

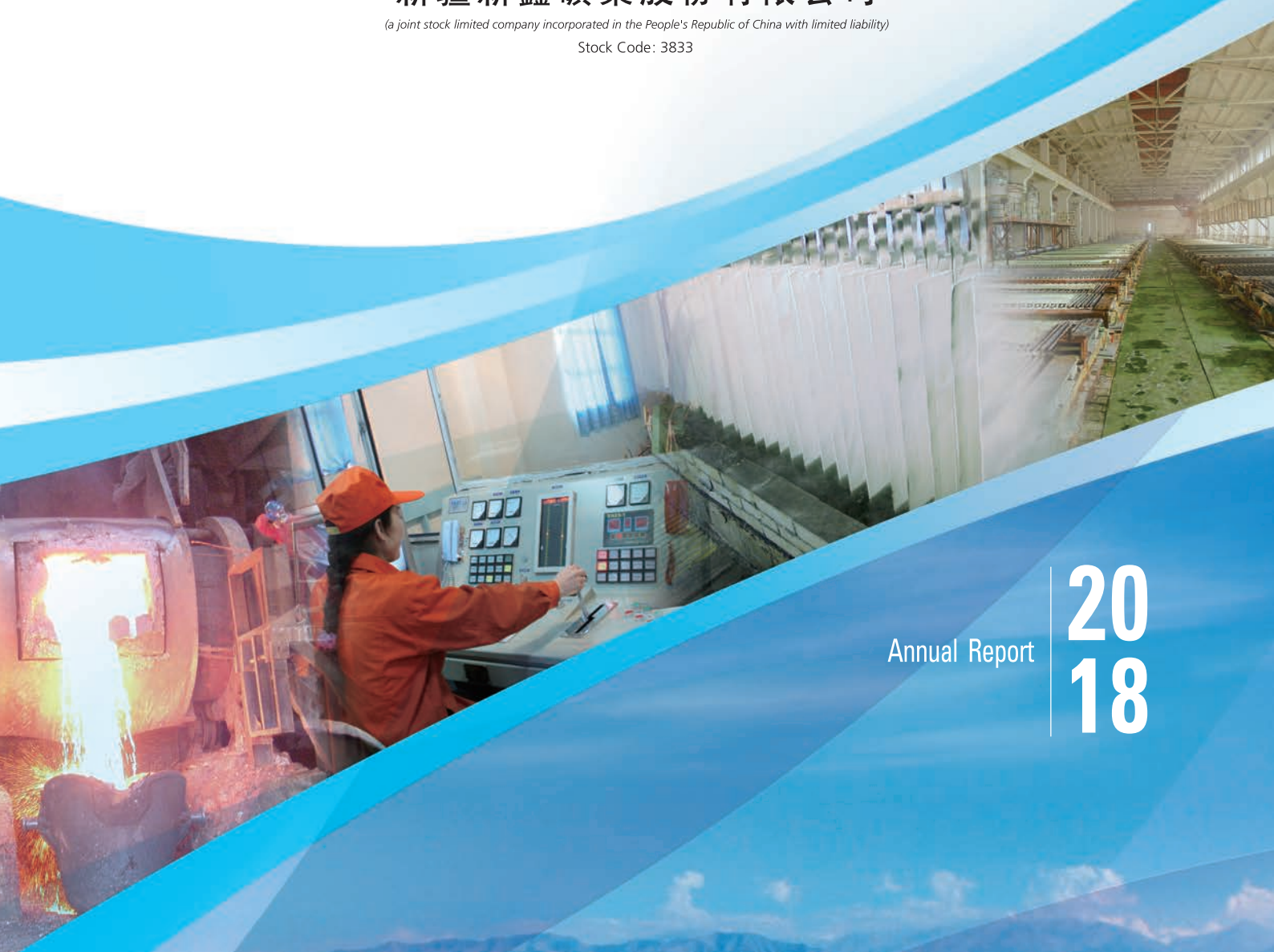


Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫矿业股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code: 3833



Annual Report

20
18



We See The Future

*For identification purpose only

CONTENTS

| | |
|-----|---|
| 2 | Corporate Information |
| 5 | Summary of Financial Information |
| 6 | Chairman’s Statement |
| 11 | Management Discussion and Analysis |
| 16 | Directors, Supervisors and Senior Management |
| 22 | Corporate Governance Report |
| 33 | Environmental, Social and Governance Report |
| 40 | Report of the Directors |
| 53 | Report of the Supervisory Committee |
| 57 | Independent Auditor’s Report |
| 65 | Consolidated and Company Balance Sheets |
| 68 | Consolidated and Company Income Statements |
| 70 | Consolidated and Company Cash Flow Statements |
| 72 | Consolidated Statement of Changes in Shareholders’ Equity |
| 73 | Company Statement of Changes in Shareholders’ Equity |
| 74 | Notes to Financial Statements |
| 196 | Supplemental Information for Financial Statements |

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Guo Quan
Liu Jun

NON-EXECUTIVE DIRECTORS

Zhang Guohua (*Chairman*)
Zhou Chuanyou (*Vice Chairman*)
Shi Wenfeng
Hu Chengye

INDEPENDENT NON-EXECUTIVE DIRECTORS

Hu Benyuan
Wang Lijin
Li Wing Sum, Steven

SUPERVISORS

Yu Wenjiang (*Chairman*)
Li Jiangping
Chen Rong
Meng Guojun
Yao Wenying

AUDIT COMMITTEE

Hu Benyuan (*Chairman*)
Li Wing Sum, Steven
Hu Chengye

REMUNERATION AND REVIEW COMMITTEE

Wang Lijin (*Chairman*)
Zhou Chuanyou
Guo Quan
Hu Benyuan
Li Wing Sum, Steven

NOMINATION COMMITTEE

Zhang Guohua (*Chairman*)
Wang Lijin
Li Wing Sum, Steven

STRATEGIC DEVELOPMENT COMMITTEE

Zhang Guohua (*Chairman*)
Zhou Chuanyou
Shi Wenfeng
Guo Quan
Wang Lijin

COMPANY SECRETARIES

Lam Cheuk Fai *FCCA, FCPA*
Zhang Junjie

AUTHORISED REPRESENTATIVES

Shi Wenfeng
Lam Cheuk Fai
Li Wing Sum, Steven (*Alternate*)

REGISTERED OFFICE IN HONG KONG

6/F Nexxus Building
41 Connaught Road Central
Central, Hong Kong

STATUTORY ADDRESS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

7/F Youse Building
No. 4 You Hao North Road
Urumqi
Xinjiang

LEGAL ADVISERS

Eversheds Sutherland (Hong Kong law)
Beijing Grandway Law Offices (PRC law)

AUDITORS

International and PRC auditors
PricewaterhouseCoopers Zhong Tian LLP

H SHARE REGISTRAR IN HONG KONG

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

PUBLIC RELATIONS

Wonderful Sky Financial Group Limited

COMPANY WEBSITE

kunlun.wsfg.hk

STOCK CODE

3833

SUMMARY

Xinjiang Xinxin Mining Industry Co., Ltd.* (the “Company”) was incorporated on 1 September 2005 with the approval of the People’s Government of Xinjiang Uygur Autonomous Region as a joint stock limited company in the People’s Republic of China (the “PRC”) by way of promotion with Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業(集團)有限責任公司) (“Xinjiang Non-Ferrous”), Shanghai Yilian Kuangneng Co. Ltd.* (上海怡聯礦能實業有限公司) (“Shanghai Yilian”), Zhongjin Investment (Group) Ltd.* (中金投資(集團)有限公司) (“Zhongjin Investment”), Zijin Mining Group (Xiamen) Investment Co., Ltd.* (紫金礦業集團(廈門)投資有限公司), Xinjiang Xinying New Material Co. Ltd.* (新疆信盈新型材料有限公司) and Shaanxi Honghao Industry Co., Ltd.* (陝西鴻浩實業有限公司) acting as the promoters (collectively referred to as the “Promoters”).

The Promoters hold in aggregate 1,451,000,000 domestic shares of the Company. In October 2007, 759,000,000 H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company was the first Chinese nickel cathode production enterprise listed outside the PRC.

On 9 March 2016, Shaanxi Honghao Industry Co., Ltd.* (陝西鴻浩實業有限公司) transferred all of 6,272,000 domestic shares held by it in the Company to Shaanxi Guangyou trade Co., Ltd.* (陝西廣優貿易有限公司) by means of negotiated assignment, after which, Shaanxi Guangyou trade Co., Ltd.* (陝西廣優貿易有限公司) holds 6,272,000 domestic shares of the Company.

The Company and its subsidiaries (the “Group”) are the second largest nickel cathode producer in the PRC utilizing nickel sulfide resources and are principally engaged in the mining, ore processing, smelting and refining operations and sales of nickel, copper and other non-ferrous metals. The major product of the Group is nickel cathode. The secondary product includes copper cathode. Cobalt products, gold, silver, platinum and palladium are also produced and derived from the Group’s main production process.

In addition to the Kalatongke nickel-copper mine held by the Company at the time of establishment, the Company acquired Huangshandong (黃山東), Huangshan (黃山) and Xiangshan (香山), three nickel-copper mines in Hami, Xinjiang in 2009. The Company held 100% equity interests in the above four nickel-copper mines.

The Company acquired 51% equity interests in Shaanxi Xinxin Mining Co., Ltd (“Shaanxi Xinxin”) in 2011. Shaanxi Xinxin held two vanadium mines in Xianghe Street and Mujia River in Shangnan, Shaanxi (陝西商南縣的湘河街和穆家河) in which the Company held 51% equity interests thereof. As at 31 December 2018, two vanadium mines in Xianghe Street and Mujia River were still under the stage of resource exploration and no mining activities had been conducted yet.

CORPORATE INFORMATION

RESOURCES AND RESERVES

The resources and reserves estimates for the deposits of four nickel-copper mines in Kalatongke, Huangshandong, Huangshan and Xiangshan as at 31 December 2018 are set out in the following tables:

| | Ore contents (t) | Grade Cu (%) | Ni (%) | Metal contents Cu (t) | Ni (t) |
|--|---------------------|--------------------|-----------|-----------------------------|----------------|
| Resources as at 31 December 2018 | | | | | |
| Kalatongke nickel-copper mine | 29,825,994 | 0.97 | 0.56 | 288,932 | 167,403 |
| Three nickel-copper mines in Huangshandong, Huangshan, Xiangshan | 79,195,654 | 0.27 | 0.45 | 215,286 | 352,837 |
| Total | 109,021,648 | | | 504,218 | 520,240 |
| Reserves as at 31 December 2018 | | | | | |
| Kalatongke nickel-copper mine | 19,473,970 | 1.00 | 0.62 | 195,623 | 119,781 |
| Three nickel-copper mines in Huangshandong, Huangshan, Xiangshan | 29,758,688 | 0.31 | 0.49 | 91,359 | 145,689 |
| Total | 49,232,658 | | | 286,982 | 265,470 |

Note: The resources and reserves estimates for the deposits of Kalatongke nickel-copper mine were based on the 2007 estimates in the independent technical review report as shown in the Company's Prospectus dated 27 September 2007. The resources and reserves estimates for the deposits at three nickel-copper mines in Huangshandong, Huangshan and Xiangshan mines were based on the 2008 estimates of resources and reserves as approved for record by the Department of Land and Resources of the PRC. The increases and decreases in resources and reserves due to mining consumption and exploration during the period were confirmed by internal experts.

The resources estimates for the deposits of two vanadium mines in Xianghe Street and Mujia River as at 31 December 2018 are set out in the following table:

| | Ore contents (t) | V ₂ O ₅ grade (%) | V ₂ O ₅ contents (t) |
|---|---------------------|--|---|
| Resources as at 31 December 2018 | | | |
| Xianghe Street vanadium mine | 10,159,400 | 0.95 | 96,300 |
| Mujia River vanadium mine | 29,295,500 | 0.88 | 257,800 |
| Total | 39,454,900 | | 354,100 |

Note: The resources estimates for the deposits at two vanadium mines in Xianghe Street and Mujia River were based on the 2012 estimates of resources as approved for record by the Land and Resources Bureau of Shaanxi Province.

SUMMARY OF FINANCIAL INFORMATION

Year ended/As at 31 December

(RMB'000)

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|------------|------------|-----------|-----------|------------------|
| RESULTS OF OPERATIONS | | | | | |
| Revenue | 3,392,424 | 2,685,877 | 2,042,488 | 1,385,642 | 1,749,978 |
| Gross operating profit/(loss)* | 397,462 | (213,803) | 71,364 | 167,864 | 271,724 |
| Net profit/(loss) or total comprehensive income/(loss) attributable to | | | | | |
| – Shareholders of the Company | 12,748 | (943,130) | (236,344) | (82,860) | (134,132) |
| – Non-controlling interests | 77,762 | (741,059) | (207,068) | (81,587) | (54,193) |
| | (65,014) | (202,101) | (29,276) | (1,273) | (79,939) |
| Earnings/(loss) per share | | | | | |
| – basic and diluted (RMB/share) | 0.035 | (0.335) | (0.094) | (0.037) | (0.025) |
| CASH FLOWS | | | | | |
| Net cash flows (used in)/generated from operating activities | 672,283 | (146,045) | 527,240 | 487,171 | 261,935 |
| FINANCIAL POSITION | | | | | |
| Total assets | 11,885,837 | 11,903,168 | 8,088,283 | 7,779,916 | 7,902,019 |
| Total liabilities | 6,286,996 | 7,238,847 | 3,636,571 | 3,417,397 | 3,673,865 |
| Equity attributable to shareholders of the Company | 5,313,820 | 4,581,401 | 4,375,876 | 4,287,956 | 4,233,530 |
| Non-controlling interests | 285,021 | 82,920 | 75,836 | 74,563 | (5,376) |
| Total shareholders' equity | 5,598,841 | 4,664,321 | 4,451,712 | 4,362,519 | 4,228,154 |
| Cash and cash equivalents | 558,624 | 506,128 | 100,406 | 346,307 | 489,204 |
| KEY FINANCIAL RATIOS | | | | | |
| Gross profit/(loss) margin (%) | 11.72 | (7.96) | 3.49 | 12.11 | 15.53 |
| Net profit/(loss) margin (%) | 0.38 | (35.11) | (11.57) | (5.98) | (7.66) |
| Gearing ratio (%) (net debts/total capital*) | 41.01 | 48.65 | 36.48 | 31.27 | 31.96 |
| Current ratio (times) | 1.1 | 0.9 | 1.3 | 0.9 | 1.0 |

* Gross operating profit/(loss): Revenue – Cost of sales – Taxes and surcharges

* Total Capital: net debts + total equity

CHAIRMAN'S STATEMENT

Dear Shareholders,

I would like to extend my gratitude for your confidence and support to Xinjiang Xinxin Mining Industry Co., Ltd.* (the "Company") and its subsidiaries (collectively the "Group"). I am pleased to report the operating results for the year ended 31 December 2018 ("Year 2018" or the "Year"):

MARKET OVERVIEW

In 2018, the average three-month future price of nickel cathode in London Metal Exchange was US\$13,182 per tonne, representing an increase of 26.0% as compared to that in 2017, and the average three-month future price of copper cathode was US\$6,548 per tonne, representing an increase of 5.7% as compared to that in 2017.

In 2018, the average spot price (including tax) of nickel cathode in Shanghai Yangtze River Non-ferrous Metals Spot Market was RMB104,860 per tonne, representing an increase of 22.4% as compared to that in 2017, and the average spot price (including tax) of copper cathode was RMB50,654 per tonne, representing an increase of 3.0% as compared to that in 2017.

The domestic price trends of nickel cathode and copper cathode were basically in line with the international market in 2018.

INDUSTRY POSITION

The Group is a mining company principally engaged in the mining, ore processing, smelting and refining of nickel cathode products and other non-ferrous metals (namely, copper, cobalt, gold, silver, platinum and palladium). According to the statistics of China Non-ferrous Metals Industry Association, the total domestic output of nickel for the year of 2018 amounted to 180,000 tonnes, representing an increase of 6.4% as compared to that in 2017. With an output of 10,127 tonnes of nickel cathode for the year of 2018, the Group remains the second largest domestic manufacturer of nickel cathode produced with nickel sulfide resources.

