	28,844,130.02	14,891,430.78	1,297,928.26	(3,404,559.70)	12,784,799.34	(17,357,258.94)
	42,950,832.16	27,281,791.51	46,979,802.09	(4,143,511.89)	70,118,081.71	(19,812,552.54)

6 Notes to the financial statements (Cont'd)

(11) Short-term borrowings

	31 December 2019	31 December 2018
Secured borrowings(a)	-	199,040,323.37
Credit borrowings(b)	-	135,000,000.00
	-	334,040,323.37

(a) As at 31 December 2018, the secured borrowings comprise of RMB 199,040,323.37, which are borrowed from Deutsche Bank (China) Co., Ltd., Shanghai Branch under the short term facilities up to RMB 200,000,000.00 guaranteed by Novelis Inc.

(b) As at 31 December 2018, the credit borrowings comprise of

(i)RMB 95,000,000.00 are borrowed from Industrial and Commercial Bank of China, Changzhou New Dstrict Branch, under the short term facilities up to RMB 100,000,000.00.

(ii) RMB 40,000,000.00 are borrowed from Bank of China, Changzhou New District Branch, under the short term facilities up to RMB 100,000,000.00 .

As at 31 December 2019, the weighted average interest rate of short-term borrowings is 4.08/% per annum (31 December 2018: 4.35% per annum).

(12) Employee benefits payable

	31 December 2019	31 December 2018
Short-term employee benefits payable(a)	1,923,966.96	2,098,437.32
Defined contribution plans payable(b)	174,453.18	116,246.71
	2,098,420.14	2,214,684.03

(a) Short-term employee benefits payable

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Wages and salaries, bonuses, allowances and subsidies	1,991,026.09	25,076,478.26	(25,246,477.15)	1,821,027.20
Social security contributions	56,795.96	2,669,495.08	(2,684,275.13)	42,015.91
Including: Medical insurance	46,428.85	2,129,975.76	(2,144,406.75)	31,997.86
Work injury insurance	6,567.26	365,350.64	(361,899.85)	10,018.05
Maternity insurance	3,799.85	174,168.68	(177,968.53)	-
Housing funds	50,615.27	4,629,670.58	(4,619,362.00)	60,923.85
	2,098,437.32	32,375,643.92	(32,550,114.28)	1,923,966.96

6 Notes to the financial statements (Cont'd)

(12) Employee benefits payable (Cont'd)

(b) Defined contribution plans payable

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Basic pensions	111,659.58	5,425,677.31	(5,369,712.78)	167,624.11
Unemployment insurance	4,587.13	226,393.52	(224,151.58)	6,829.07
	116,246.71	5,652,070.83	(5,593,864.36)	174,453.18

(13) Taxes payable

	31 December 2019	31 December 2018
Corporate income tax payable	20,366,172.73	15,302,404.57
Withholding tax payable	15,774,977.92	13,452,627.84
	36,141,150.65	28,755,032.41

(14) Other payables

	31 December 2019	31 December 2018
Payables to related parties(Note 7(4)(c))	57,074,944.46	51,337,575.20
Payables for purchase of equipment	110,025,679.16	14,035,398.07
Accrued metal compensation	16,847,298.61	2,475,282.24
Withholding compensation	10,006,652.28	990,693.73
Prepaid packaging fee	1,856,730.40	878,976.12
Prepaid utility bills	1,612,658.80	591,183.19
Withholding audit fee	977,740.00	499,583.08
Accrued security fee	676,810.85	1,210,000.00
Interests payable of short-term loan	228,379.07	3,006,021.42
Others	5,624,812.37	1,039,581.44
	204,931,706.00	76,064,294.49

6 Notes to the financial statements (Cont'd)

(15) Long-term borrowings

	31 December 2019	31 December 2018
Credit borrowings	711,841,095.58	484,606,190.51

As at 31 December 2019, long-term unsecured borrowings which due to the parent company Novelis Inc. include the RMB principal and interests amounted to RMB 346,955,322.01, the USD principal and interests amounted to USD 9,355,212.24, equivalent to RMB 65,263,831.64 and the EUR principal and interests amounted to EUR 11,999,629.92 equivalent to RMB 93,783,107.62 (As at 31 December 2018, long-term unsecured borrowings which due to the parent company Novelis Inc. include the RMB principal and interests amounted to RMB 332,745,787.33, the USD principal and interests amounted to USD 8,966,279.30, equivalent to RMB 61,537,368.09 and the EUR principal and interests amounted to EUR 11,510,078.00 equivalent to RMB 90,323,035.09). The principal and interests are due for repayment on 31 March 2023.

