NOVELIS (SHANGHAI) ALUMINUM TRADING 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 (SHANGHAI) ALUMINUM TRADING CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR
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. 25411

To the Board of Directors of Novelis (Shanghai) Aluminum Trading Co., Ltd.:

Opinion

What we have audited

We have audited the accompanying financial statements of Novelis (Shanghai) Aluminum Trading 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 (Shanghai) Aluminum Trading 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.

To the Board of Directors of Novelis (Shanghai) Aluminum Trading 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 — Signing CPA: Canty Dong
08 May 2020

NOVELIS (SHANGHAI) ALUMINUM TRADING 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)	97,528,245.70	94,356,624.67
Accounts receivables	6(2)	20,427,208.49	20,361,457.33
Advances to suppliers	6(4)	2,849,852.89	2,835,318.99
Other receivables	6(3)	2,604,982.41	274,627.25
Other current assets	6(5)	219,594.07	612,600.83
Total current assets		123,629,883.56	118,440,629.07
Non-current assets			
Fixed assets	6(6)	-	282.15
Deferred tax assets	6(10)	93,729.49	320,816.51
Total non-current assets		93,729.49	321,098.66
TOTAL ASSETS		123,723,613.05	118,761,727.73
LIABILITIES AND OWNER'S EQUITY			
Current liabilities			
Accounts payables	7(4)	5,225,162.92	2,872,905.55
Employee benefits payable	6(7)	3,167,539.77	3,073,618.77
Taxes payable	6(8)	524,538.26	592,284.19
Other payables	6(9)	374,917.86	1,283,266.04
Total current liabilities		9,292,158.81	7,822,074.55
Total liabilities		9,292,158.81	7,822,074.55
Owner's equity			
Paid-in capital (USD 3,500,000)		22,143,725.48	22,143,725.48
Surplus reserve	6(11)	9,228,772.88	8,879,592.77
Undistributed profits		83,058,955.88	79,916,334.93
Total owner's equity		114,431,454.24	110,939,653.18
TOTAL LIABILITIES AND OWNER'S EQUITY		123,723,613.05	118,761,727.73

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 (SHANGHAI) ALUMINUM TRADING CO., LTD.

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

	Notes	2019	2018
1.Revenue	6(12)	50,056,766.90	47,217,802.83
Less: Cost of sales	6(12),6(15)	(47,072,360.71)	(42,419,795.43)
Taxes and surcharges	6(13)	(250,607.49)	(156,867.12)
Selling and distribution expenses	6(15)	(127,810.22)	(68,290.22)
General and administrative expenses	6(15)	(517,442.20)	(2,334,541.00)
Financial income - net	6(14)	2,773,568.96	2,895,454.99
Including: Interest income		2,839,382.41	2,946,031.22
Other income	6(16)	62,858.57	141,878.45
2.Operating profit		4,924,973.81	5,275,642.50
Less: Non-operating income		(8,308.80)	-
3.Total profit		4,916,665.01	5,275,642.50
Less: Income tax	6(17)	(1,424,863.95)	(2,048,393.57)
4.Net profit		3,491,801.06	3,227,248.93
5.Other comprehensive income, net of tax		-	-
6.Total comprehensive income		3,491,801.06	3,227,248.93

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 (SHANGHAI) ALUMINUM TRADING CO., LTD.

CASH FLOW STATEMENT
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 from operating activities			
Cash received from sales of goods or rendering of services		52,964,111.30	35,060,157.89
Cash received relating to other operating activities		(178,535.68)	137,701.24
Sub-total of cash inflows		52,785,575.62	35,197,859.13
Cash paid for goods and services		(907,654.22)	(3,085,057.91)
Cash paid to and on behalf of employees		(31,783,654.17)	(24,960,233.19)
Payments of taxes and surcharges		(3,406,332.46)	(995,364.29)
Cash paid relating to other operating activities		(16,355,797.97)	(16,268,388.41)
Sub-total of cash outflows		(52,453,438.82)	(45,309,043.80)
Net cash flows from/(used in) operating activities	6(18)	332,136.80	(10,111,184.67)
2. Cash flows from investing activities			
Cash received relating to other investing activities		2,839,382.41	2,935,406.17
Sub-total of cash inflows		2,839,382.41	2,935,406.17
Net cash flows from investing activities		2,839,382.41	2,935,406.17
3. Net cash flows from financing activities		-	-
4. Effect of foreign exchange rate changes on cash		101.82	320.03
5. Net increase/(decrease) in cash	6(18)(b)	3,171,621.03	(7,175,458.47)
Add: Cash at beginning of the year		94,356,624.67	101,532,083.14
6. Cash at end of the year		97,528,245.70	94,356,624.67