BUSINESS REVIEW

Production and Operation

For the year of 2018, in order to cope with the adverse impact on enterprises caused by the relatively lower prices of nickel cathode in both international and domestic markets and the rising procurement prices of raw materials, and in accordance with the relevant requirements of the State and Xinjiang government regarding production safety and environmental protection improvement, the Group took a series of measures to lower product costs and expenditures as well as improve overall operation efficiency of the Company. Such measures included upgrading and transforming the production safety and environmental protection facilities and the major production processes, enhancing the Party Building work and other fundamentals of the corporate management, adjusting internal operation structure, optimizing the technical and economic indicators of production processes, strictly controlling non-production expenditures, improving technological renovation and capacity expansion projects as well as fulfilling planned production volume and attaining stated targets through performing the craftsmanship adjustment and testing and commissioning as soon as possible. In the meantime, the Group intensified analysis and research of products market, and adopted the marketing strategies of pricing sales combining spot and futures, which in turn achieved the goal to realize the sales of major products of the Group with a relatively higher market price and enhance the economic efficiency.

CHAIRMAN'S STATEMENT

For the year of 2018, the Group recorded a total nickel cathode output of 10,127 tonnes, representing an increase of 1.0% as compared to that in 2017; and a total copper cathode output of 8,533 tonnes, representing an increase of 6.4% as compared to that in 2017. For the year of 2018, the Group overcame the impact caused by storm and flood disasters in Hami District, elaborately organised production and explored internal potentials, while continuing to conduct production safety governance and environmental protection facilities management according to the relevant requirements of the State and Xinjiang government regarding production safety and environmental protection improvement, resulting in an increase in the production volume of major products, namely nickel cathode and copper cathodes, as compared to that for the year of 2017.

For the year of 2018, the Group recorded total nickel cathode sales of 12,305 tonnes, representing an increase of 22.9% as compared to that in 2017. Total copper cathode sales was 9,709 tonnes, representing an increase of 32.2% as compared to that in 2017.

For the year of 2018, the Group recorded an average selling price of nickel cathode (tax exclusive) of RMB95,844 per tonne, representing an increase of 24.9% as compared to that in 2017. The average selling price of copper cathode (tax exclusive) amounted to RMB42,487 per tonne in 2018, representing an increase of 2.1% as compared to that in 2017.

For the year of 2018, the Group recorded an average cost of sales of nickel cathode of RMB77,779 per tonne, representing an increase of 3.3% as compared to that in 2017. The average cost of sales of copper cathode amounted to RMB39,556 per tonne in 2018, representing an increase of 25.7% as compared to that in 2017.

For the year of 2018, the Group achieved revenue of RMB1,750.0 million, representing an increase of 26.3% as compared to that in 2017, and a net loss of RMB134.1 million, as compared to a net loss of RMB82.9 million in 2017; a comprehensive loss attributable to shareholders of the Company amounted to RMB54.2 million, as compared to a comprehensive loss attributable to shareholders of the Company of RMB81.6 million for the year of 2017, and a loss per share (basic and diluted) of RMB0.025 as compared to a loss per share (basic and diluted) of RMB0.037 in 2017.

Mineral exploration activities: For the year of 2018, Xinjiang Kalatongke Mining Industry Company Limited ("Kalatongke Mining") mainly completed mineral exploration projects such as 10,078 meters of drilling in pit and 610 meters of surface drilling. Xinjiang Yakesi Resources Co. Ltd. ("Xinjiang Yakesi") and Hami Jubao Resources Co. Ltd. ("Hami Jubao") mainly completed mineral exploration projects such as 3,878 meters of drilling in pit and 633 meters of surface drilling. For the year of 2018, the total amount of expenditure that the Group expended on exploration was approximately RMB2.9 million.

Mining development activities: For the year of 2018, Kalatongke Mining mainly completed mining development projects, such as construction of 678 meters of various tunnels from 590 mid-segment to 770 mid-segment of No. 1 ore body expansion project and at 410 mid-segment of No. 3 ore body, construction of 296 meters of various wellbores, etc. Xinjiang Yakesi and Hami Jubao mainly completed mining development projects, such as construction of 591 meters of various tunnels and wellbores at 150 mid-segment to 450 mid-segment of No. 30 ore body in Huangshan, construction of 118 meters of slope supporting, and construction of 14 meters of various wellbores and 418 cubic meters of supporting and prevention areas of Huangshandong No. 12 mining area. For the year of 2018, the Group's total expenditure for mining development activities amounted to approximately RMB35.6 million.

Ore mining: For the year of 2018, Kalatongke Mining produced 907,938 tonnes of ore, while Xinjiang Yakesi and Hami Jubao produced 1,298,126 tonnes of ore. For the year of 2018, the aggregate expenditures of the ore mining operation of the Group was approximately RMB250.6 million.

CHAIRMAN'S STATEMENT

Ore processing: For the year of 2018, Kalatongke Mining produced 128,515 tonnes of nickel-copper combined concentrate, while Xinjiang Yakesi and Hami Jubao produced 61,160 tonnes of nickel concentrate and 9,221 tonnes of copper concentrate.

Smelting and refining: For the year of 2018, Kalatongke Mining produced 19,272 tonnes of water hardening and nickel matte. Xinjiang Zhongxin Mining Company Limited ("Hami Zhongxin") produced 8,058 tonnes of water hardening and nickel matte. Fukang Refinery manufactured 10,127 tonnes of nickel cathode and 8,533 tonnes of copper cathode and 105 tonnes of electrolytic cobalt.

Sales: For the year of 2018, the Group achieved revenue from principal businesses of RMB1,735.6 million in total, which comprised RMB1,179.4 million of sales revenue from nickel cathode, accounting for 68.0% of the revenue from principal businesses of the Group; RMB412.5 million of sales revenue from copper cathode, accounting for 23.8% of the revenue from principal businesses of the Group; and RMB143.7 million of sales revenue from other products (including copper concentrate, electrolytic cobalt, gold, silver, platinum and palladium), representing 8.2% of the revenue from principal businesses of the Group.

For the year of 2018, the Group continued to conduct the construction of production safety governance and environmental protection facilities management according to the relevant requirements of the State and Xinjiang government regarding production safety and environmental protection improvement. In addition, the storm and flood disasters resulted in decreased production and operating time. Save as disclosed above, in 2018, the overall production and operation of the Group were stable, with no other material operation difficulties or operational problems.

Progress of Technological Renovation and Capacity Expansion Projects

For the year of 2018, the technological renovation and capacity expansion projects carried out by the Group mainly included: the technological renovation and capacity expansion project involving the enhancement of the mining, ore processing and smelting capacities and environmental protection improvement of Kalatongke Mining, the technological renovation and capacity expansion project of Fukang Refinery involving the enhancement of the auxiliary facilities to improve the refining capacities of nickel cathode and copper cathode and environmental protection improvement, and the technological renovation and capacity expansion project for the addition of the mining and ore processing capacities of Xinjiang Yakesi. The major technological renovation and capacity expansion projects of the Group proceeded smoothly as a whole in 2018 and the required progress of works was achieved on time during the Reporting Year. The investment on each technological renovation project is as follows:

For the year of 2018, a total of RMB48.0 million was invested in the further enhancement of the technological renovation and capacity expansion project involving the daily mining capacity of 3,400 tonnes, daily ore processing capacity of 3,000 tonnes, annual production capacity of water hardening and nickel matte of 8,000 tonnes as well as environmental protection improvement of Kalatongke Mining.

For the year of 2018, a total of RMB18.8 million was invested in the further enhancement of the technological renovation and capacity expansion project of Fukang Refinery involving the enhancement of the auxiliary facilities to improve the refining capacities of nickel cathode and copper cathode, as well as environmental protection improvement.

As for the technological renovation and capacity expansion project of Xinjiang Yakesi and Hami Jubao in relation to the addition of the daily mining and ore processing capacities of 4,000 tonnes, a total investment of RMB43.4 million was made in 2018.

CHAIRMAN'S STATEMENT

Safety and Environmental Protection

The Group adheres to the safety and environmental protection policies of "Safety First, Precaution Foremost" and "Equal Emphasis on Both Resources Development and Environmental Protection" earnestly to ensure its production safety and environmental protection. In 2018, the Group achieved its target of production safety. The environmental protection was stringently observed in compliance with the relevant national laws and regulations.

OUTLOOK

Operating Environment

For the year of 2019, although there are many uncertainties affecting the recovery and development of global economy, the Chinese economy has shifted from a fast-growing period to a high-quality development phase where emphasis is placed on the optimisation of economic structure and transformation of development patterns, and will still maintain moderate and robust growth (the PRC government forecasts China's GDP growth rate target for the year of 2019 will be in a range from 6% to 6.5%). In this regard, the Group expects the consumption volume of nickel cathode and copper cathode in the domestic non-ferrous metal market will continue to increase in 2019.

Operational Objectives

For the year of 2019, the Group plans to produce 11,500 tonnes of nickel cathode and 11,590 tonnes of copper cathode. Please be cautioned that the above estimates are made on the basis of the current market situation and the existing conditions of the Group and are subject to a number of uncertainties in metal prices, domestic raw materials market and production environment. The Board may adjust the relevant production plan according to the changes of situation.

BUSINESS STRATEGIES

Production and Operation

For the year of 2019, as there are more uncertainties that may affect the recovery and development of the global economy, the Group will strengthen its research and analysis of the trend of price in the international and domestic nickel cathode and cathode copper markets combining with its actual situation and capital capability and carry out more flexible and proactive marketing strategies. Moreover, the Group will continue to strengthen the upgrading of our production safety and environmental protection facilities and major production processes to cater for the optimisation of domestic economic structure, changes in development patterns and the requirements of the State and Xinjiang government for production safety and environmental protection improvement. On top of these, the Group will fully explore its internal potential, strive to increase output and income, and further reduce its production cost and expenses through stringent control of non-production expenditures with an aim to continually generating greater economic benefits for the Group and improving its management standards and general operation efficiency.

Project Construction Work

For the year of 2019, the planned investments in the major construction projects of the Group are as follows:

Kalatongke Mining will undergo further enhancement of its technological renovation and expansion project, involving daily mining and daily ore processing capabilities of 3,400 tonnes and 3,000 tonnes respectively, annual production of 8,000 tonnes of nickel contents out of the water hardening and nickel matte, as well as environmental protection improvement, and the Company expects to invest RMB161.3 million in the plan above for the year 2019.

CHAIRMAN'S STATEMENT

Fukang Refinery will undergo further enhancement of its technological renovation and expansion project for refining auxiliary facilities to enhance the refining capacity of nickel cathode and copper cathode as well as environmental protection improvement. The Company expects to invest RMB48.5 million in the plan above for the year 2019.

We plan to invest RMB58.8 million in the technological renovation and expansion project of Xinjiang Yakesi and Hami Jubao in relation to the addition of 4,000 tonnes of daily mining and ore processing capacity for the year 2019.

Mineral Resources Control and Search for Mines by Geological Means

Mineral resources are the fundamental guarantee for the continuing development of a mining company. After all, the control of mineral resources and the search for mines by geological means are the core components of the business development of the Group. The Group places great emphasis on searching for preliminary mining projects with potentials for acquisition, enhances in-depth exploration, extends exploration in the surrounding areas of its existing major mines, and applies effective mine searching methods to achieve effective growth of the mineral resources and reserves of the Group. For the year of 2019, the Group plans to invest RMB5.6 million in in-depth exploration and extension of exploration in the surrounding area of existing major mines resources and search for mines by geological means. In particular, Kalatongke Mining plans to invest RMB3.4 million in exploration. Xinjiang Yakesi and Hami Jubao plan to invest RMB2.2 million in exploration.

Mergers and Acquisition

The Company has placed great emphasis on mergers and acquisition of enterprises since its listing. Following the successful acquisition of various mining companies including Xinjiang Yakesi, Hami Jubao, Hami Zhongxin, Shaanxi Xinxin and Hami Hexin Mining Company Limited (in which the Company holds 50% equity interest), the Group's nickel and copper resources and reserves as well as its development and production capacity achieved substantial increase. The acquisitions have further optimized the Group's production chain, strengthened its core competitiveness and uplifted the operational efficiency of assets as a whole. For the year of 2019, the Group will fully utilize its strength to enhance enterprises merger and acquisition, initiate economic cooperation and capture the business opportunities of merger and acquisition in the international and the domestic metal markets. The Group will strive for new breakthrough in terms of mergers and acquisition of enterprises and capital management leading to a new milestone for the Group.

2019 is a year both of opportunities and challenges for the Group. The Group will take more proactive and progressive operating strategies to cope with the complex situation with a number of uncertain factors affecting the recovery and development of the global economy, ensuring that the Group can manage to achieve sustained and moderate growth under an operating condition featuring high efficiency and low-cost. Also the Group has abundant resources and reserves, a favorable industry position and a sophisticated management team in the industry to enable us to enjoy sufficient benefits when the world economy further improves. The Group believes that with the great efforts of its staff and the tremendous support from various sectors of the society, the Group will achieve sustained and stable development in 2019.

By order of the Board

Zhang Guohua

Chairman

Xinjiang, the PRC
22 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

In 2018, the revenue of the Group amounted to RMB1,750.0 million, representing an increase of 26.3% as compared to RMB1,385.6 million in 2017; the comprehensive loss of the Group amounted to RMB134.1 million, as compared to the comprehensive loss of the Group amounted to RMB82.9 million in 2017; the comprehensive loss attributable to shareholders of the Company amounting to RMB54.2 million, as compared to the comprehensive loss attributable to shareholders of the Company amounting to RMB81.6 million in 2017. The increase in the comprehensive loss of the Group for the year was solely attributable to the provision made in respect of the legal proceedings against Shaanxi Xinxin which amounted to approximately RMB161.6 million. The increase in the operating results in 2018 was primarily because the market price of the main products of the Group including nickel cathode, copper cathode and electrolytic cobalt recovered and increased in different degrees. Meanwhile, the Company took measures to reduce production costs and expenses and adopted the marketing strategies of pricing option combining spot and futures for the purpose of increasing the selling price of products, thereby enhancing the economic efficiency of the Company.

REVENUE AND GROSS PROFIT OF THE PRINCIPAL BUSINESSES

The following table illustrates the details of sales by products of the Group for the two years ended 31 December 2018 and 31 December 2017:

| Product Name | For the year ended 31 December 2018 | | | For the year ended 31 December 2017 | | | Growth Rate in Amount +/(–) |
|-----------------------------------|--|-------------------|-----------------|--|-------------------|-----------------|--------------------------------------|
| | Sales volume Tonnes | Amount RMB'000 | % to Revenue | Sales volume Tonnes | Amount RMB'000 | % to Revenue | |
| Nickel cathode | 12,305 | 1,179,394 | 68.0% | 10,014 | 768,722 | 56.3% | 53.4% |
| Copper cathode | 9,709 | 412,488 | 23.8% | 7,344 | 305,698 | 22.4% | 34.9% |
| Copper concentrate | 9,743 | 92,386 | 5.3% | 8,687 | 78,121 | 5.7% | 18.3% |
| Other products | | 51,344 | 2.9% | | 212,104 | 15.6% | (75.8%) |
| Of which: | | | | | | | |
| Electrolytic cobalt | 32 | 16,077 | 0.9% | 503 | 172,405 | 12.6% | (90.7%) |
| Total revenue from main operation | | 1,735,612 | 100.0% | | 1,364,645 | 100.0% | 27.2% |
| Cost of sales from main operation | | (1,434,072) | 82.6% | | (1,180,856) | 86.5% | 21.4% |
| Gross profit/ Gross margin | | 301,540 | 17.4% | | 183,789 | 13.5% | |

In 2018, the revenue of nickel cathode of the Group amounted to RMB1,179.4 million, representing an increase of 53.4% as compared to that in 2017, mainly attributable to the increase in the sales volume and selling price of nickel cathode. The average selling price of the Group's nickel cathode in 2018 amounted to RMB95,844 per tonne (tax exclusive), representing an increase of 24.9% as compared to RMB76,767 per tonne (tax exclusive) in 2017. In 2018, the Group's sales volume of nickel cathode was 12,305 tonnes, representing an increase of 22.9% as compared to 10,014 tonnes in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, the revenue of copper cathode of the Group amounted to RMB412.5 million, representing an increase of 34.9% as compared to that in 2017, mainly due to the increase in the sales volume and selling price of copper cathode. The average selling price of copper cathode of the Group in 2018 was RMB42,487 per tonne (tax exclusive), representing an increase of 2.1% as compared to RMB41,623 per tonne (tax exclusive) in 2017. The sales volume of copper cathode of the Group in 2018 was 9,709 tonnes, representing an increase of 32.2% as compared to 7,344 tonnes in 2017.