As at 31 December 2019, bank borrowings of RMB 205,838,834.31 are provided by the Bank of China to support capital expansion projects in China. Interest is payable every 3 months and the principal is due for repayment by installments from 2022 to 2027 according to the repayment schedule in the credit agreement.

As at 31 December 2019, the weighted average interest rate of long-term borrowings is 6.81% per annum (31 December 2018: 6.84% per annum).

(16) Deferred tax assets

Deferred assets and liabilities before offsetting of certain debit and credit balances are set out as follows:

(a) Deferred tax assets

	31 December 2019		31 December 2018	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Accrued expenses	5,436,235.11	21,744,940.45	1,042,609.03	4,170,436.12
Accrued headquarters management fee	-	-	896,639.54	3,586,558.15
	5,436,235.11	21,744,940.45	1,939,248.57	7,756,994.27
Including:				
Expected to be recovered within one year (inclusive)	5,436,235.11		1,939,248.57	
Expected to be recovered after one year	-		-	
	5,436,235.11		1,939,248.57	

6 Notes to the financial statements (Cont'd)

(16) Deferred tax assets (Cont'd)

(b) Deferred tax liabilities

	31 December 2019		31 December 2018	
	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences
Financial assets at fair value through profit or loss	(199,799.24)	(799,196.96)	(1,155,483.43)	(4,621,933.71)
Including:				
Expected to be recovered within one year (inclusive)	(199,799.24)		(1,155,483.43)	
Expected to be recovered after one year	-		-	
	(199,799.24)		(1,155,483.43)	

(c) The net balances of deferred tax assets and liabilities after offsetting are as follows:

	31 December 2019	31 December 2018
Deferred tax assets, net	5,236,435.87	783,765.14

(17) Surplus reserve

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Reserve fund	9,233,483.94	10,972,410.36	-	20,205,894.30

In accordance with the Law of the People's Republic of China on Enterprises Operated Exclusively with Foreign Capital and the Company's Articles of Association, appropriations from net profit are to be made to the reserve fund after offsetting accumulated losses from prior years, and before profit distributions to the investors. The reserve fund accounts for no less than 10% of net profit, and the Company can cease appropriation when the reserve fund accumulated to more than 50% of the registered capital.

The Company appropriated 10% of net profit for the year ended 31 December 2019 to the reserve fund with the amount to RMB 10,972,410.36 (2018: RMB 9,233,483.94).

(18) Revenue and cost of sales

	2019		2018	
	Revenues	Cost of sales	Revenues	Cost of sales
Sales of aluminium products	1,417,378,351.09	(1,125,658,179.91)	1,692,893,992.95	(1,333,837,485.20)
Rednering of services	5,878,889.97	(5,878,889.97)	-	-
	1,423,257,241.06	(1,131,537,069.88)	1,692,893,992.95	(1,333,837,485.20)

6 Notes to the financial statements (Cont'd)

(19) Financial expenses – net

	2019	2018
Interest expenses	30,710,784.98	36,096,520.31
Less: Amounts capitalised on qualifying assets	(1,341,778.89)	-
Interest expenses	29,369,006.09	36,096,520.31
Less: interest income	(1,567,991.13)	(264,723.41)
Exchange losses	1,011,331.11	32,976,932.09
Bank charges	121,137.75	256,874.03
	28,933,483.82	69,065,603.02

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(20) Expenses by nature

The cost of sales, selling and distribution expenses expenses and general and administrative expenses in the income statements are listed as follows by nature:

	2019	2018
Changes in inventories of finished goods and work in progress	36,876,265.47	(34,436,322.84)
Consumed raw materials and low value consumables, etc.	919,626,040.91	1,215,825,670.12
Commissions	77,356,296.77	74,319,486.59
Freight	51,857,685.69	51,171,509.07
Depreciation and amortization expenses	37,849,115.22	35,289,996.63
Employee benefits	38,027,714.75	35,972,164.40
Processing fees	34,782,699.81	29,340,065.32
Utilities	20,515,723.52	19,397,267.64
Service fees	11,070,733.02	8,524,609.56
Maintenance costs	10,072,566.70	9,925,697.82
Rental fees	4,389,937.67	231,041.75
Travelling expenses	3,674,626.70	3,044,184.44
Taxes	1,227,642.24	1,639,511.00
Consulting fees	337,033.77	44,358.93
Others	4,408,441.28	5,480,533.82
	1,252,072,523.52	1,455,769,774.25