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 (SHANGHAI) ALUMINUM TRADING 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	Undistributed profits	Total owner'sequity
Balance at 1 January 2018	22,143,725.48	8,556,867.88	77,011,810.89	107,712,404.25
Movements for the year ended 31 December 2018				
Net profit	-	-	3,227,248.93	3,227,248.93
Appropriation to surplus reserves	-	322,724.89	(322,724.89)	-
Balance at 31 December 2018	22,143,725.48	8,879,592.77	79,916,334.93	110,939,653.18
Balance at 1 January 2019	22,143,725.48	8,879,592.77	79,916,334.93	110,939,653.18
Movements for the year ended 31 December 2019				
Net profit	-	-	3,491,801.06	3,491,801.06
Appropriation to surplus reserves	-	349,180.11	(349,180.11)	-
Balance at 31 December 2019	22,143,725.48	9,228,772.88	83,058,955.88	114,431,454.24

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 (Shanghai) Aluminum Trading Co., Ltd. (the "Company") is a limited liability company incorporated in Shanghai of the People's Republic of China on 31 May 2012 by Novelis Inc.. The Company has an approved operating period of 30 years. The registered capital is US$ 3,500,000.

The approved scope of business of the Company includes wholesale, commissioned agency (excluding auction), import, export of aluminum flat rolled products, metal materials (excluding rare metals, precious metals and steel), metal products, machinery and equipment, provision of ancillary services and related technical consulting and technical service (not involving any goods subject to state-run trade; if the business involves any goods subject to quota or license administration, application shall be filed in accordance with relevant national regulations); provision of trade-related information consulting (excluding financial information), and enterprise management consulting (subject to licensing where a license is required). For the year ended 31 December 2019, the actual principal activities of the Company were the same as above.

These financial statements were authorised for issue by the Company's legal representative on 8 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.

4 Summary of significant accounting policies and accounting estimates (continued)

(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 and cash equivalents

Cash and cash equivalents comprise cash on hand, 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 financial assets held by the Company are receivables.

(a) 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)).

(b) 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 the acquisition of the financial assets are included in their initially recognised amounts. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired, or all substantial risks and rewards of ownership of the financial assets have been transferred.

Receivables are measured at amortised cost using the effective interest method.

4 Summary of significant accounting policies and accounting estimates (continued)

(5) Financial assets (continued)

(c) 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 amortised 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 recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised 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 (continued)

(7) Fixed assets

Fixed assets comprise computers 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 derecognised. All the other subsequent expenditures are recognised 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 and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rates
Computer and electronic equipment	3 years	0%	33.33%

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.

(8) 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. 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 recognised, it will not be reversed for the value recovered in the subsequent periods.

4 Summary of significant accounting policies and accounting estimates (continued)

(9) 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 (continued)

(10) 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.

(11) 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 rebates, discounts and returns.

Revenue is recognised when it's 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 services

The Company provides labor services to related parties. Revenue is recognized upon providison of service and receipt of right for collection.

4 Summary of significant accounting policies and accounting estimates (continued)

(12) Government grant

Government grants refer to the monetary or non-monetary assets obtained freely by an enterprise from the government, but excluding the capital invested by the government as the owner of the enterprise.

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.

(13) 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 recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

4 Summary of significant accounting policies and accounting estimates (continued)

(14) 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.

(a) Critical accounting estimates and judgments

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 financial 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) 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.