In 2018, the revenue of copper concentrate of the Group was RMB92.4 million, representing an increase of 18.3% as compared to that in 2017. The average selling price of copper concentrate of the Group in 2018 was RMB9,482 per tonne (tax exclusive), representing an increase of 5.4% as compared to RMB8,993 per tonne (tax exclusive) in 2017. The sales volume of copper concentrate of the Group in 2018 was 9,743 tonnes, representing an increase of 12.2% as compared to 8,687 tonnes in 2017.

In 2018, the revenue of other products of the Group amounted to RMB51.3 million, representing a decrease of 75.8% as compared to that in 2017, which was mainly because the Group sold out all the inventory of electrolytic cobalt products brought forward from previous years, resulting in a greater sales base in 2017.

In 2018, the gross profit from the Group's principal business amounted to RMB301.5 million, representing an increase of RMB117.7 million as compared to the gross profit of RMB183.8 million in 2017. The gross profit margin was 17.4% in 2018, representing an increase of 3.9 percentage points as compared to the gross profit margin of 13.5% in 2017.

SELLING EXPENSES

In 2018, selling expenses incurred by the Group increased by 22.6% to RMB32.0 million, as compared to RMB26.1 million in 2017, mainly due to the increase in the transportation costs of products arising from the increase in the sale volume of nickel cathode.

GENERAL AND ADMINISTRATIVE EXPENSES

In 2018, general and administrative expenses incurred by the Group slightly decreased by 2.1% to RMB102.3 million, as compared to RMB104.5 million in 2017.

FINANCE EXPENSES – NET

In 2018, net finance expense incurred by the Group amounted to RMB133.5 million, representing an increase in finance expense of RMB12.8 million as compared to RMB120.7 million of net finance expense in 2017, primarily because the Company increased the bank loans in advance for replacement of the medium-term notes due on 13 November 2018, which resulted in the increase in the financial expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

Shareholders' equity decreased from RMB4,362.5 million to RMB4,228.2 million in 2018, primarily due to the loss in 2018; total assets increased by 1.6% to RMB7,902.0 million.

In 2018, the net cash inflow generated from the Group's operating activities amounted to RMB261.9 million, representing a decrease in the inflow of RMB225.3 million, as compared to the net cash inflow of RMB487.2 million in 2017. The net cash outflow generated from investing activities was RMB112.4 million, the cash inflow from investing activities was mainly attributable to the sales of financial assets held for trading by the Group, and the cash outflow from investing activities was mainly attributable to the payments for the equipment and the construction costs of the Group's various technology renovation, expansion projects and purchase of financial assets held for trading. The net cash outflow used in financing activities amounted to RMB6.7 million, the cash inflow was mainly attributable to the bank loans and other interest-bearing borrowings received by the Group of RMB2,090.0 million, and the cash outflow was mainly attributable to the Group's repayment of bank loans and interest of RMB2,096.7 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had total cash and cash equivalents amounting to RMB489.2 million (2017: RMB346.3 million), and the total borrowings of the Group amounted to RMB2,475.2 million (2017: RMB2,331.3 million). As such, the net debts of the Group (total borrowings minus cash and cash equivalents) amounted to RMB1,986.0 million (2017: RMB1,985.0 million) and the gearing ratio (net debts divided by total capital*) was 31.96% (2017: 31.27%).

| | As at 31 December 2018 | As at 31 December 2017 |
|---|---------------------------|---------------------------|
| Current ratio (<i>times</i>) | 1.0 | 0.9 |
| Gearing ratio (<i>net debts/total capital*</i>) | 31.96% | 31.27% |

* Total Capital: net debts + total equity

COMMODITY PRICE RISK

The prices of the Group's products are influenced by international and domestic market prices and changes in global supply and demand for such products. Price volatility of non-ferrous metals is also affected by the global and PRC economic cycles as well as the fluctuations of the global currency markets. Both the international and domestic market prices of non-ferrous metals as well as the volatility of their supply and demand are beyond the control of the Company. Therefore, the volatility of commodity prices may materially affect the turnover and the comprehensive income of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RATE FLUCTUATIONS

The Company's businesses are conducted in RMB. The fluctuations of foreign exchange rate may impact the prices of the international and domestic non-ferrous products, and thus the operating results of the Group. RMB is not a freely convertible currency, and the rates of exchange between RMB and a basket of currencies may fluctuate. Given that the Chinese government may adopt further actions and measures against the free trade conducted in RMB, fluctuations in foreign exchange rate have an adverse effect on the Group's net assets, earnings and any dividend declared, which shall be converted or translated into Hong Kong dollars.

ENVIRONMENTAL RISK

The Chinese economy has shifted from a fast-growing period to a high-quality development phase where emphasis is placed on the optimisation of economic structure and transformation of development patterns. The government environmental supervision will increase the volatility of output of enterprises to some extent. The Group will continue to strengthen the upgrading of our major production processes to cater for the optimization of domestic economic structure, changes in development patterns and the requirements of the State and Xinjiang government for production safety and improvement of environmental protection standards.

INTEREST RATE RISK

The Group's interest rate risk mainly arises from bank loans and interest-bearing long-term borrowings. Bank deposits and loans at variable rate expose the Group to cash flow interest rate risk, while fixed rate interest-bearing financial liabilities of the Group are subject to the risk of the fair value of interest. The Group adjusts the relative proportion of contracts at fixed rate and contracts at floating rate based on market situation. As at 31 December 2018, the Group's interest-bearing debts were mainly floating rate borrowings and fixed rate borrowings denominated in RMB, which totaled RMB2,475.2 million (2017: RMB2,331.3 million). The Group has no interest rate swap arrangement.

CHARGE ON ASSETS

As at 31 December 2018, included in cash at bank and on hand of the Group was restricted cash at bank amounting to RMB80.8 million which was set aside as the security for issuing bank acceptance notes and other purposes. Save as disclosed above, the Group did not have any other charges or pledges over its assets as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

HISTORICAL CAPITAL EXPENDITURE

Capital expenditure was primarily used to expand the production capacities of the Group, improve the mining, ore processing, smelting and refining production technology and enhance environmental protection of the Group. The following table sets out the conditions of the Group's capital expenditure as well as the ratio of the capital expenditure of each operation over total capital expenditure for the year ended 31 December 2018 based on various categories of operations:

| | Year ended 31 December 2018 | |
|---|------------------------------------|-------------------|
| | <i>RMB'000</i> | Percentage |
| | | % |
| Mining, ore processing, smelting and complementary operations in Kalatongke Mining | 75,876 | 44.5 |
| Refining and complementary operations in Fukang Refinery | 27,439 | 16.1 |
| Mining and ore processing operations in Xinjiang Yakesi | 53,121 | 31.1 |
| Mining operation in Hami Jubao | 4,041 | 2.4 |
| Smelting and complementary operations of Hami Zhongxin | 9,005 | 5.3 |
| Research and development of non-ferrous metal industrial products and storage base project of Beijing Xinding | 1,051 | 0.6 |
| Total | 170,533 | 100 |

EMPLOYEES

As at 31 December 2018, the Group had a total of 2,196 full-time employees. Breakdowns by function and division are as follows:

| Division | Employees <i>(Headcounts)</i> | Total <i>(in percentage)</i> |
|--|---|--|
| Management and administration | 152 | 6.9% |
| Engineering technician | 362 | 16.5% |
| Production staff | 1,290 | 58.7% |
| Repair and maintenance | 281 | 12.8% |
| Inspection | 94 | 4.3% |
| Sales | 17 | 0.8% |
| Total | 2,196 | 100.0% |
| Employee remuneration for the year ended 31 December 2018 <i>(RMB'000)</i> | 252,169* | |

* Details of breakdowns as disclosed in note 4(17) to the Financial Statements.

The remuneration package of the Group's employees includes salary, bonuses and allowances. The Group has participated in the social insurance contribution plans organised by the local governments in the PRC. In accordance with the relevant national and local labour and social welfare laws and regulations, the Group is required to pay on behalf of its employees a monthly social insurance premium, covering pension insurance, medical insurance, unemployment insurance and housing provident funds. According to the currently applicable local regulations, the respective percentages of the pension insurance, medical insurance, unemployment insurance and housing provident funds which the Group must contribute are 18% to 19%, 6% to 9%, 0.5% and 12%, respectively, of its employees' total monthly basic salary. The Group also contributes 0.65% to 2.85% of its employees' total monthly basic salary for occupational injury insurance and 0.5% to 0.8% of their total monthly basic salary for maternity cover.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Guo Quan (郭全), aged 50, has served as the general manager of the Company since March 2015 and as an executive Director of the Company since May 2015. He studied at the Department of Geology of Northeastern University (東北大學) from September 1986 to August 1989 and obtained a college diploma in geology. He also studied at Beijing Technology and Business University (北京工商大學) from September 2002 to July 2004 and obtained a Bachelor's degree in business administration. Mr. Guo has accumulated over 29 years of relevant professional techniques and corporate management experience in non-ferrous metal industry in Xinjiang. From August 1989 to December 1999, Mr. Guo served various positions in Xinjiang Hami Gold Mine* (新疆哈密金礦) including technician, head of technical division, chief of the mining workshop, and the deputy head of a factory. He was also the general manager of Xinjiang Non-ferrous Xinhai Company Limited* (新疆有色鑫海有限責任公司) from March 2000 to September 2002, the general manager of Xinjiang Non-ferrous Quanzin Construction Company Limited* (新疆有色全鑫建設有限責任公司) from September 2002 to March 2009 and the general manager of Xinjiang Yakesi from March 2009 to September 2013. Mr. Guo became the deputy chief engineer of Xinjiang Non-ferrous from September 2013 to February 2015. Mr. Guo Quan has also served as the deputy secretary to the Party Committee of the Company since March 2018.

Mr. Liu Jun (劉俊), aged 53, was re-appointed as an executive Director and the deputy general manager of the Company in October 2017. From September 1983 to July 1987, he studied at Kunming University of Science and Technology (昆明理工大學), majoring in mining engineering, and obtained a Bachelor's degree. Mr. Liu has more than 31 years of relevant professional techniques and corporate management experience in non-ferrous metal industry in Xinjiang. From May 1991 to August 2005, he was the deputy head of the mining workshop, the head of production and technical division, the deputy chief engineer, the chief engineer and deputy head of Kalatongke Nickel-Copper Mine* (喀拉通克鎳銅礦). From September 2005 to August 2008, Mr. Liu served as an executive Director and the deputy general manager of the Company, and the head of Kalatongke nickel-copper mine. He served as an executive Director and the deputy general manager of the Company from September 2008 to January 2014, a director and the general manager of Xinjiang Asia-Europe Rare Metals Co. Ltd.* (新疆亞歐稀有金屬股份有限公司) from February 2014 to March 2015, and the chief engineer of the Company from March 2015 to October 2017. Mr. Liu has also served as the secretary to the Party Committee of the Company since July 2017.

NON-EXECUTIVE DIRECTORS

Mr. Zhang Guohua (張國華), aged 54, has served as a non-executive Director and the chairman of the Company since October 2017. Mr. Zhang completed a postgraduate course in science and engineering management at Dalian University of Technology in November 2003. Mr. Zhang has accumulated more than 34 years of relevant professional techniques and corporate management experience in non-ferrous metal industry in Xinjiang. From October 1988 to March 1999, he successively served as the deputy section leader, the section leader of the environmental safety section, the supervisor in mining workshop, an assistant to the head of mine, the chairman of the labour union and the secretary of the communist party committee of the Kalatongke Nickel-Copper Mine* (喀拉通克鎳銅礦). He served as the deputy general manager and general manager of the sales branch of Xinjiang Non-ferrous Metals Industry Co. from April 1999 to February 2002. From March 2002 to August 2005, he served as the head of Kalatongke nickel-copper mine. From September 2005 to March 2015, Mr. Zhang served as an executive Director, the executive deputy general manager and the secretary of the Communist Party committee of the Company. From April 2015 to April 2017, he served as a director, the general manager and the vice secretary of the Party Committee of Xinjiang Non-ferrous, and he has served as a chairman and the secretary of the Party Committee of Xinjiang Non-ferrous since April 2017. Mr. Zhang has also served as the chairman of Western Gold Co., Ltd. (西部黃金股份有限公司) (Stock Code: 601069) since June 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhou Chuanyou (周傳有), aged 54, was re-appointed as a non-executive Director and the vice-chairman of the Company in October 2017. Mr. Zhou served as a non-executive Director and the vice-chairman of the Company from September 2005 to February 2015, and a non-executive Director of the Company from March 2015 to October 2017. Mr. Zhou completed a postgraduate course in law at Fudan University (復旦大學) and obtained a Master's degree in July 1987. From September 1995, Mr. Zhou served as the chairman of the board of Shanghai Jinying Investment Company Ltd. (上海金鷹投資有限公司), which is the predecessor of Zhongjin Investment, and is now the chairman of the board of Zhongjin Investment in which he is the beneficial owner of 100% interest. He has served as a director of Shanghai Zhongjin Real Estate (Group) Co., Ltd. (上海中金房產(集團)有限公司) since February 1998 and a director of Shanghai Yilian since May 2005 and is currently the beneficial owner of 100% shareholding of Shanghai Yilian. Shanghai Yilian holds 12.80% shareholding of the Company and Zhongjin Investment holds 8.96% shareholding of the Company. The interest attributable to Mr. Zhou in the Company represents his indirect deemed interest in the Company's issued share capital via his equity interests held in the Company through Shanghai Yilian and Zhongjin Investment. Mr. Zhou has served as deputy chairman of the Board of Dazhong Insurance Co., Ltd. of China (大眾保險股份有限公司) from September 1998 to December 2009. Mr. Zhou is the brother-in-law of Mr. Hu Chengye, another non-executive Director of the Company.

Mr. Shi Wenfeng (史文峰), aged 51, has been a non-executive Director of the Company since December 2015. Mr. Shi studied at Chengdu University of Science and Technology (成都科技大學) from September 1985 to July 1989, majoring in the metallurgy of non-ferrous metals and obtained a Bachelor's degree. He completed an EMBA program and obtained a master's degree from University of Science and Technology Beijing in January 2013. Mr. Shi has accumulated more than 29 years of relevant professional techniques and corporate management experience in non-ferrous metal industry in Xinjiang. From September 1993 to August 2005, he served as the deputy head of the refinery workshop, the head of the production division, an assistant to the head, the deputy head and the head of the Fukang Refinery, and from September 2005 to February 2015, he served as an executive Director and the general manager of the Company. From March 2015 to November 2015, he served as an executive Director and vice chairman of the Company, and from December 2015 to October 2017, he served as a non-executive Director and the chairman of the Company. Mr. Shi has also been the vice general manager of Xinjiang Non-ferrous since March 2015.