(21) (Losses)/ Gains on changes in fair value

	2019	2018
Unrealized forward contracts	(3,822,736.75)	7,677,533.71

6 Notes to the financial statements (Cont'd)

(22) Other Income

	2019	2018	Asset related/ Income related
Subsidy income	4,222,000.00	160,000.00	Income related
Government grants	983,438.00	-	Income related
Return of income tax handling fee	119,265.77	5,633.85	Income related
	5,324,703.77	165,633.85	

(23) Investment income

	2019	2018
Income from financial assets held for trading	6,360,080.13	-

(24) Losses on disposals of assets

	2019	2018
Losses on disposals of fixed assets	2,380,917.96	4,739,743.41

(25) Income tax

	2019	2018
Current income tax	41,348,621.56	33,981,854.68
Deferred income tax	(4,452,670.73)	10,222,161.13
	36,895,950.83	44,204,015.81

The reconciliation from income tax calculated based on the applicable tax rate and total profit presented in the financial statements to the income tax is listed below:

	2019	2018
Total profit	146,620,054.38	169,812,163.97
Tax rate	25%	25%
Income tax calculated at applicable tax rates	36,655,013.60	42,453,040.99
Prior year deductible loss recognized in current year	238,820.80	1,750,974.82
Difference of tax settlement	2,116.43	-
	36,895,950.83	44,204,015.81

6 Notes to the financial statements (Cont'd)

(26) Notes to the cash flow statement

(a) Reconciliation from net profits to cash flows from operating activities

	2019	2018
Net profits	109,724,103.55	125,608,148.16
Add: Depreciation of fixed assets	33,705,603.33	31,400,935.08
Amortisation of intangible assets	4,143,511.89	3,889,061.55
Losses of disposal of fixed assets	2,380,917.96	4,739,743.41
Losses/(Gains) on changes in fair value	3,822,736.75	(7,677,533.71)
Financial expenses	28,018,927.43	44,280,438.12
Investment income	(6,360,080.13)	-
(increase)/ Decrease in deferred tax assets	(4,452,670.73)	10,222,161.13
Decrease/ (Increase) in inventories	162,298,955.20	(144,802,704.20)
Decrease/(Increase) in operating receivables	38,872,235.25	(5,231,935.35)
Increase/(Decrease) in operating payables	241,275,944.57	(128,422,841.08)
Net cash flows from /(used in) operating activities	613,430,185.07	(65,994,526.89)

(b) Net increase in cash

	2019	2018
Cash at the end of the year (Note 6(1))	393,090,351.48	97,381,567.78
Less: cash at the beginning of the year (Note 6(1))	(97,381,567.78)	(90,160,850.49)
Net increase in cash	295,708,783.70	7,220,717.29

7 Related parties and related party transactions

(1) Parent company

(a) General information of the parent company

	Registered address	Principal business
Novelis Inc.	Canada	Industries

The ultimate holding company of the Company is Hindalco Industries Ltd..

(b) Registered capital and changes in registered capital of the parent company

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Novelis Inc.	1,000 shares	-	-	1,000 shares

7 Related parties and related party transactions (Cont'd)

(1) Parent company (Cont'd)

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2019		31 December 2018	
	Share holding (%)	Voting rights (%)	Share holding (%)	Voting rights (%)
Novelis Inc.	100%	100%	100%	100%

(2) Nature of related parties that do not control or are not controlled by the Company

	Relationship with the Company
Novelis Inc. US Branch	Controlled by the same ultimate parent company
Novelis Corporation	Controlled by the same ultimate parent company
Novelis Europe Holdings Limtied	Controlled by the same ultimate parent company
Novelis Korea Limited	Controlled by the same ultimate parent company
Novelis Kingston	Controlled by the same ultimate parent company
Novelis Deutschland GmbH	Controlled by the same ultimate parent company
Novelis Service Limited(UK)	Controlled by the same ultimate parent company
Novelis Switzerland SA	Controlled by the same ultimate parent company
Novelis (Shanghai) Aluminum Trading Co., Ltd.	Controlled by the same ultimate parent company

(3) Related party transactions

(a) Pricing policies

The Company's pricing policies on procurement of raw materials from related parties, sale of goods to related parties and other related party transactions are negotiated between the transaction parties based on each specific situation.