(15) 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	Tax 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 less deductible VAT input of current period)
City maintenance and construction tax	7%	The payment amount of VAT
Education surcharges	5%	The payment amount of VAT

(a) 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 on hand

	31 December 2019	31 December 2018
Cash at bank	97,528,245.70	94,356,624.67

(2) Accounts receivables

	31 December 2018			31 December 2019
Accounts receivable	20,361,457.33			20,427,208.49
		Increase in current year	Decrease in current year	
Less: provision for bad debts	-	-	-	-
	20,361,457.33			20,427,208.49

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

	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	20,427,208.49	100.00%	-	20,361,457.33	100.00%	-

6 Notes to the financial statements (continued)

(3) Other receivables

	31 December 2018			31 December 2019
Receivables from related parties (Note7(4)(b))	-			2,088,960.91
Rental deposit	227,390.90			259,390.90
Others	47,236.35			256,630.60
	274,627.25			2,604,982.41
		Increase in current year	Decrease in current year	
Less: provision for bad debts	-	-	-	-
	274,627.25			2,604,982.41

Other receivables and related provision for bad debts are analysed below:

	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	2,534,982.41	97.31%	-	186,627.25	67.96%	-
1 to 2 years	50,000.00	1.92%	-	88,000.00	32.04%	-
2 to 3 years	20,000.00	0.77%	-	-	0.00%	-
	2,604,982.41	100.00%	-	274,627.25	100.00%	-

(4) Advances to suppliers

The aging of advances to suppliers is analysed below:

	31 December 2019		31 December 2018	
Aging	Amount	% of total balance	Amount	% of total balance
Within 1 year	2,849,852.89	100%	2,835,318.99	100.00%

(5) Other current assets

	31 December 2019	31 December 2018
Prepaid VAT	219,594.07	610,855.63
Others	-	1,745.20
	219,594.07	612,600.83

6 Notes to the financial statements (continued)

(6) Fixed assets

	Computer and electronic equipment
Cost	
31 December 2018	254,814.83
31 December 2019	254,814.83
Accumulated depreciation	
31 December 2018	(254,532.68)
Increase in the current year	(282.15)
31 December 2019	(254,814.83)
Net book value	
31 December 2019	-
31 December 2018	282.15

In 2019, the amount of depreciation expense charged to general and administrative expenses was RMB 282.15 (2018：RMB 11,859.24).

(7) Employee benefits payable

	31 December 2019	31 December 2018
Short-term employee benefits payable(a)	3,167,539.77	3,073,618.77
Defined contribution plans payable(b)	-	-
	3,167,539.77	3,073,618.77

(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	3,073,618.77	27,818,076.90	(27,724,155.90)	3,167,539.77
Social security contributions	-	980,978.55	(980,978.55)	-
Including: Medical insurance	-	886,245.66	(886,245.66)	-
Work injury insurance	-	17,668.28	(17,668.28)	-
Maternity insurance	-	77,064.61	(77,064.61)	-
Housing funds	-	1,066,076.00	(1,066,076.00)	-
	3,073,618.77	29,865,131.45	(29,771,210.45)	3,167,539.77

(b) Defined contribution plans payable

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Basic pensions	-	1,935,379.11	(1,935,379.11)	-
Unemployment insurance	-	77,064.61	(77,064.61)	-
	-	2,012,443.72	(2,012,443.72)	-

6 Notes to the financial statements (continued)

(8) Taxes payable

	31 December 2019	31 December 2018
Enterprise income tax payables	524,538.26	592,284.19

(9) Other payables

	31 December 2019	31 December 2018
Professional fees	195,044.00	803,392.08
Accrued staff costs	179,873.86	479,873.96
	374,917.86	1,283,266.04

(10) Deferred tax assets

(a) Deferred tax assets

	31 December 2019		31 December 2018	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Accrued expenses	93,729.49	374,917.96	320,816.51	1,283,266.04
Including:				
Amount to be recovered within 1 year (including 1 year)	93,729.49		320,816.51	

(11) Surplus reserve

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Reserve fund	8,879,592.77	349,180.11	-	9,228,772.88

	31 December 2017	Increase in current year	Decrease in current year	31 December 2018
Reserve fund	8,556,867.88	322,724.89	-	8,879,592.77

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 349,180.11 (2018: RMB 322,724.89).