Mr. Hu Chengye (胡承業), aged 54, has been a non-executive Director of the Company since October 2014. Mr. Hu studied at China Broadcasting and Television College (中國廣播電視大學) from July 1983 to September 1986, majoring in the finance and politics and obtained a college diploma. He completed upgrading courses from junior college student to university student with a major in accounting at Xiamen University and obtained a Bachelor's degree in September 2001. From November 1994 to August 1998, Mr. Hu served as a deputy director of Tianshan Sub-bureau of Urumqi Local Taxation Bureau of Xinjiang (新疆烏魯木齊市地稅局天山區分局). From September 1998 to February 2002, he served as the director of Xinshi Sub-bureau of Urumqi Local Taxation Bureau of Xinjiang (新疆烏魯木齊市地稅局新市區分局). From March 2002 to February 2008, he served as deputy director of the Investigation Bureau of Local Taxation Department in the Xinjiang Uygur Autonomous Region. Mr. Hu served as executive deputy general manager, general manager and chairman (currently acting as the chairman) of Xinjiang Huizhong Yifu Investment Co., Ltd. (新疆匯中怡富投資有限公司) since March 2008. Mr. Hu served as the general manager of Shanghai Hengshi Mining Investment Co., Ltd. (上海恒石礦業投資股份有限公司) since February 2013, the vice-chairman of Xinjiang Baodi Mining Co., Ltd. (新疆寶地礦業股份有限公司) since December 2013, and an assistant president of Zhongjin Investment since February 2014. Mr. Hu is the brother-in-law of Mr. Zhou Chuanyou, another non-executive Director of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Benyuan (胡本源), aged 45, has been as an independent non-executive Director of the Company since October 2017. Mr. Hu studied at Xinjiang University of Finance & Economics from September 1991 to July 1995, majoring in accounting and obtained a Bachelor's degree. Mr. Hu studied at Shanghai University of Finance and Economics from September 2000 to January 2003, majoring in accounting and obtained a Master's degree. He studied at Shanghai University of Finance and Economics from February 2004 to January 2007, majoring in accounting and obtained a Doctoral degree. Mr. Hu has been teaching in Xinjiang University of Finance & Economics since 1995, and has served as the deputy dean of Institute of Accounting of Xinjiang University of Finance & Economics since January 2011. He is currently serving as a professor and an instructor of doctorate students of Institute of Accounting of Xinjiang University of Finance & Economics and a non-practicing member of the Chinese Institute of Certified Public Accountants. Mr. Hu has been serving as a director of Auditing Education Branch of China Audit Society since November 2011. Mr. Hu has served as independent director in various A Shares listed companies in PRC since 2009, and he served as an independent director of TBEA (Stock Code: 600089) from May 2012 to September 2018, as an independent director of Guanghai Energy Co., Ltd. (Stock Code: 600256) since December 2013 and as an independent director of International Industry Co., Ltd. (Stock Code: 000159) since August 2014. He has served as an independent director of Xinjiang Guannong Fruit & Antler Group Co., Ltd (Stock code: 600251) since December 2018.

Mr. Wang Lijin (汪立今), aged 60, has been an independent non-executive Director of the Company since May 2011. He studied at Xinjiang University with a Bachelor's degree, majoring in Survey and Exploration of Mineral Resources from February 1978 to February 1982. Since February 1982, Mr. Wang has been teaching in the College of Geology and Exploration of Xinjiang University (新疆大學地質與勘查工程學院); he was promoted to a professor in November 2000, and is currently a Master Instructor of Xinjiang University. From March 2004 to September 2004, Mr. Wang was sent by the National Government to the Department of Geological Sciences, University of Michigan Ann Arbor, USA, for further study, majoring in mineral deposit geology and mineralogy, and conducting scientific research work in mineral deposit geology and mineralogy. In the past three decades, Mr. Wang has been engaged in university geology teaching and research work, is rich in professional expertise, and has been familiar with businesses. Mr. Wang currently serves as a council member of the China Society of Mineralogy, Petrology and Geochemistry (中國礦物岩石地球化學學會), a committee member of the Professional Committee of Technological Mineralogy of China (中國工藝礦物學專業委員會), an executive director of the China Geological Society of Education (中國地質教育學會), a committee member of the China Environmental Mineralogy Professional Committee (中國環境礦物學專業委員會), and is the life member of the China Society of Mineralogy, Petrology and Geochemistry.

Mr. Li Wing Sum Steven (李永森), aged 62, has been an independent non-executive Director of the Company since October 2011. Mr. Li is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong, and a member of the Certified Tax Adviser Institute of Hong Kong. Mr. Li has accumulated over 30 years' experience in auditing, accounting, company secretarial services, taxation and financial management. Mr. Li once served as a financial controller, executive director, independent non-executive director and company secretary in several Hong Kong listed companies, and currently, he is still acting as an independent non-executive director and company secretary in five Hong Kong listed companies, including serving as the company secretary of Shanghai Fudan Microelectronics Group Company Limited (Stock Code: 1385) since July 2000, the company secretary of China National Cultural Group Ltd. (Stock Code: 0745) since May 2014, the independent non-executive director of Wang On Properties Limited (Stock Code: 1243) since April 2016, the company secretary of Sino Life Group Ltd. (Stock Code: 8296) since 10 January 2018, and the independent non-executive director of Allied Sustainability and Environmental Consultants Group Ltd. (Stock Code: 8320) since 30 June 2018. Mr. Li is also a certified public accountant (practicing).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EMPLOYEES' REPRESENTATIVE SUPERVISORS

Mr. Yu Wenjiang (于文江), aged 54, has been an employees' representative supervisor and the chairman of the Supervisory Committee of the Company since October 2017. Mr. Yu studied in Keketuohai Technical College (可可托海技工學校) from 1980 to 1982, majoring in mining, and studied in North China University of Technology (北方工業大學) from 1994 to 1997, majoring in economics and trading. Mr. Yu served as a mining technician in the second mine of Xinjiang Keketuohai Mine Bureau (新疆可可托海礦務局) from 1982 to 1985, successively served as a mining technician, chief of workshop, head of labours, manager of sales department, chief of operating management department, head and vice mining head of refractory material plant in Hatu Gold Mine* (哈圖金礦) of Xinjiang Non-ferrous from 1985 to May 2012, served as the general manager of The Western Gold Hami Gold Mine Co., Ltd. (西部黃金哈密金礦有限責任公司), a wholly-owned subsidiary of Western Gold Co., Ltd. (西部黃金股份有限公司) (Stock Code: 601069) from June 2012 to March 2016, served as the general manager of Western Gold Karamay Hatu Gold Mine Co., Ltd.* (西部黃金克拉瑪依哈圖金礦有限責任公司), a wholly-owned subsidiary of Western Gold Co., Ltd. (Stock Code: 601069) from March 2016 to March 2017. Mr. Yu has also served as the vice secretary to the Party Committee and the secretary to the Disciplinary Committee of the Company from April 2017 to April 2018, and the deputy secretary to the Party Committee of the Company since May 2018.

Mr. Li Jiangping (李江平), aged 51, has been an employees' representative supervisor of the Company since October 2017. Mr. Li studied in Keketuohai Technical College (可可托海技工學校) from September 1985 to August 1987, majoring in mine selection, and studied in Non-ferrous Chengdu Geology Staff University (有色金屬成都地質職工大學) from September 1990 to July 1993, majoring in safety engineering. Mr. Li is currently a registered valuer for safety and a senior engineer of non-ferrous metallurgy. Mr. Li successively served as the safety officer in safety and environmental protection department and deputy director of production and dispatching of rare metals and mine in Keketuohai, Xinjiang from September 1993 to March 2000, successively served as the section chief, deputy director, director of copper workshop and deputy supervisor of material department of Fukang Refinery from March 2000 to July 2012, served as the deputy director and chairman of labour union of Fukang Refinery from August 2012 to May 2017, and has served as the deputy director, deputy secretary to the party committee and chairman of labour union of Fukang Refinery from June 2017 to May 2018. He served as deputy secretary to the Party Committee and head of Fukang Refinery from June 2018 to August 2018, and served as secretary to the party Committee and head of Fukang Refinery since September 2018.

SHAREHOLDERS' REPRESENTATIVE SUPERVISORS

Ms. Chen Rong (陳蓉), aged 48, has been a shareholders' representative supervisor of the Company since June 2016. Ms. Chen graduated from Xinjiang University of Finance and Economics (新疆財經大學) in December 1991, majoring in accounting. From 1988 to February 2011, Ms. Chen held various positions at various institutions, including as an officer of Xinhua South Road Sub-branch, Banking Department of Xinjiang Uygur Autonomous Region Branch, China Construction Bank (中國建設銀行新疆區分行營業部新華南路支行), as an auditor of Xinjiang Xinxin Huatong Accounting Firm (新疆新新華通會計師事務所), and as a tax adviser of Xinjiang Xinrui Tax Agent (新疆鑫瑞稅務師事務所). She is currently working as an officer at the supervision and auditing department of Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) (Stock Code: 2899) where Ms. Chen successively worked as an officer, the deputy head and the head of the supervision and auditing department of Zijin Mining Northwest Company Limited, a subsidiary of Zijin Mining Group Co., Ltd., since she joined Zijin Mining Group Co., Ltd. in March 2011. Ms. Chen is now a domestic qualified accountant with the Accounting Certificate (Intermediate Level). She was awarded the professional designation of Certified Internal Auditor and a Certification in Risk Management Assurance from the Institute of Internal Auditors in the U.S.A. in November 2010 and in July 2012, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT SUPERVISORS

Ms. Yao Wenying (姚文英), aged 51, has been an independent supervisor of the Company since May 2015. From September 1986 to July 1990, Ms. Yao studied at Northeast Forestry University where she obtained her Bachelor's degree in Finance and Accounting. From December 2005 to December 2007, she studied at Xinjiang University of Finance and Economics and received her Master's degree in Management with a major in Accounting. Ms. Yao held a teaching post in the School of Business Administration of Urumqi Vocational University from October 1990 to August 2004. She served as Head of Accounting Simulation Teaching and Research Centre and Head of Department of Finance and Economics. She was a teaching staff member in the Department of Finance in Xinjiang College of Finance and Economics (the predecessor of Xinjiang University of Finance and Economics) from September 2004 to August 2007. She has been teaching in the School of Accounting of Xinjiang University of Finance and Economics since September 2007. She was promoted to be Professor of Accounting in December 2010 and currently she is a tutor for postgraduates in Xinjiang University of Finance and Economics. She has been serving as independent director of Xinjiang China Enterprise Hong Bang Conservation (Group) Co., Ltd.* (新疆中企宏邦節水(集團)股份有限公司) from July 2012 to May 2018, as independent director of Xinjiang Xingwo Mechanical Technology Service Co., Ltd.* (新疆星沃機械技術服務股份有限公司) from November 2012 to June 2018, and as independent director of Xinjiang Xuefeng Sci-Tech (Group) Co., Ltd (Stock Code: 603227) since January 2015. Since February 2019, he has served as an independent director of Leon Technology Co., Ltd (Stock code:300603).

Mr. Meng Guojun (孟國鈞), aged 60, has been an independent supervisor of the Company since October 2017. Mr. Meng studied at Xinjiang University from March 1978 to February 1982, majoring in physical geography and obtained Bachelor's degree in science. He completed the Master's degree program in political economics in Xinjiang University in April 2001, obtaining a certificate equivalent to postgraduate qualification. From July 1992 to May 2012, Mr. Meng was successively engaged in the management and research of Xinjiang Uyghur Autonomous Region in the aspects of regional economy, land and resources, environmental protection, energy conservation and emission reduction, circular economy, basic surveying and mapping and development of western region. He was engaged as the development specialist of Xinjiang Kanas National Geopark region and obtained the qualification of auditor for clean production of PRC Environmental Protection Agency in September 2007. From February 2000 to August 2005, Mr. Meng served as the deputy director of Region Division of Xinjiang Uygur Autonomous Region Development and Reform Commission. From August 2005 to May 2012, he served as the senior investigator of Region Division, High-tech Department, Environmental Information Division, Resources and Environment Division, Property Division, Western Development Division of Xinjiang Uygur Autonomous Region Development and Reform Commission. He retired in May 2012.

OTHER SENIOR MANAGEMENT

Mr. Qi Xinhui (齊新會), aged 49, has served as the deputy general manager of the Company since October 2017. Mr. Qi studied at Keketuohai Technical College* (可可托海技工學校), majoring in galvanic pincette from September 1986 to July 1988, studied at Xinjiang Non-ferrous Metal Staff University* (新疆有色金屬職工大學), majoring in mechatronics from August 1993 to July 1996, and studied at Xinjiang University (新疆大學) with a Bachelor's degree, majoring in electrical automation from September 2005 to July 2008. From August 1996 to August 2005, Mr. Qi served as the section chief of smelting workshop, deputy chief of quality inspection department, deputy director of mechanical and electrical division of ore processing workshop, deputy section leader of mobile section, section leader of mobile section and assistant to the head of Kalatongke Copper-Nickel Mine* (喀拉通克銅鎳礦). He was the deputy head of Kalatongke Copper-Nickel Mine* (喀拉通克銅鎳礦) from September 2005 to February 2012, and the deputy general manager of Kalatongke Mining from March 2012 to August 2013, the deputy general manager and the secretary to the Party Committee of Kalatongke Mining from September 2013 to March 2015, and the general manager and the secretary to the Party Committee of Xinjiang Yakesi from April 2015 to September 2017.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. He Hongfeng (何洪峰), aged 49, has served as the chief financial officer of the Company since September 2005. Mr. He studied at Xinjiang University of Finance and Economics from September 1988 to July 1992 with a Bachelor's degree, majoring in accounting. He completed a postgraduate course in Business Administration at Xinjiang University of Finance and Economics with a Master's degree in June 2009. Mr. He is a certified accountant, certified valuer and certified tax consultant in the PRC. From July 1992 to August 2005, he worked for Zhongjin Investment. He joined the Company since September 2005.

Mr. Zhang Junjie (張俊杰), aged 56, has served as the secretary to the Board of Directors of the Company since September 2005 as well as the joint company secretaries of the Company since June 2006. Mr. Zhang studied at University of Zhongnan (中南大學) with a Bachelor's degree, majoring in mining engineering from September 1979 to July 1983. From October 1988 to March 1991, Mr. Zhang was the head of the mining workshop and the chief of the production technology division of Kalatongke Copper and Nickel Mine. From April 1991 to March 1993, he was the deputy head of the production technology division of Xinjiang Keketuohai Mining Bureau. From March 1993 to August 1997, he was the deputy chief economist of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From August 1997 to March 1998, he was a deputy general manager of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From April 1998 to July 2002, he was the head of the finance department of Xinjiang Non-ferrous Metal Industry Co.. From July 2002 to August 2005, he served as the head of the assets management department of Xinjiang Non-ferrous.

Mr. Lam Cheuk Fai (林灼輝), aged 65, has served as the joint company secretary and the qualified accountant of the Company since June 2006. Mr. Lam studied at Hong Kong Polytechnic (the predecessor of Hong Kong Polytechnic University), majoring in accounting, during 1975 to 1979 and was awarded a Higher Certificate in Accountancy by the institute. He studied at University of East Asia, Macau from 1985 to 1988 and was awarded with a Master's degree in Business Administration. Mr. Lam is a fellow member of both the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. Mr. Lam has over 30 years of working experience in auditing, accounting, internal control, taxation, company secretarial work and financial management in multinational organisations in the U.S.A., Hong Kong and the mainland China, including: from 1979 to 1985, he worked for Touche Ross & Co. (now known as Deloitte Touche Tohmatsu) in Hong Kong and the U.S.A. and Arthur Young & Co. (now known as Ernst & Young) in Hong Kong, during the period from March 1985 to June 1989, he was appointed as the internal audit manager and the group financial controller of Sime Darby Hong Kong Limited, from January 1990 to June 1993 he was appointed as the vice president of finance of Universal Matchbox Group, Limited, USA, (NYSE: UMG), and from May 1999 to January 2001, he was appointed as the chief financial officer and the company secretary by Magician Industries (Holdings) Limited (now known as Lisi Group (Holdings) Limited) (Stock Code: 526).

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

The Company strives to attain and maintain relatively high standards of corporate governance best suited to the needs and interests of the Group as it believes that effective corporate governance practices are fundamental to safeguarding the interests of shareholders and other stakeholders and enhancing shareholder value.

The Board has adopted the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Company has fully complied with all the code provisions under the CG Code in the financial year of 2018.