(b) Sale of goods

	2019	2018
Novelis Korea Limited	52,121,398.69	34,422,487.40
Novelis (Shanghai) Aluminum Trading Co., Ltd.	2,496,888.93	7,436,094.67
Novelis Deutschland GmbH	1,375,843.41	-
	55,994,131.03	41,858,582.07

(c) Acceptance of services

	2019	2018
Novelis (Shanghai) Aluminum Trading Co., Ltd	44,562,565.57	36,851,458.18
Novelis Inc. US Branch	49,903,499.48	36,058,206.37
Novelis Deutschland GmbH	-	120,158.78
	94,466,065.05	73,029,823.33

7 Related parties and related party transactions (Cont'd)

(3) Related party transactions (Cont'd)

(d) Purchase of goods

	2019	2018
Novelis Korea Limited	710,010,972.48	1,269,058,918.94
Novelis Switzerland SA	3,252,933.74	41,227,337.17
Novelis Deutschland GmbH	-	33,799,200.15
Novelis Kingston	-	5,084,737.47
	713,263,906.22	1,349,170,193.73

(e) Rendering of services

	2019	2018
Novelis Inc.	5,878,889.97	-

(f) Branding fee

	2019	2018
Novelis Service Limited(UK)	6,079,553.91	6,702,588.08

(g) Interest expense

	2019	2018
Novelis (Shanghai) Aluminum Trading Co., Ltd.	2,829,857.65	2,935,406.17

(4) Receivables from and payables to related parties

(a) Accounts receivables

	31 December 2019	31 December 2018
Novelis Korea Limited	35,942,517.82	51,433,120.45
Novelis Inc.	5,878,889.97	-
Novelis Deutschland GmbH	2,030,594.43	631,098.62
Novelis (Shanghai) Aluminum Trading Co., Ltd.	212,708.39	1,112,440.80
	44,064,710.61	53,176,659.87

(b) Accounts payables

	31 December 2019	31 December 2018
Novelis Korea Limited	281,737,562.17	100,590,259.61
Novelis Deutschland GmbH	1,363,466.65	10,342,429.94
Novelis Kingston	1,576,897.18	1,551,354.71
Novelis Switzerland SA	-	156,972.29
	284,677,926.00	112,641,016.55

7 Related parties and related party transactions (Cont'd)

(4) Receivables from and payables to related parties(Cont'd)

(c) Other payables

	31 December 2019	31 December 2018
Novelis Inc. US Branch	34,424,202.60	33,425,883.59
Novelis (Shanghai) Aluminum Trading Co.,Ltd.	21,568,116.82	17,372,137.98
Novelis Service Limited(UK)	534,187.86	-
Novelis Inc.	467,840.79	460,262.73
Novelis Corporation	80,596.39	79,290.90
	57,074,944.46	51,337,575.20

(d) Advance from Customers

	31 December 2019	31 December 2018
Novelis Corporation	277,390.30	277,390.30

(e) Long-term borrowings

	31 December 2019	31 December 2018
Novelis Inc.	506,002,261.27	484,606,190.51

8 Commitments

(1) Capital commitments

Capital expenditures contracted for by the Company but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	31 December 2019	31 December 2018
Houses, buildings and machinery	451,310,415.66	689,122,318.82

(2) Operating lease commitments

The future minimum lease payments due under the signed irrevocable operating leases contracts are summarised as follows::

	31 December 2019	31 December 2018
Within 1 year	9,275,557.68	-
1 to 2 years	9,275,557.68	-
2 to 3 years	9,275,557.68	-
Over 3 years	23,172,894.20	-
	50,999,567.24	-

9 Financial risk

The Company's activities expose it to a variety of financial risks: market risk (primarily including currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Company's major operational activities are carried out in Mainland China. A part of the transactions are denominated in USD and EUR, and relevant construction expenditures are partially denominated in USD and EUR. The Company is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to USD and EUR. The Company's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Company may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. As at 31 December 2019, the Company entered into unrealised forward exchange contracts with principal of USD 25,000,000.00 and EUR 9,977,689.00 (31 December 2018: USD 30,000,000.00).

The financial assets and the financial liabilities denominated in foreign currencies, which are held by the Company, whose recording currencies are RMB, are expressed in RMB as at 31 December 2019 and 31 December 2018 as follows:

	31 December 2019		
	USD	EUR	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	19,767,013.45	0.94	19,767,014.39
Accounts receivables	36,585,578.87	144,944.68	36,730,523.55
	56,352,592.32	144,945.62	56,497,537.94
Financial liabilities denominated in foreign currency -			
Accounts payables	282,062,088.49	1,363,466.65	283,425,555.14
Other payables	36,293,411.71	-	36,293,411.71
Long-term borrowings	65,263,831.64	93,783,107.62	159,046,939.26
	383,619,331.84	95,146,574.27	478,765,906.11
Forward contracts -			
Unrealised forward contracts	174,405,000.00	77,980,628.38	252,385,628.38

9 Financial risk(Cont'd)

(1) Market risk (Cont'd)

(a) Foreign exchange risk(Cont'd)