6 Notes to the financial statements (continued)

(12) Revenue and cost of sales

	2019		2018	
	Revenue	Cost of sales	Revenue	Cost of sales
Main operations				
-sale of aluminum flat rolled products	2,547,877.97	(2,496,888.85)	6,069,997.70	(4,210,814.12)
Other business				
-Labor services to related parties (Note7(3))	47,508,888.93	(44,575,471.86)	41,147,805.13	(38,208,981.31)
	50,056,766.90	(47,072,360.71)	47,217,802.83	(42,419,795.43)

(13) Taxes and surcharges

	2019	2018
City maintenance and construction tax	133,956.29	81,994.88
Educational surcharge	85,242.30	58,447.04
Stamp duty	31,408.90	16,425.20
	250,607.49	156,867.12

(14) Financial income - net

	2019	2018
Interest income	2,839,382.41	2,946,031.22
Exchange losses - net	(58,500.33)	(44,360.66)
Bank charges	(7,313.12)	(6,215.57)
	2,773,568.96	2,895,454.99

(15) Expenses by nature

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

	2019	2018
Employee benefits	31,877,575.17	24,587,627.65
Travelling expenses	4,641,551.65	4,486,216.22
Rental fees	3,206,174.46	2,919,942.64
Resettlement fees	3,179,441.65	1,439,416.99
Cost of goods sold	2,496,888.85	6,805,971.56
Marketing expenses	1,477,608.75	1,627,015.46
Communication expenses	528,335.46	660,153.19
Professional service fees	309,754.99	2,284,423.70
Depreciation and amortization	282.15	11,859.24
	47,717,613.13	44,822,626.65

6 Notes to the financial statements (continued)

(16) Other income

	2019	2018	Asset related/ Income related
Tax refund	62,858.57	141,878.45	Income related

(17) Income tax

	2019	2018
Current income tax	1,197,776.93	1,124,375.70
Deferred income tax	227,087.02	924,017.87
	1,424,863.95	2,048,393.57

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	4,916,665.01	5,275,642.50
Income tax rate	25%	25%
Income tax expenses calculated at applicable tax rates	1,229,166.25	1,318,910.63
Effect of costs, expenses and losses not deductible for tax purposes	195,697.70	213,485.40
Deductible temporary differences for which no deferred income tax asset was recognised	-	(157,372.95)
Difference of tax settlement	-	673,370.49
Income tax expenses	1,424,863.95	2,048,393.57

(18) Notes to the cash flow statement

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

	2019	2018
Net profit	3,491,801.06	3,227,248.93
Add: Depreciation of fixed assets	282.15	11,859.24
Financial income	(2,839,484.23)	(2,935,726.20)
Decrease in deferred tax assets	227,087.02	924,017.87
Increase in operating receivables	(2,410,640.22)	(7,304,257.50)
Decrease in operating payables	1,863,091.02	(4,034,327.01)
Net cash flows from/(used in) operating activities	332,136.80	(10,111,184.67)

(b) Net changes in cash

	2019	2018
Cash at the end of the year	97,528,245.70	94,356,624.67
Less: cash at the beginning of the year	(94,356,624.67)	(101,532,083.14)
Net increase/(decrease) in cash	3,171,621.03	(7,175,458.47)

7 Related parties and related party transactions

(1) The parent company

(a) General information of the parent company

	Place of registration	Nature of business
Novelis Inc.	Canada	Manufacturing industry

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

(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 are not controlled by the Company

	Relationship with the Company
Novelis Services Limited (UK)	Controlled by the same ultimate parent company
Novelis Korea Limited	Controlled by the same ultimate parent company
Novelis Global Employment Organization Inc.	Controlled by the same ultimate parent company
Novelis Inc. US Branch	Controlled by the same ultimate parent company
Novelis Kingston Works	Controlled by the same ultimate parent company
Novelis (China) Aluminum Products Co., Ltd.	Controlled by the same ultimate parent company

7 Related parties and related party transactions (continued)

(3) Related party transactions

(a) Pricing policies

The Company's pricing policies on services provided to related parties are based on contract in terms of cost with markup. The Company's pricing policies on procurement of inventories 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) Purchases of goods

	2019	2018
Novelis (China) Aluminum Products Co., Ltd.	2,496,888.93	7,436,094.67

(c) Rendering of service

	2019	2018
Novelis (China) Aluminum Products Co., Ltd.	44,562,565.57	36,851,458.18
Novelis Korea Limited	1,517,165.71	2,749,725.21
Novelis Inc.	1,429,157.65	1,546,621.74
	47,508,888.93	41,147,805.13