THE BOARD OF DIRECTORS

Functions and Duties of the Board

The Board is responsible for the overall leadership and governance of the Company, and is collectively responsible for directing and supervising the affairs of the Company.

Duties of the Board include deciding on the Company’s business plan and investment scheme, formulating the Company’s profit distribution and loss recovery plan, formulating the Company’s capital expenditure budget, and implementing resolutions as approved by general meetings. The functions of the management are to execute the business plan and investment plan as approved by the Board and to report thereto.

Since 16 March 2012, the Board revised the Company’s corporate governance policy to include the terms of reference of the Board in relation to the corporate governance functions as follows:

- (a) to develop and review the Company’s policies and practices on corporate governance and report to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company’s policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and
- (e) to review the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report.

Appropriate Directors’ liability insurance cover has been arranged by the Company to indemnify the Directors for liabilities arising out of corporate activities. The coverage and the sum insured under the policy are reviewed annually.

CORPORATE GOVERNANCE REPORT

Board Composition

On 14 October 2017, the Board has changed into the fifth session, and still comprises nine Directors, two of whom are executive Directors, four of whom are non-executive Directors and three of whom are independent non-executive Directors. Two of our non-executive Directors, namely Mr. Zhou Chuanyou and Mr. Hu Chengye, are brother-in-law. Save as disclosed herein, there is no financial, business, family or any other relevant relationships among any members of the Board.

There is a strong independent element on the Board, to ensure the independence and objectivity of the Board's decision-making process as well as the thoroughness and impartiality of the Board's oversight of the Management. The Board possesses, both as individual Directors and collectively, appropriate experience, competencies and personal qualities, including professionalism and integrity, to discharge its responsibilities adequately and effectively. In addition, the Board collectively has adequate knowledge and expertise relevant to each of the material business activities that the Company pursues and the associated risks in order to ensure effective governance and oversight.

Members of the Board, who come from a variety of different backgrounds, have a diverse range of business and mining expertise. Brief biographical particulars of the Directors are set out in pages 16 to 21 of this Annual Report.

The Board considers that its diversity is a vital asset to the business. For better corporate governance, the Board has adopted a board diversity policy (the "Policy"). The essence of the Policy is that the Board's appointments are based on merit and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company remains committed to meritocracy in the Board, which requires a diverse and inclusive culture where Directors believe that their views are heard, their concerns are attended to and they serve in an environment where bias, discrimination and harassment on any matter are not tolerated.

As at the date of this Annual Report, an analysis of the Board composition is as follows:

| | |
|--------------|---|
| Gender: | Male (9); Female (0) |
| Designation: | ED (2); NED (4); INED (3) |
| Geographic: | PRC (8); HKSAR (1) |
| Age: | 40–49 (1); 50–59 (6); 60–69 (2) |
| Background: | Mining (4); Geology (1); Business (2); Accounting Professionals (2) |

The Company received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be in compliance with the independence guidelines as set out in Rule 3.13 of the Listing Rules and considers them to be independent according to the provisions of the guidelines.

Pursuant to Article 106 of the Articles of Association, all of the Directors (including executive, non-executive and independent non-executive Directors) are appointed for a term of three years commencing on the date of their respective appointment or re-appointment and their re-appointment are to be approved in general meetings.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

Mr. Zhang Guohua serves as the Chairman (the Chairman of the Board) of the present session (the fifth session) of the Board and Mr. Guo Quan serves as the general manager (Chief Executive Officer) of the Company. The respective responsibilities of the Chairman and the general manager of the Company are provided in Article 119 and Article 138 of the Articles of Association, respectively, and duly separated. For details of the responsibilities of the Chairman and the general manager of the Company, please refer to the Articles of Association uploaded to the websites of the Company and the Stock Exchange.

The Board and Management

The Board is responsible for the approval and monitoring of the Company's overall developmental strategies, annual business plans and investment plans relating to the Company's business development, evaluating the performance of the Company, supervising the management, ensuring the Board acts in the best interest of the Company.

While at all times the Board retains full responsibility for guiding and monitoring the operations of the Group, in discharging its duties, certain responsibilities are delegated to (1) the standing Board committees of the Company namely: the Audit Committee, the Nomination Committee, the Remuneration and Review Committee and the Strategic Development Committee. Each committee's constitution, powers and duties are clearly defined by its terms of reference, and the committees are accountable to the Board; (2) the general manager, being delegated with authorities to manage the daily business of the Group, is accountable to the Board; and (3) the senior management team of the Group, being delegated with the authorities to deal with daily operational functions, is accountable to the Board.

The Board makes decisions on specific issues whereas the management is delegated with authorities to manage and administer the day-to-day affairs of the Company. The Board regularly reviews the extent of the delegated authority to ensure its appropriateness in view of the Company's prevailing circumstances and that appropriate reporting systems are in place.

Board Meetings

The Chairman leads the Board and ensures the Board operate effectively to perform its responsibilities, and to timely discuss key and appropriate issues of the Company. The Chairman is primarily responsible for drawing up and approving of the agenda of each Board meeting, and to include any matters, if appropriate, as proposed by other Directors into the Board meeting agenda. The Chairman has already appointed the secretary to the Board for drafting and circulating agenda for each meeting and relevant meeting materials and documents. With the assistance of the executive Directors and the company secretaries, the Chairman will ensure all Directors are properly briefed on issues arising at board meetings and receive, in a timely manner, adequate information, which must be accurate, clear, complete and reliable. Upon reasonable request by any Director, the Board can resolve under proper situation to provide separate independent professional advice, at the Company's expenses, to Directors to assist them to perform their duties to the Company.

CORPORATE GOVERNANCE REPORT

For the year of 2018, seven Board meetings and two general meetings were held, and the details of each of the Directors' attendance record of the meetings are as follows:

| Name of Directors | Number of meetings attended/ Number of meetings convened during the term of office | |
|--|--|--------------------|
| | Board meeting | General meeting |
| <i>Executive Directors</i> | | |
| Guo Quan (郭全) | 7/7 | 2/2 |
| Liu Jun (劉俊) | 7/7 | 2/2 |
| <i>Non-executive Directors</i> | | |
| Zhang Guohua (張國華) (Chairman) | 7/7 | 2/2 |
| Zhou Chuanyou (周傳有) | 6/7 | 0/2 |
| Shi Wenfeng (史文鋒) | 4/7 | 0/2 |
| Hu Chengye (胡承業) | 7/7 | 2/2 |
| <i>Independent non-executive Directors</i> | | |
| Hu Benyun (胡本源) | 7/7 | 2/2 |
| Wang Lijin (汪立今) | 7/7 | 2/2 |
| Li Wing Sum, Steven (李永森) | 7/7 | 1/2 |

The Company has adopted the CG Code and issued a notice fourteen days prior to the regular board meeting to ensure all Directors are given opportunities to include matters in the agenda for the meeting and sufficient time for the preparation of the meeting. All agenda has been sent to the Directors no less than three days prior to the meeting. All matters discussed and resolved during the meetings have been recorded and documented in the board minutes and kept by the secretary to the Board including any matters raised by the Directors and their concerns and opinion. Minutes of board meetings will be open by the secretary to the Board for inspection at any reasonable time on reasonable notice by any director.

Directors', Supervisors', Senior Management's and Key Personnel's Remunerations

The Company's policy on remuneration is to maintain fair and competitive packages based on business needs and industry practice of the Company. Directors' and Supervisors' remunerations including discretionary bonus are subject to the approval of Shareholders at general meetings, while senior management's remunerations including discretionary bonus are subject to approval of the Board.

The level of fees paid to non-executive Directors is determined by reference to factors including non-executive Directors' workload and commitments and fees paid by comparable institutions with similar scale and nature.

Regarding Executive Directors and Supervisors, the following factors (including but not limited to) are considered when determining their remuneration packages: (1) business needs, (2) general economic situation, (3) changes in human resources market, (4) individual contributions to results as confirmed in the performance appraisal process, and (5) retention consideration and individual potential.

No individual Director will be involved in decisions relating to his/her own remuneration.

Information relating to the remuneration of each Director, Supervisor and other senior management for the year ended 31 December 2018 is set out in note (8)(5)(I) to the Company's financial statements.

CORPORATE GOVERNANCE REPORT

Directors' Training and Board Committees

All Directors have participated in continuous professional development to develop and refresh their knowledge and skill to ensure that their contribution to the Board remains informed and relevant. All Directors have provided to the Company a record of the training they received during the Year.

The Board currently has four committees, namely the Audit Committee, the Remuneration and Review Committee, Nomination Committee and Strategic Development Committee. Members of these committees and the number of Committee meetings and the types of trainings in which all directors participated in during the year are as follows:

| | Audit Committee | Remuneration and Review Committee | Nomination Committee | Strategic Development Committee | Type of Trainings |
|--|-----------------|-----------------------------------|----------------------|---------------------------------|-------------------|
| <i>Number of meetings</i> | 2 | 1 | 1 | 0 | |
| <i>Executive Directors</i> | | | | | |
| Guo Quan | | 1/1✓ | | 0/0✓ | A, B, C |
| Liu Jun | | | | | A, B, C |
| <i>Non-Executive Directors</i> | | | | | |
| Zhang Guohua | | | 1/1◇ | 0/0◇ | A, B, C |
| Zhou Chuanyou | | 1/1✓ | | 0/0✓ | A, B, C |
| Shi Wenfeng | | | | 0/0✓ | A, B, C |
| Hu Chengye | 2/2✓ | | | | A, B, C |
| <i>Independent Non-Executive Directors</i> | | | | | |
| Hu Benyuan | 2/2◇ | 1/1✓ | | | A, B |
| Wang Lijin | | 1/1◇ | 1/1✓ | 0/0✓ | A, B |
| Li Wing Sum, Steven | 2/2✓ | 1/1✓ | 1/1✓ | | A, B |

- ✓: Committee members
◇: Committee Chairman

- A: attending seminars, conferences and/or expert briefings relevant to the business or directors' duties
B: reading newspapers, journals and updates relating to the economy, general business or regulatory information
C: paying visits to the Group's local management and facilities

Terms of Reference of the Company's Audit Committee, Remuneration and Review Committee and Nomination Committee have been posted on the websites of the Company and the Stock Exchange.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers ("Model Code") contained in Appendix 10 to the listing Rules as its own code of conduct regarding securities transactions by the Directors and the supervisors of the Company (the "Supervisors"). Having made specific enquiries of all Directors and Supervisors, all Directors and Supervisors have complied with the required standards as set out in the Model Code for the year ended 31 December 2018.

CORPORATE GOVERNANCE REPORT

DIRECTOR NOMINATION AND NOMINATION COMMITTEE

The nomination committee was established on 16 March 2012 by the Board with specific terms of reference in accordance with CG Code.

The role and function of the Nomination Committee are, among other things, to: (a) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) identify individuals suitably qualified to become Directors and select or make recommendations to the Board on the selection of individuals nominated for directorships; (c) assess the independence of the Independent Non-executive Directors; and (d) make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

In 2018, the Nomination Committee convened one meeting and attendance rate was 100%. Each of the committee members and their attendance record of the meetings are set out in page 26 of this annual report. The summary of work performed by the Nomination Committee during the Year was: reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and made recommendations on proposed changes to the Board to complement the Company's corporate strategy; assessed the independence of the Independent Non-executive Directors of the Company.

REMUNERATION AND REVIEW COMMITTEE

In 2007, the Board resolved and established the Remuneration and Review Committee with specific terms of reference. On 16 March 2012, the terms of reference of the Remuneration and Review Committee were revised in accordance with the amendments in the CG Code and approved by resolution of the Board and were posted to the websites of the Company and the Stock Exchange. Contents of the revision include all new amendments to the revised CG Code.

The role and function of the Remuneration and Review Committee are, among other things, to:

- (a) make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (c) determine, with delegated responsibility, the remuneration packages of individual executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);
- (d) make recommendations to the Board on the remuneration of non-executive Directors; and
- (e) make performance appraisal including assessing performance of all Directors and senior management and to monitor the execution of the Company's remuneration system.

In 2018, one meeting of the Remuneration and Review Committee was held with an attendance rate of 100%. Each of the committee members and their attendance record of the meetings are set out in page 26 of this annual report. Summary of work during the Year by the Remuneration and Review Committee included:

- made recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

CORPORATE GOVERNANCE REPORT

- reviewed and approved the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- determined, with delegated responsibility, remuneration packages of senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment);
- researched the review standards for the Directors' and senior management's remuneration, and made recommendation according to the assessment of the Company's operational situation; and
- researched and reviewed the policies and plans for the Directors' and senior management's remuneration and made performance appraisals including assessing performance of all Directors and senior management.

AUDIT COMMITTEE

In 2007, the Board resolved and established the Audit Committee with specific terms of reference. The Board believes that members of the Audit Committee have sufficient knowledge and expertise in laws, accounting and financial management to enable them to perform their duties.

On 16 March 2012, the terms of reference of the Audit Committee have been revised in accordance with the amendments in the CG Code and approved by resolution of the Board, and were posted to the websites of the Company and the Stock Exchange.

The role and function of the Audit Committee are, among other things, to:

- (a) be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor;
- (b) review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- (c) monitor integrity of the Company's financial statements and annual report and accounts and interim report, and to review significant financial reporting judgements contained in them and to provide advice and comments thereon to the Board;
- (d) review the Company's financial controls, internal control and risk management systems;
- (e) consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and to report to the Board when the Committee notices any irregularities, internal control deficiencies or any non-compliances to any applicable rules, regulations, codes or laws when situation warrants the attention of the Board; and
- (f) ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness.

CORPORATE GOVERNANCE REPORT

In 2018, two meetings of the Audit Committee were held with an average attendance rates of 100%. Each of the committee members and their attendance record of the meetings are set out in page 26 of this annual report. Summary of work during the Year by the Audit Committee included:

- reviewed the annual report and results announcement of the Company for the year ended 31 December 2017, with a recommendation to the Board for approval;
- reviewed the external auditors' independence and their report, with a recommendation to the Board for the re-appointment of the external auditors by the shareholders of the Company at its 2017 annual general meeting;
- reviewed continuing connected transactions;
- reviewed the interim report and results announcement of the Company for the six months ended 30 June 2018, with a recommendation to the Board for approval;
- considered the audit and non-audit services provided by the external auditors;
- reviewed the effectiveness of the system of internal control and risk management of the Company and its subsidiaries;
- reviewed periodic reports prepared by the Internal Audit Department;
- reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programme and the relevant budget; and
- reviewed the audit fees payable to the external auditors for the year ended 31 December 2018, with a recommendation to the Board for approval.

AUDITORS' REMUNERATION

For the year ended 31 December 2018, audit fees charged by the auditors of the Company amounted to approximately RMB2.12 million.

STRATEGIC DEVELOPMENT COMMITTEE

In 2007, the Board resolved and established the Strategic Development Committee with specific terms of reference.

The duties of the Strategic Development Committee are to review and evaluate the strategic development solution, business development plan and investment budget of the Company. The Strategic Development Committee's members perform their duties in accordance with the committee's terms of reference. Each of the committee members and their attendance record of the meetings are set out in page 26 of this annual report.

SUPERVISORY COMMITTEE

The Company's Supervisory Committee was established in 2005 pursuant to the Company's Articles of Association and has changed into the fifth session on 14 October 2017, still comprising five Supervisors. Mr. Yu Wenjiang was appointed as the Chairman of the Supervisory Committee. One of the Supervisors was elected by the shareholders as supervisor representative shareholders, two Employees' Representative Supervisors were elected by the employees and two other independent Supervisors were appointed in the shareholders' meeting. Supervisors serve for a term of three years and are subject to re-election.

CORPORATE GOVERNANCE REPORT

The Supervisory Committee is responsible for exercising supervision over the Board, its members and the senior management; and preventing them from abusing their authorities and jeopardizing the interests of the shareholders, the Company and its employees. Two meetings were held by the Supervisory Committee in 2018, and the average attendance rate for all the two meetings was 100%. During the meetings, the Supervisory Committee reviewed the financial conditions and operations of the Company and the due diligence of the senior management. The Supervisory Committee's members perform their duties in accordance with the Company's Articles of Association.