	31 December 2018		
	USD	EUR	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	12,849,868.06	0.31	12,849,868.37
Accounts receivables	52,163,974.79	-	52,163,974.79
	65,013,842.85	0.31	65,013,843.16
Financial liabilities denominated in foreign currency -			
Accounts payables	102,320,088.35	10,697,216.34	113,017,304.69
Other payables	33,973,777.92	-	33,973,777.92
Long-term borrowings	61,537,368.09	90,323,035.09	151,860,403.18
	197,831,234.36	101,020,251.43	298,851,485.79
Forward contracts -			
Unrealised forward contracts	205,896,000.00	-	205,896,000.00

As at 31 December 2019, if RMB had strengthened/weakened by 4 % against the foreign currencies while all other variables had been held constant, the Company's net profits for the year would have been approximately RMB 5,096,482.19 higher/lower (2018: approximately RMB 838,249.28 lower/higher) for various financial assets and liabilities denominated in foreign currencies and the principal of forward contracts.

9 Financial risk (Cont'd)

(1) Market risk (Cont'd)

(b) Interest rate risk

The Company's interest rate risk arises from long-term interest bearing borrowings including long-term borrowings. Financial liabilities issued at floating rates expose the Company to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Company to fair value interest rate risk. The Company determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2019, the Company's long-term interest bearing borrowings were mainly RMB/USD/EUR-denominated with fixed rates, amounting to RMB 711,841,095.58(31 December 2018: RMB 484,606,190.51) (Note 6(15)).

The Company's finance department continuously monitors the interest rate position of the Company. Increases in interest rates will increase the cost of new borrowing, and therefore could have a material adverse effect on the Company's financial performance. The Company makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During 2019 and 2018, the Company did not enter into any interest rate swap agreements.

(c) Other price risk

The Company had no other price risk.

(2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, accounts receivable and other receivables.

The Company expects that there is no significant credit risk associated with cash at bank since they are deposited at state-controlled banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Company has policies to limit the credit exposure on accounts receivable and other receivables. The Company assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Company. In respect of customers with a poor credit history, the Company will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Company is limited to a controllable extent.

As at 31 December 2019, the Company has no significant collateral or other credit enhancements held as a result of the debtor's mortgage.

(3) Liquidity risk

Cash flow forecasting is performed by finance department of the Company, and monitors rolling forecasts of the Company's short-term and long-term liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

9 Financial instrument and risk (Cont'd)

(3) Liquidity risk (Cont'd)

	31 December 2019				
	Within one year	1 to 2 years	2 to 5 years	Over five years	Total
Financial liabilities-					
Accounts payables	317,139,626.39	-	-	-	317,139,626.39
Other payables	183,186,765.55	-	-	-	183,186,765.55
Long-term borrowings	10,172,942.18	10,225,092.64	791,742,434.88	47,833,794.67	859,974,264.37
	510,499,334.12	10,225,092.64	791,742,434.88	47,833,794.67	1,360,300,656.31

	31 December 2018				
	Within one year	1 to 2 years	2 to 5 years	Over five years	Total
Financial liabilities-					
Short-term borrowings	335,165,364.47	-	-	-	335,165,364.47
Accounts payables	125,078,229.99	-	-	-	125,078,229.99
Other payables	78,027,706.88	-	-	-	78,027,706.88
Long-term borrowings	-		578,271,118.71	-	578,271,118.71
	538,271,301.34	-	578,271,118.71	-	1,116,542,420.05

10 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) Assets and liabilities measured at fair value on a recurring basis

As at 31 December 2019, no assets measured at fair value is held by the Company, and the liabilities measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss -				
Unrealised forward contracts	-	799,196.96	-	799,196.96

As at 31 December 2018, no assets measured at fair value is held by the Company, and the liabilities measured at fair value by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Financial liabilities at fair value through profit or loss -				
Unrealised forward contracts	-	4,621,933.71	-	4,621,933.71

(2) Assets measured at fair value on a non-recurring basis

As at 31 December 2019 and 2018, no assets measured at fair value on a non-recurring basis are held by the Company.

(3) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include receivables, short-term borrowings, payables, long-term borrowings and long-term payables.

As at 31 December 2019 and 31 December 2018, the carrying amount of the financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

11 Capital management

The Company's capital management policies aim to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may increase capital or sell assets to reduce debts.

The Company's total capital is calculated as "owner's equity" as shown in the balance sheet. The Company is not subject to external mandatory capital requirements.

As at 31 December 2019 and 31 December 2018, the Company's gearing ratio is as bellow:

	31 December 2019	31 December 2018
Gearing ratio	55.09%	66.03%

12 Subsequent events

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Company will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Company. As at the date on which this set of financial statements were authorised for issue, the Company was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.