(d) Cashpool – interest income

	2019	2018
Novelis (China) Aluminum Products Co., Ltd.	2,829,857.65	2,935,406.17

(e) Expenses paid by related parties

	2019	2018
Novelis Global Employment Organization Inc.	3,223,004.40	1,627,094.17
Novelis Inc. US Branch	-	193,446.16
	3,223,004.40	1,820,540.33

7 Related parties and related party transactions (continued)

(4) Receivables from and payables to related parties

(a) Accounts receivables

	31 December 2019	31 December 2018
Novelis (China) Aluminum Products Co., Ltd.	19,479,155.91	17,276,246.55
Novelis Korea Limited	349,151.07	406,922.95
Novelis Inc.	359,078.82	603,219.85
	20,187,385.80	18,286,389.35

(b) Other receivables

	31 December 2019	31 December 2018
Novelis (China) Aluminum Products Co., Ltd.	2,088,960.91	-

(c) Accounts payables

	31 December 2019	31 December 2018
Novelis Global Employment Organization Inc.	4,630,954.06	1,385,143.78
Novelis Inc. US Branch	381,500.47	193,446.16
Novelis (China) Aluminum Products Co., Ltd.	212,708.39	1,112,440.80
Novelis Inc.	-	181,874.81
	5,225,162.92	2,872,905.55

(d) Advances to suppliers

	31 December 2019	31 December 2018
Novelis Services Limited(UK)	694,696.97	683,444.32
Novelis Kingston Works	202,568.76	199,287.56
	897,265.73	882,731.88

8 Commitments

(1) Operating lease commitments

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

	31 December 2019	31 December 2018
Within 1 year	2,437,640.31	2,866,019.40
1 to 2 years	-	2,124,514.55
	2,437,640.31	4,990,533.95

9 Financial risk

The Company's activities expose it to a variety of financial risks: market risk (primarily currency 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. Sales of products are mainly denominated in RMB, and purchases of products are partially denominated in EUR and USD. The Company is exposed to foreign exchange risk arising from the recognized 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. During 2019 and 2018, the Company did not enter into any forward exchange contracts or currency swap contracts.

As at 31 December 2019 and 31 December 2018, the carrying amounts in RMB equivalent of the Company’s assets and liabilities denominated in foreign currencies are summarized below:

	31 December 2019	
	USD	Total
Financial assets denominated in foreign currency -		
Cash at bank and on hand	6,285.70	6,285.70
Accounts receivables	349,151.07	349,151.07
	355,436.77	355,436.77
Financial liabilities denominated in foreign currency -		
Accounts payables	5,012,454.53	5,012,454.53

9 Financial risk (continued)

(1) Market risk (continued)

(a) Foreign exchange risk (continued)

	2018 年 12 月 31 日	
	USD	Total
Financial assets denominated in foreign currency -		
Cash at bank and on hand	6,183.88	6,183.88
Accounts receivables	1,174,132.37	1,174,132.37
	1,180,316.25	1,180,316.25
Financial liabilities denominated in foreign currency		
Accounts payables	1,760,464.74	1,760,464.74

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 profit for the year would have been approximately RMB 139.710.53 higher/lower (31 December 2018 approximately RMB 43,511.14 lower/higher) for various financial assets and liabilities denominated in foreign currencies.

(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 had no long-term interest bearing borrowings (31 December 2018: RMB 0).

The Company's finance department at its headquarters continuously monitors the interest rate position of the Company. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Company's outstanding floating rate borrowings, 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.

9 Financial risk(continued)

(2) Credit risk

Credit risk is managed on a group basis. Credit risk mainly arises from cash at bank, notes receivable ,accounts receivable and other receivables, etc.

The Company expects that there is no significant credit risk associated with cash at bank since they are deposited at a large size listed bank. Management does not expect that there will be any significant losses from non-performance by this 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. The finance department 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.

The financial liabilities of the Company at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2019	31 December 2018
	Within 1 year	Within 1 year
Accounts payables	5,225,162.92	2,872,905.55
Other payables	195,044.00	803,392.08
	5,420,206.92	3,676,297.63

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.

(a) Assets measured at fair value on a recurring basis

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

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

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

(c) 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 and 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 adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Company's total capital is calculated as "owners's equity" as shown in the balance sheet. The Company is not subject to external mandatory capital requirements, and monitors capital on the basis of gearing ratio.

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

	31 December 2019	31 December 2018
Gearing ratio	7.51%	6.59%

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.