SHARE INTEREST OF SENIOR MANAGEMENT

As at 31 December 2018, none of the senior management of the Company held any share interests in the Company.

COMPANY SECRETARIES

For the year ended 31 December 2018, the two Company secretaries of the Company had received relevant professional trainings of not less than 15 hours to update their skills and knowledge.

CHANGE IN CONSTITUTIONAL DOCUMENTS

At the general meeting held on 20 December 2018, the resolution in relation to amendments to the Articles of Association of the Company were approved by the shareholders of the Company. The Company amended certain provisions of the Articles of Association so as to comply with relevant requirements under the Amendments to Articles of Association for Solid Implementation of Party Building Work by State-owned Enterprises issued by the Organisation Department of the Communist Party of China Central Committee and the State-owned Assets Supervision and Administration Commission of the State Council. The updated version of the Articles of Association can be downloaded from the websites of the Company and the Stock Exchange.

SHAREHOLDERS' MEETING AND INVESTOR RELATIONS

As at 31 December 2018 and up to the date of this Annual Report, the Company issued 1,451,000,000 shares of domestic shares and 759,000,000 H shares, totalling 2,210,000,000 shares.

In 2018, the Company convened two general meetings. All proposed resolutions were approved with a passing rate of over 97%. The general meetings were chaired by the Chairman of the Board, who explained matters concerning the procedures for voting for shareholders' consideration and the shareholders considered and voted on each proposed resolution. Each of the Directors and Supervisors were notified of and attended the general meetings.

The rights and responsibilities of all shareholders are set out in the Company's Articles of Association which was uploaded to the websites of the Company and the Stock Exchange.

Shareholders who hold more than 10% of the issued shares carrying voting right may by written request call for an extraordinary general meeting.

The Company will issue a notice in writing 45 days prior to the general meeting informing all shareholders on the shareholders' register, setting out the proposed matters to be resolved, dates and time of the general meeting. Shareholders wishing to attend the general meeting should send the reply letter to the Company 20 days prior to the general meeting.

CORPORATE GOVERNANCE REPORT

In an annual general meeting of the Company, shareholders holding more than 3% of shares carrying voting rights may propose to the Board any resolutions in writing; the Board will if it considers appropriate, include the proposed resolutions into the agenda of the general meeting. If the board resolves not to include the proposed resolutions into the agenda, it shall be explained and clarified in the meeting; contents of the resolutions and the Board's explanation shall be set forth in an announcement after the relevant general meeting. Shareholders can make enquiries with the Board through the Company Secretary via our email at xjyszjj@163.com or tommy789hk@163.com, or by posing questions at our general meeting.

The Company communicates with shareholders by issuing annual reports, interim reports, results announcements and other announcements. All relevant information is also listed in the Company's website at kunlun.wsfg.hk.

Since 2007, the Company has engaged a professional public relations consultancy firm to organise various investor relations programs (including regular briefing meetings with analysts) aiming at increasing the transparency of the Company, enhancing communication with shareholders and investors, increasing their understanding of and confidence in the Group's businesses. It also aims at promoting market recognition of and support to the Company.

The Company recognises the importance of maintaining on-going communications with its shareholders and encourages them to attend shareholders' meetings to stay informed of the Group's businesses and convey any concerns they may have to the Directors and senior management.

The Secretariat Office and the Corporate Finance and Securities Department of the Board offer comprehensive services to the shareholders and answer their enquiries on a timely basis in order to enhance their understanding of the Company. They also maintain effective communications with the shareholders to ensure that the views of the shareholders will be communicated to the Board. Save as disclosed in paragraphs of the Change in Constitutional Documents above, there were no other changes in the Company's constitutional documents during the year ended 31 December 2018.

As at 31 December 2018, total market capitalisation of the Company was approximately HK\$1.37 billion, of which the market capitalisation of public floatation of H shares was approximately HK\$470 million.

RISK MANAGEMENT AND INTERNAL CONTROL

The risk management and internal control systems of the Group have been designed to safeguard the interest of the Company and its Shareholders as a whole, by safeguarding the assets of the Group, maintaining proper accounting records, executing with appropriate authority and complying with the relevant laws and regulations. The Board is responsible for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems. Executive Directors and senior management of the Company are conferred with relevant authority to implement the policies relevant to the respective risk management and operational internal control systems and the on-going assessment of the control activities in the relevant business units.

During the Year, the Board has carried out at least two reviews of the implemented risk management and internal control systems, policies and procedures, including areas covering defining management structure and its relevant authorities, confirming the adoption of appropriate Accounting Standards, providing reliable financial information for internal use and announcements and confirming the compliance of relevant laws and regulations as well as supervision of finance, operation and law compliance and risk management functions. The risk management and internal control systems are implemented to minimize the risk to which the Group is exposed and used as a management tool for the day-to-day operation of business. The systems can only provide reasonable but not absolute assurance against misstatement or losses. The Board believes that the present risk management and internal control systems of the Group are effective and adequate to cover the current corporate operations.

CORPORATE GOVERNANCE REPORT

The Group has established a risk management system policy. The system involves a self-assessment by senior management of the Company of a series process starting from setting up the business objectives, identifying risk factors, assessing the likelihood of each risk factor, prioritizing risk factors, examining control activities, developing and managing appropriate measures to control the risks within acceptable levels. The Group has established an internal accounting control system. The budget management system and investment management system of the Group contain relevant control procedures formulated for evaluating and reviewing principal operational expenses and capital expenditure. Operational results are reported to the Board with financial analysis on a regular basis.

The Group has established a specific internal audit department and formulated risk management policy and internal control procedures to ensure the minimum risk exposure by the Group and the comprehensive, accurate and timely record of accounting and management information. Regular reviews are conducted to ensure the risk management system of the Group is in place and that the financial statements are prepared in accordance with the relevant accounting standards, accounting policies and applicable laws and regulations and cover operational effectiveness and risk management of the Group. Annual work plan of audit department is approved by the Supervisory Committee and Audit Committee of the Company.

The Group has developed the Information Disclosure Management System, which contains relevant procedures for handling share price sensitive information.

The Group regularly held managerial meetings chaired by the General Manager. These meetings were attended by the Directors, the senior management, and the responsible members of all departments at the Company's headquarter. Discussions and decisions on the Group's operations and the implementation of investment projects and financial matters are conducted at the meetings. The management of the Company and the department heads at the branch level and headquarter will host regular managerial meetings to assist in the cooperation, communication and supervision of the commencement and execution of all operation projects.

During the year, the Board reviewed the effectiveness of the risk management and internal control systems of the Group by assessing the adequacy of resources, qualifications and experience of staff in respect of the Company's accounting and financial reporting function, and their training programmes and budget, and considered that the Group had adequate staff resources with the competence, qualifications and experience necessary for the effective performance of its risk management and accounting and financial reporting functions.

FINANCIAL REPORTING

The Board was in strict compliance with the provisions as set out in the Listing Rules in relation to financial reporting and disclosure to carry out comprehensive evaluation and disclose the Company's performance, financial position and prospect for the year based on detailed and accurate financial information and other data submitted by the management for the Board's approval. The Directors also undertook the responsibility of preparing the Company's financial statements of the interim and annual reports of the year on a true and accurate basis.

The Directors were not aware of any material uncertainties relating to events or conditions which may constitute significant doubt upon the Group's ability to continue as a going concern.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

There are four ESG subject areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. Corporate Governance is not included as it is disclosed separately in the annual report of the Company pursuant to Appendix 14 of the Main Board Listing Rules.

The Group invited stakeholders periodically to identify material aspects and key performance indicators and understand their views. Stakeholders are parties that have interests in or are affected by the decisions and activities of the Group. They may include shareholders (including holders of domestic shares and H shares), business partners, employees, suppliers, contractors, consumers, regulators and the public.

Stakeholder engagement is usually achieved through personal interview and various other means including annual general meetings, telephone interviews, seminars, focus groups, questionnaires, online forums as well as feedbacks and written enquiries collected from shareholders by public relations companies.

In 2018, subject areas, aspects and key performance indicators that are material in the context of corporate strategy of the Group were prioritised, and relevant prominent issues are set out as follows:

WORKPLACE QUALITY

Workplace

Policies and regulations principally adopted by the Group in respect of compensation and dismissal, recruitment and promotion, working hours, holidays, equal opportunity, diversity and other benefits and welfare are as follows:

1. Remuneration of employees is determined by the Group in accordance with the requirements under the Remuneration Policy of Xinjiang Xinxin Mining Industry Co., Ltd. (《新疆新鑫礦業股份有限公司工資制度》);
2. Employees are recruited, promoted and dismissed by the Group pursuant to Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and in compliance with Administrative Measures on Recruitment and Employment Contract of Employees of Xinjiang Xinxin Mining Industry Co., Ltd. (《新疆新鑫礦業股份有限公司員工聘用及勞動合同管理辦法》);
3. Working hours of our employees strictly comply with the requirements in the Employment Contract Law of the People's Republic of China by following a working system that provides 8-hour work day and 40-hour work week with Saturday and Sunday off and public holidays;
4. The Group provides paid leaves for employees in strict compliance with the Regulation on Paid Annual Leave of the Employees (Decree No. 514) (《職工帶薪年休假條例》) issued by the State Council of the People's Republic of China;
5. Under the Staff Recruitment Policy of Xinjiang Xinxin Mining Industry Co., Ltd. (《新疆新鑫礦業股份有限公司員工招聘規定》), identical qualification requirements are offered to college graduates and working professionals while candidates have equal opportunity in the process of staff recruitment;
6. Regarding the diversity of employees and other benefits and welfares, varieties of benefits and welfares are provided to all the staff by the Group pursuant to the requirements as stipulated by local governments of places where our enterprises are located, including endowment insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident funds which are equivalent to 18% to 19%, 6% to 9%, 0.5%, 0.65% to 2.85%, 0.5% to 0.8% and 12% of monthly basic salary respectively.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Laws, regulations and relevant policies of the Company mentioned above were strictly followed by the Group with an aim to provide a favorable working environment for all of our staff. In 2018, there was no material violation of relevant codes, regulations and rules in the Group.

As at 31 December 2018, the total workforce of the Group by employment type, age group and geographical region is set out as follows:

| Staff engaged with labor contract | Employment type (person) | | Age group (person) | | | | Geographical region (person) | | |
|-----------------------------------|--------------------------|-----------------------|--------------------------|---------------------|-------------------------|-----------------------|------------------------------|--------------------|-----------------------|
| | Staff of other kinds | Total number of staff | Staff below 35 years old | Staff aged 35 to 50 | Staff over 50 years old | Total number of staff | Staff in Mainland | Staff in Hong Kong | Total number of staff |
| | | | | | | | | | |
| 2,196 | 0 | 2,196 | 690 | 1,117 | 389 | 2,196 | 2,195 | 1 | 2,196 |

In 2018, the employee turnover rate of the Group by age group and geographical region is set out as follows:

| | Age group | | | Geographical region | |
|----------------------------|--------------------------|---------------------|-------------------------|---------------------|--------------------|
| | Staff below 35 years old | Staff aged 35 to 50 | Staff over 50 years old | Staff in Mainland | Staff in Hong Kong |
| Loss of employees (person) | 141 | 24 | 5 | 170 | 0 |
| Employee turnover rate (%) | 6.42 | 1.09 | 0.23 | 7.74 | 0 |

Health and safety

The Law of the People's Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), Measures on the Administration and Supervision on Occupational Hygiene of Workplace (《工作場所職業衛生監督管理規定》) (Decree No. 47 of State Administration of Work Safety (the "SAWS")), Measures for the Declaration of Projects with Occupational Hazards (SAWS Decree No. 48) (《職業病危害項目申報辦法》), Measures for the Supervision and Administration of Employers' Occupational Health Surveillance (SAWS Decree No. 49) (《用人單位職業健康監護監督管理辦法》), Interim Measures for Supervision and Administration of the "Three Simultaneities" for Occupational Health at Construction Projects (SAWS Decree No. 51) (《建設專案職業衛生“三同時”監督管理暫行辦法》) and the national standard Technical Specifications for Occupational Health Surveillance (GBZ188-2007) (《職業健康監護技術規範》) were the laws, regulations and policies mainly adopted by the Group in respect of providing safe working environment and protecting employees from occupational hazards.

Requirements of laws, regulations and policies mentioned above were strictly complied with by the Group, striving to provide a safe working environment and protect employees from occupational hazards. In 2018, there was no material violation of relevant codes, regulations and rules in the Group.

In 2018, the Group had no work-related fatality.

The loss of working days due to work injury of our staff was around 239 days in 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Measures on occupational health and safety adopted by the Group and relevant implementation and supervisory methods thereof are as follows:

1. In order to enhance the management of basic works relating to occupational health and safety precautions, our regulatory organisation for occupational health and safety precautions staffed by administrative personnel was established and improved.
2. Companies with the Group had established and improved their management system in relation to occupational health and safety precautions after referring to industry features. Such systems were strictly implemented.
3. An occupational health surveillance file was opened for each staff by the Group while occupational health examination was organised by relevant medical institutions for our employees on a regular basis. An occupational hazard notification policy was enforced as well.
4. Protection facilities and labor protection articles for occupational hazards were properly prepared for employees according to the nature of their work. Occupational diseases controlling and prevention institution, an independent third party of the Group was engaged to monitor the occupational hazardous factors in the Group and conduct evaluation on the protection effectiveness of our protection facilities for occupational hazards.
5. Work-related injury insurance and other commercial insurances were provided to our staff, so as to offer adequate protection for the interests of staff.

Development and training

The Group had established administrative institutions to be in charge of staff training and career skills in each enterprise, and formulated incentive policies on remuneration, career promotion and training fees, thus encouraged all employees to participate in job trainings so that their knowledge and skills for discharging duties at work could be improved continuously.

The Group had promoted and provided the following trainings for the employees: the guidance of the experienced employees and mutual trainings, trainings on technical skills for different positions provided by the in-house training sessions and entrusted training institutions; encouragement of technology professionals and the management to attend the professional trainings provided by colleges and training institutions in order to update their expertise and professional skills.

In 2018, the percentage of employees trained by employee category (such as the senior management, middle management and others) of the Group was as follows:

| | Employee category | | |
|-------------------------------------|-------------------|-------------------|-----------------|
| | Senior management | Middle management | Other employees |
| The percentage of employees trained | 85.71% | 79.20% | 88.10% |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2018, the average training hours completed per employee by employee category of the Group was as follows:

| | Employee category | | |
|---|-------------------|-------------------|-----------------|
| | Senior management | Middle management | Other employees |
| The average training hours completed per employee | 68 hours | 47 hours | 25.8 hours |

Labour standards

As for preventing child labour or forced labour, the Group mainly implemented Labor Law of the People's Republic of China (《中華人民共和國勞動法》), the Employment Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other relevant laws and regulations.

The Group strictly complied with relevant laws and regulations including Labor Law of the People's Republic of China and the Employment Contract Law of the People's Republic of China. Across all companies under the Group, internal administrative institutions were set up to manage their employees in a professional manner when such employees were recruited and employed, so as to eliminate situations such as child labors and forced labors in the Group. In 2018, there was no material violation of relevant codes, regulations and rules in the Group.

ENVIRONMENTAL PROTECTION

Emissions

The wastes disposed by the Group were mainly waste mining rocks, mineral processing tailings and smelting sulfur dioxide gas. In the process of waste disposal, the Group mainly complied with revised laws and regulations including the Law on Mineral Resources of the PRC (《中華人民共和國礦產資源法》), Environmental Protection Law of the People's Republic of China, the Law on Environmental Impact Assessment of the People's Republic of China (《中華人民共和國環境影響評價法》), Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Law on the Prevention and Control of Environmental Pollution by Solid Wastes of the PRC (《中華人民共和國固體廢物污染環境防治法》), Environmental Protection Regulations of Xinjiang Uygur Autonomous Region (《新疆維吾爾自治區環境保護條例》) and the Standard for Pollution Control on General Industrial Solid Waste Sites (GB18599-2001) (《一般工業固體廢物貯存、處置場污染控制標準》(GB18599-2001)), the Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-2004) (《大氣污染物綜合排放標準》(GB16297-2004)), the Industrial Emission Standard of Pollutants for Copper, Nickel, Cobalt (GB25467-2010) (《銅、鎳、鈷工業污染源排放標準》(GB25467-2010)), and other relevant laws, regulations and policies published by the State Council for preventing air, water and soil pollution.

The Group strictly complied with the stipulations of the aforementioned laws, regulations and policies to improve the recycling and utilisation of the wastes and strive to decrease the wastes disposal. In 2018, there was no material violation of relevant codes, rules and regulations by the Group.

In 2018, the Group disposed waste mining rocks of approximately 235,000 tonnes, mineral processing tailings of approximately 2,505,000 tonnes, water quenched slag of 172,000 tonnes, smelting sulfur dioxide gas of approximately 890.6 tonnes, among which the disposed waste mining rocks, disposed mineral processing tailings and water quenched slag were non-hazardous waste, while the emitted smelting sulfur dioxide gas were hazardous waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The emission of sulfur dioxide gas by the smelting plants of the Group was recycled by the auxiliary comprehensive recycling and utilisation facilities. With those facilities, the plants disposed sulfur dioxide gas with “double conversion and double absorption” method to fully recycle sulfur dioxide in the sulfur dioxide gas and used them to produce by-product of sulphuric acid for sale. The elimination rate of the sulfur dioxide in the sulfur dioxide gas by such facilities was 99.0% to 99.6%. As a result, the emission of sulfur dioxide gas was in accordance with the emission requirements stipulated by the national standard of Industrial Emission Standard of Pollutants for Copper, Nickel, Cobalt (GB25467-2010) and other relevant policies. Moreover, recycling and utilisation facilities were built by Kalatongke Mining, the principal mining enterprise of the Group, to dispose water quenched slag and mineral processing tailings, and use them for underground filling of stope, which could fully discover the use value of waste and decrease the waste disposal.

The waste mining rock of the Group was used for underground filling of mines and road paving after being crushed. The remaining waste was stockpiled in special waste rock plants which met the requirements of environmental protection. Some of the mineral processing tailings were transported for underground filing of stope after being partly disposed. The remaining mineral processing tailings was stockpiled in the dedicated mineral tailing facilities which met the requirements of environmental protection. The sulfur dioxide in the smelting gas was recycled for producing byproduct of sulphuric acid, and the other solid smoke and dust was all recycled for use. Some of water quenched slag generated from smelting and production were provided to surrounding cement plants as correction agent for producing raw materials of cement, and the remaining water quenched slag were used for underground filing of stope. After purification and treatment, waste water was used for industrial cyclic utilisation and the green irrigation in the enterprise. The Group's disposal and utilisation rate of industrial waste reached 100% through the aforementioned measures.

Use of resources

In respect of effective use of resources (including energy, water and other raw materials), the Group strictly implemented the Law on the Water Resources of the PRC (《中華人民共和國水利法》), the Law on Power Generation of the PRC (《中華人民共和國電力法》), the Law on Energy of the PRC (《中華人民共和國能源法》), the Law on Energy Saving of the PRC (《中華人民共和國能源節約法》) and other relevant laws and regulations.

In 2018, the Group consumed electricity of approximately 376,340,000 KWh, coke of 50,318 tonnes, coal of 75,128 tonnes, diesel of 983 tonnes and petrol of 54 tonnes in total.

In 2018, the total amount of water consumed by the Group was approximately 4,281,000 tonnes.

The Group did not have any particularly prominent energy efficiency programmes and the relevant results during the year.

The Group did not have problems in seeking appropriate water resources. The existing supply of water resources could satisfy the Group's needs in the aspects of volume, quality of water and the guarantee of water supply facilities. In 2018, the Group saved water of approximately 2,598,000 tonnes in total through carrying out measures of reduction in water consumption, recycling and utilisation of industrial waste water, etc. in major water consumption process including mineral processing and smelting.

All of the packing material used by the main products of the Group including nickel cathode, electrolytic cobalt and cathode copper were steel belts used for packing. In 2018, the Group consumed steel belts of 38 tonnes in total, approximately 2.1 kg of which was used for products per tonne.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environment and natural resources

The Group is an enterprise producing and processing nonferrous metals and mineral products. In the process of producing nickel cathode and cathode copper products, the Group consumed mineral resources and used natural resources including the land, and generated waste which may affect the environment to some extent. The Group legally obtained and used natural resources strictly pursuant to the requirements of the relevant laws and regulations including the Law on Mineral Resources of the PRC (《中華人民共和國礦產資源法》), The Land Administration Law of the PRC (《中華人民共和國土地管理法》), the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》). Therefore, the Group consistently increased its capacities on comprehensive recycling and utilisation of natural resources, decreased the natural resources consumption and the disposal of various kinds of waste, and reduced the material influence of the Group's operation to the environment and natural resources.

The Group was devoted to the corporate philosophy of preservation of resources of all personnel, reduction of waste disposal and protection for the ecological environment. The Group increased investment in new skills and techniques and improved the technical skills of the enterprise. Moreover, it formulated incentive policies and concrete measures of comprehensive use of resources, technological innovation, energy saving and emission reduction. Through consistently promoting the enterprise to achieve effective utilisation and saving resources as well as environment protection pursuant to the laws, the environment of mining plant areas were constantly greened and improved and put on the path of sustainable healthy development.

OPERATION PRACTICES

Anti-corruption

The Company established multiple management regulations in strict compliance with the relevant laws, regulations and requirements of the country with reference to the actual situation of the Company. The regulations include Regulations for Preventing Job-related Crimes in Xinjiang Xinxin Mining Industry Co., Ltd., Long-term Mechanism of Prevention and Management of Commercial Bribery of Xinjiang Xinxin Mining Industry Co., Ltd., Enforcement of Regulation on Establishing a Long-term Mechanism to Prevent "Private Cofters" of Xinjiang Xinxin Mining Industry Co., Ltd., Regulations of Xinjiang Xinxin Mining Industry Co., Ltd. on Enhancing Capital Approval and Management, Plan of Xinjiang Xinxin Mining Industry Co., Ltd. on Promotion of Integrity and Risk Prevention, Control and Management of Xinjiang Xinxin Mining Industry Co., Ltd., Staff Handbook of Xinjiang Xinxin Mining Industry Co., Ltd. and other internal control regulations. These regulations are formulated to guide and regulate employees' conduct and prevent criminal activities such as job-related crimes, bribery, extortion, fraud and money laundering.

In accordance with requirements of Xinjiang Non-ferrous (the controlling shareholder) about "Letter of Commitment regarding Construction of Party Conduct and Clean Administration" (《黨風廉政建設目標責任書》), the Party Committee of the Company has signed "Letter of Commitment regarding Construction of Party Conduct and Clean Administration" and "Letter of Commitment on Honesty" (《崗位廉潔承諾書》) respectively with its members, members of Party Committee of subsidiaries and management members; members of the Party Committee and the management of the Company have also signed "Letter of Commitment regarding Construction of Party Conduct and Clean Administration" and "Letter of Commitment on Honesty" respectively with departments under their responsibilities. Duties are specified for each leaders, department heads and key personnel, explicitly setting their responsibilities in respect of construction of clean administration and enhancing the performance assessment in this regard.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

To improve the Group's integrity risk prevention system, the Company launched an integrity risk identification project in the whole group, which was led by the Party Committee, supervised by the Commission for Discipline Inspection and executed by the Office of Discipline Inspection. Such a project aimed to raise employees' awareness of risk prevention and ward off any risk relating to integrity.

In addition to the regular supervision and inspection on the daily production and operations of respective fields under their own management, each functional departments of the Company also pays special attention to the regular supervision and inspection on the project construction, material procurement, funding approval and implementation of internal control regulations, etc., to identify and address the problems and weakness in the Group's operation and management procedures in a timely manner and to prevent dereliction of duty or improper fulfillment of responsibility on the part of staff at all level, thereby creating and nourishing a corporate culture characterized by integrity and self-discipline.

The Company established a petition and report system open to all staff and the society for supervision and whistle-blowing on crimes such as job-related crimes, bribery, extortion, fraud and money laundering. It has designated persons responsible for the petition and report of the Company. No form of corruption is tolerated by the Group. Employees are prohibited from soliciting, receiving or accepting any form of benefits from any person, company or organisation having business relationships with the Group. In addition, the Group also requires partners that provide the Company with services to be honest and self-disciplined.

The Company has continuously standardized its decision-making procedure by adopting various measures such as education on eliminating corruption, system restriction, whistle-blowing and investigation, and enhancement of accountability mechanisms, thereby establishing a working mechanism featured by mutual restriction and supervision among employees. At the same time, the Company continued strengthening the attitude building, risk warning and awareness of anti-corruption within all the business units of the Group, so as to protect the improvement of the Group's economic benefits and management capability.

In 2018, the Company did not receive any report on crimes such as job-related crimes, bribery, extortion, fraud and money laundering in the Group, and no illegal cases on job-related crimes, bribery, extortion, fraud and money laundering occurred in the Group. Also, there were no concluded legal cases regarding corruption brought up by the Company or its employees in the Group.

The whistle-blowing procedures on crimes such as job-related crimes, bribery, extortion, fraud and money laundering:

Directly making the whistle-blowing call or sending emails to report.

The whistle-blowing hotline of the Company is: (0991) 4852923

The whistle-blowing email of the Company is: ywjys6818@163.com

Supply chain management

The Group has established a comprehensive procurement system to manage and monitor the procedures of supply chain management of the Group to conduct consolidated and comprehensive assessment on supplier's qualification, creditworthiness, supply capacity and other aspects. Under the same conditions, the Group will consider the reputation of suppliers in environmental management and social responsibility as the priority to ensure that the capability of employed suppliers meets the requirements of the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In respect of engineering services outsourcing, the Group has formulated and strictly implemented certain supply chain management systems on engineering services outsourcing, including the “Acceptance Specification of Installation, Maintenance and Inspection and Infrastructure Construction (《安裝、維檢及基建施工工程簽證驗收規範》)”, the “Management System for Project Bidding and Tendering (《工程招投標管理制度》)”, the “Quality Management System for Infrastructure Projects (《基建工程質量管理制度》)”, the “Management System for Project Budget (Final Account) (《工程預(決)算管理制度》)”, the “Infrastructure Projects Acceptance Management System (《基建工程驗收管理制度》)” and so on. In respect of procurement of materials and equipment, the Group has also formulated and strictly implemented certain supply chain management systems on procurement of materials and equipment, including the “Management Measures for Material Procurement (《物資採購管理辦法》)”, the “Contract Management Measures (《合同管理辦法》)”, the “Procurement Control Procedures (《採購控制程序》)”, the “Production Equipment Control Procedures (《生產設備控制程序》)”, the “Energy Resources Control Procedures (《能源資源控制程序》)”, the “Approval Measures for Qualified Suppliers of Equipment and Materials (《設備及物資採購合格供應商評審辦法》)”, the “Bidding Procurement Rules (《比價採購規則》)”, the “Material Bidding Management System (《物資招標管理制度》)”, the “Material Quality Acceptance Management System (《物資質量驗收管理制度》)” and so on.

In 2018, the number of major suppliers of product plants is as follows:

| Suppliers' region | Number of suppliers in the region | | | |
|----------------------------------|-----------------------------------|-------------------|----------------|----------------|
| | Fukang Refinery | Kalatongke Miwing | Xinjiang Yakei | Hauri Zhongxin |
| Xinjiang Uygur Autonomous Region | 142 | 150 | 56 | 66 |
| Anhui Province | 8 | 2 | 2 | 1 |
| Liaoning Province | 7 | 7 | 4 | 1 |
| Shaanxi Province | 8 | 7 | | 1 |
| Jiangsu Province | 23 | 13 | 5 | 5 |
| Sichuan Province | 4 | 5 | 1 | |
| Hebei Province | 11 | 3 | 1 | 2 |
| Henan Province | 3 | 2 | 4 | 2 |
| Hunan Province | 1 | 2 | | 1 |
| Zhejiang Province | 14 | 3 | 1 | 3 |
| Guangdong Province | 3 | 3 | 2 | 1 |
| Shandong Province | 9 | 2 | 2 | |
| Beijing City | 9 | 15 | 6 | 1 |
| Shanghai City | 8 | 1 | 5 | 2 |
| Yunnan Province | 2 | | | |
| Hubei Province | 3 | 2 | | 1 |
| Chongqing City | 3 | | | |
| Shanxi Province | 1 | | | |
| Jilin Province | 2 | 2 | | |
| Heilongjiang Province | 1 | | | |
| Gansu Province | | 4 | 1 | |
| Ningxia Hui Autonomous Region | | 1 | 2 | |
| Jiangxi Province | | 3 | 1 | |
| Guizhou Province | | 1 | | |

COMMUNITY INVOLVEMENT

Community investment

The Group is engaged in and supports the welfare undertakings such as education, public health, culture and sport, etc. in the cities and towns where the employees' communities and the enterprises locate mainly through charitable donations.

In 2018, the Group has made charitable donations amounting to approximately RMB0.407 million.

REPORT OF THE DIRECTORS

The Directors are pleased to present the 2018 annual report and the audited financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018 (the “Year”).

PRINCIPAL ACTIVITIES

The principal activities of the Group and its associate and joint-venture companies are the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. There were no significant changes in the nature of the Group’s principal activities during the Year.

RESULTS AND DIVIDENDS

The Group’s results for the year ended 31 December 2018 and the state of financial affairs of the Company and the Group at that date are set out in the Financial Statements in pages 65 to 196.

The Board of Directors of the Company (the “Board of Directors” or the “Board”) did not recommend any payment of final dividend for the year ended 31 December 2018.

BUSINESS REVIEW

The business review of the Group for the year has been set out in pages 6 to 10 of the Chairman’s Statement, in pages 11 to 15 of the Management Discussion and Analysis and in pages 33 to 40 of the Environmental, Social and Governance Report.

| | |
|--|---|
| Fair review of business | Chairman’s Statement |
| Principal risks and uncertainties | Management Discussion and Analysis |
| Events after the balance sheet date | Report of the Directors |
| Future development of the business of the Company | Chairman’s Statement |
| Key performance indicators | Management Discussion and Analysis |
| Environmental policies and performance of the Company | Environmental, Social and Governance Report |
| Compliance of relevant laws and regulations | Environmental, Social and Governance Report |
| Principal relationships between the Company and employees, customers and suppliers | Report of the Directors |

MAJOR INVESTMENTS AND EQUITY TRANSFER

The Company had no other acquisitions, sale or merger of assets and other equity investments during the Year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the operating results and assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 5 of this annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the Year are set out in note 4(9) and 15(10) to the Financial Statements, respectively. The Group did not hold any investment property.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 4(28) to the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to its existing Shareholders.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of any business of the Company existed or was entered into during the Year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Year.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the Consolidated and Company's Statement of Changes in Equity, respectively.

BANK LOANS AND BORROWINGS

As at 31 December 2018, the Group had bank loans and other interest-bearing borrowings with total amount of RMB2,475.2 million, of which unsecured loans and other interest-bearing borrowings amounted to RMB1,972.5 million, and gold lease amounted to RMB502.7 million.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company as revised in December 2018, the reserves available for distribution are based on the Company's profit as determined under CAS. In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the allocation to the statutory surplus reserve. As at 31 December 2018, the Group's distributable reserve attributable to shareholders of the Company under CAS amounted to RMB(827) million.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling RMB0.4 million.

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2018, the proportion of purchases and sales from major suppliers and major customers of the Company to the total purchases and sales, respectively, are as follows:

Purchases

The total purchases from the largest supplier of the Company represent 8.4% of the total purchase value. The total purchases from the five largest suppliers of the Company represent 27.7% of the total purchase value.

REPORT OF THE DIRECTORS

Sales

| Name of the customer | Proportion in total sales | Sales relationship with the Company | Payment term | Accounts receivable as at 31 December 2018 | Repayment subsequent to the balance sheet date |
|--|---------------------------|-------------------------------------|--------------------------|--|--|
| Trafigura Investment (China) Company Limited | 35.2% | 4 years | 3 days | RMB177.7 million | RMB177.7 million |
| Xinjiang Boyuan Cable Company Limited | 16.9% | 14 years | Advances before delivery | - | - |
| China Chentong Commodity Trading Company Limited | 7.6% | 14 years | 3 days | RMB6.3 million | RMB6.3 million |
| China Shanghai Yujin Metal Materials Co., Ltd. | 6.8% | 5 years | Advances before delivery | - | - |
| Wuxi Stainless Steel Exchange Center Co., Ltd. | 6.0% | 3 years | Advances before delivery | - | - |
| Top 5 customers | 72.5% | | | | |

In 2018, The Company's largest customer was Trafigura Investment (China) Company Limited, accounting for 35.2% of the total sales of the Company. Incorporated in China in December 2005, Trafigura Investment (China) Company is a wholly-owned subsidiary under Trafigura Beheer B.V. (TBBV) with a registered capital of US\$70 million. Founded in 1993, TBBV is a private company registered in Holland. Now it is the third largest independent oil trading company and the second largest independent non-ferrous concentrate trading company in the world. The payment term granted to this customer is 3 days after the receipt of goods, from whom, accounts receivable as at 31 December 2018 was RMB177.7 million, which has been collected in full so far.

As nickel cathode and copper cathode products produced by domestic producers are not able to satisfy domestic demands, such under-supply in the PRC has to be fulfilled by substantial import. The Group is in a better position in the market by selecting customers with better payment terms, excellent background, good credibility and well-established marketing network. The Group makes settlement as per the spot prices in the Shanghai Yangtze River Non-ferrous Metals Spot Market, and the Group generally sells its products at prices in line with the market prices. There are no long-term contracts between the Group and customers. If any customer fails to make any payments on time, the Group can change it anytime. Accordingly, there are no risk of reliance on single major customer nor significant customer credit risk in respect of the Group's sales.

During the Year, to the best of the Directors' knowledge, none of the Directors, supervisors or their respective associates or any Shareholders of the Company who holds more than 5% of the issued share capital of the Company had any interest in any of the five largest customers or other five largest suppliers of the Group.

REPORT OF THE DIRECTORS

The Important Relationship between Employees, Customers and Suppliers

Mr. Zhang Guohua, a non-executive Director of the Company, is the Chairman and legal representative of Xinjiang Non-ferrous. Mr. Shi Wenfeng, a non-executive Director of the Company, is a director and the deputy general manager of Xinjiang Non-ferrous, which is the parent company of the Company. Mr. Zhou Chuanyou, a non-executive Director of the Company, is one of the beneficial owners of the domestic shares of the Company (for details please refer to the paragraph headed Directors and Supervisors of the Report of the Directors). Mr Liu Jun and Mr. Guo Quan, executive Directors of the Company, also served as the secretary and deputy secretary to the Party Committee of the Company, respectively. Such secretary and deputy secretary to the Party Committee are directly appointed by the Party Committee of Xinjiang Non – ferrous.

Xinjiang Non-ferrous and its subsidiaries (collectively referred to as the “Xinjiang Non-ferrous Group”) will provide construction services, certain production supplies, storage, transportation and loading services and other supporting and ancillary services to the Group; and the Group will provide products such as nickel cathode, copper cathode and sulphuric acid to the Xinjiang Non-ferrous Group (for details please refer to the paragraph headed Connected Transactions of the Report of the Directors).

A wholly-owned subsidiary of Xinjiang Non-ferrous provided certain supporting services including educational, nursery, medical and healthcare services to part of the employees of the Group (for details please refer to the paragraph headed Connected Transactions of the Report of the Directors).

Save as explained above, none of other employees, customers or suppliers of the Company has important relationship with the Company, nor has material impact on the Company nor is the key to the prosperity of the Company.

MAJOR LITIGATION OR ARBITRATION

Save as disclosed in Note 4(21) to the Consolidated Financial Statements – Provision regarding the court judgements in respect of the counter-guarantees for four bank loans and one legal proceeding pending court judgement, the Group has no other major litigation or arbitration as at the date of this report.

CONTINGENT LIABILITIES

Save as disclosed in notes 7 and 8(5)(f) to the Financial Statements, the Group had no other significant contingent liabilities as at 31 December 2018.

CAPITAL COMMITMENTS

The Group had no significant capital commitments as at 31 December 2018.

EVENTS AFTER THE BALANCE SHEET DATE

As stated in Note 4(21) to Consolidated Financial Statements – Provision, Shaanxi Xinxin received four court judgements and had one legal proceeding which judgement was not handed down on the first hearing dated 15 March 2019. Based on the reliable estimate made of the amount of the obligation in respect of the guarantees, the Group has made a provision in the amount of approximately RMB161.6 million in the consolidated financial statements for the year ended 31 December 2018.

Save as abovementioned, the Group has no other events after the balance sheet date which need to be disclosed or adjusted.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

As at the balance sheet date and the date of this Report, the executive Directors of the Company are Messrs Guo Quan and Liu Jun; non-executive Directors are Messrs Zhang Guohua, Shi Wenfeng, Zhou Chuanyou and Hu Chengye; and independent non-executive Directors are Messrs Hu Benyuan, Wang Lijin and Li Wing Sum, Steven.

As at the balance sheet date and the date of this Report, the Supervisors of the Company are Mr. Yu Wenjiang, Mr. Li Jiangping, Mr. Meng Guojun, Ms. Chen Rong and Ms. Yao Wenyong.

Biographical details of the Directors and Supervisors are set out on pages 16 to 21.

Directors of Subsidiaries

As at the balance sheet date and the date of this Report, the Directors of subsidiaries of the Company are as follows:

1. The Directors of Xinjiang Kalatongke Mining Industry Company Limited are Mr. Liu Jun, Mr. Meng Guangzhi and Mr. Liu Qingli.
2. The Directors of Xinjiang Yakesi Resources Co., Ltd. are Mr. Liu Jun, Mr. He Hongfeng, Mr. Dong Guoqing, Mr. Pan Yuzhong and Mr. Zhu Lingxiao.
3. The Executive Director of Hami Jubao Resources Co., Ltd. is Mr. Dong Guoqing.
4. The Executive Director of Beijing Xinding Shunze High Technology Co., Ltd. is Mr. He Xianyi.
5. The Directors of Xinjiang Zhongxin Mining Industry Co., Ltd. are Mr. Dong Guoqing, Mr. Liu Jun and Mr. He Hongfeng.
6. The Directors of Shaanxi Xinxin Mining Co., Ltd. are Mr. Liu Bingqiang, Mr. Guo Quan, Mr. Liu Jun, Mr. Dang Xincheng and Mr. Gao Xiaozhen.
7. The Directors of Xinjiang Mengxi Mining Co., Ltd. are Mr. Guo Quan, Mr. Liu Jun, Mr. He Yongsheng, Mr. Hu Jianming and Mr. Zuli Haer.

Service Contracts of Directors and Supervisors

Each of the Directors and Supervisors has entered into a service contract for a term of three years with the Company from 14 October 2017 or the date of new appointment to the expiration of the term of the fifth session of the Board of Directors and of the Supervisors Committee of the Company.

Pursuant to Articles 106 and 145 of the Articles of Association, the term for Directors and Supervisors is three years commencing from the date of their respective appointment or re-appointment, subject to re-appointment at a general meeting.

Save as disclosed above, there are no service contracts between the Company or its subsidiaries and any of the Directors or Supervisors which is not determinable by the Company within one year without payment of compensation apart from statutory compensation.

REPORT OF THE DIRECTORS

Confirmation of Independence

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and considers all the independent non-executive Directors to be independent.

Directors’ and Supervisors’ Remunerations

Details of remunerations of Directors and Supervisors of the Company for the year ended 31 December 2018 are set out, on a named basis, in note 8(5)(l) to the Financial Statements.

Directors’ and Supervisors’ Interests in Contracts

No transaction, arrangement or contract of significance, to which the Company or its subsidiaries or any of its holding companies or fellow subsidiaries was a party and in which a Director or Supervisor had either a direct or indirect material interest, subsisted as at the end of the Year or at any time during the Year.

Directors’ and Supervisors’ Interests and Short Positions in Shares

Share Appreciation Rights Incentive Scheme

At the annual general meeting held on 29 May 2008, the Company adopted and approved a share appreciation rights incentive scheme (the “Share Appreciation Rights Incentive Scheme” or “SARIS”) to acknowledge the contributions of its senior management and key personnel. The SARIS is an arrangement providing for incentive for the management of the Company such that it attaches importance to the performance of the shares of the Company and its long-term development without the characteristics of shares. It is intended to align the senior management’s interests to those of the Company and its shareholders. It is intended that the operation of the SARIS will not involve any issue of new H shares of the Company, and the exercise of any share appreciation rights will not create a dilution effect on the Company’s shareholding structure.

The SARIS entitles persons who are granted such rights to receive cash payments when the Company’s share price rises above the exercise price granted in the share appreciation rights in a certain pre-determined period, subject to certain terms and conditions of the SARIS.

The share appreciation rights are not transferable, nor are there any voting rights attached to the share appreciation rights. The SARIS is not a scheme involving the grant of options over new securities of the Company, and therefore will not fall within the ambit of, and will not be subject to, Chapter 17 of the Listing Rules.

The SARIS has taken effect since the date of approval at the annual general meeting held on 29 May 2008, with a validity period of ten years from its effective date. The SARIS has expired on 29 May 2018.

There were no share appreciation rights allocated and outstanding as at 31 December 2018.

REPORT OF THE DIRECTORS

As at 31 December 2018, the interests or short positions, if any, of the Directors and Supervisors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) were as follows:

Long Positions in Shares and Underlying Shares of the Company by the Directors/ Supervisors as at 31 December 2018

| Director/Supervisor | Number of shares held | | | Classes of share | Percentage of aggregate interests to relevant class of share | Percentage of aggregate interests to the total share capital |
|---------------------|-----------------------|---------------------|-----------------|----------------------------------|--|--|
| | Personal interest | Corporate interests | Total interests | | | |
| Zhou Chuanyou | | 480,924,000 | 480,924,000 | Domestic share (<i>Note 1</i>) | 33.14 | 21.76 |
| | | | 5,000,000 | H share | 0.66 | 0.23 |

Note 1: The domestic shares are held by Shanghai Yilian and Zhongjin Investment. The entire shareholding or equity interest of Shanghai Yilian and Zhongjin Investment are beneficially owned by Zhou Chuanyou.

Save as disclosed above, none of Directors and Supervisors and their respective associates had, as at 31 December 2018, any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to Section 352 of the SFO, to be and are recorded in the register required to be kept by the Company or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS’ AND SUPERVISORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director and Supervisors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, its subsidiaries or any of fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN COMPETING BUSINESSES

During the Year and up to the date of this report, the following Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company, as defined in the Listing Rules:

Mr. Zhang Guohua is the Chairman of Xinjiang Non-ferrous and also acts as the legal representative of Xinjiang Non-ferrous to sign any deeds, material contracts and other material documents of Xinjiang Non-ferrous. Mr. Shi Wenfeng is a director and the deputy general manager of Xinjiang Non-ferrous. Mr. Lin Jun and Mr. Guo Quan were appointed of the Party Committee of Xinjiang Non – ferrous as secretary and deputy secretary to the party Committee of the Company. Mr. Zhang, Mr. Shi and Mr. Liu and Mr. Guo have not given any confidential or sensitive commercial information of the Company to Xinjiang Non-ferrous or any other third party and have physically abstained the voting right of directors to consider connected transactions with Xinjiang Non-ferrous.

REPORT OF THE DIRECTORS

As the Board of Directors of the Company is independent from the board of directors of Xinjiang Non-ferrous and the above Director does not control the Board of the Company, the Group is capable of carrying on its businesses independent from, and at arm's length from, the business of Xinjiang Non-ferrous.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to any Director or Supervisor, as at 31 December 2018, the persons or companies (other than a Director or Supervisor of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more than the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

| Name | Number of shares held | Class of share | Approximate percentage of shareholding on relevant class of shares (%) | Approximate percentage of the total share capital (%) |
|--|-----------------------|----------------|--|---|
| Xinjiang Non-ferrous | 885,204,000 (L) | Domestic share | 61.01 | 40.06 |
| Shanghai Yilian (<i>Note</i>) | 282,896,000 (L) | Domestic share | 19.50 | 12.80 |
| Zhongjin Investment (<i>Note</i>) | 198,028,000 (L) | Domestic share | 13.65 | 8.96 |
| The National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會) | 69,000,000 (L) | H share | 9.09 | 3.12 |

(L): Long positions

Note: The entire shareholding or equity interests of Shanghai Yilian and Zhongjin Investment are beneficially owned by Mr. Zhou Chuanyou.

Save as disclosed above, the Directors were not aware of any other person (other than a Director or Supervisor of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 8 to the Financial Statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

Continuing Connected Transactions Not Exempt under the Listing Rules

1. Mutual Supply Agreement

On 30 October 2015, Xinjiang Non-ferrous and the Company entered into a renewed mutual supply agreement (the “Existing Mutual Supply Agreement”) whereby both parties agreed that (A) Xinjiang Non-ferrous and its subsidiaries (collectively referred to as the “Xinjiang Non-ferrous Group”) will provide construction services, certain production supplies, storage, transportation and loading services and other supporting and ancillary services to the Group; and (B) the Group will provide products such as nickel cathode, copper cathode and sulphuric acid to the Xinjiang Non-ferrous Group from 1 January 2016 to 31 December 2018.

For each of the three years ending 31 December 2016, 2017 and 2018, the annual caps of the aggregate fees payable by the Group to Xinjiang Non-ferrous Group in respect of the construction services and supporting and ancillary services are approximately RMB948.9 million, RMB1,019.3 million and RMB1,059.3 million, respectively. For the year ended 31 December 2018, the total transaction amount payable by the Group to Xinjiang Non-ferrous Group in respect of the construction services and supporting and ancillary services was approximately RMB113.6 million.

For each of the three years ending 31 December 2016, 2017 and 2018, the annual caps of the aggregate fees payable by Xinjiang Non-ferrous Group to the Group in respect of product fees are approximately RMB124.4 million, RMB137.2 million and RMB150.1 million. For the year ended 31 December 2018, the total transaction amount payable by Xinjiang Non-ferrous Group to the Group in respect of product fees was approximately RMB77.1 million.

2. Comprehensive Services Agreement

On 30 October 2015, Kalatongke Mining, a wholly-owned subsidiary of the Company, entered into a renewed comprehensive services agreement (the “Existing Comprehensive Services Agreement”) with Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Company Limited* (新疆有色金屬工業(集團)富蘊興銅服務有限公司) (“Fuyun Xingtong”), a wholly-owned subsidiary of Xinjiang Non-ferrous, whereby Fuyun Xingtong agreed to provide certain supporting services including educational, nursery, medical and healthcare services to the employees of the Group from 1 January 2016 to 31 December 2018.

For each of the three years ending 31 December 2016, 2017 and 2018, the annual caps of the services fees payable by the Group to Fuyun Xingtong are approximately RMB3.4 million, RMB3.4 million and RMB3.4 million, respectively. For the year ended 31 December 2018, the total transaction amount of the services fees payable by the Group to Fuyun Xingtong was approximately RMB3.2 million.

3. Property Lease Agreement

On 30 October 2015, the Company entered into a renewed property lease agreement (the “Existing Property Lease Agreement”) with Xinjiang Non-ferrous, pursuant to which Xinjiang Non-ferrous agreed to lease to the Company office premises on the 7th and 8th floors, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC with a total gross floor area of approximately 1,992 square metres for office use from 1 January 2016 to 31 December 2018.

REPORT OF THE DIRECTORS

On 27 May 2016, the Company entered into a supplemental agreement to the existing property lease agreement with Xinjiang Non-ferrous, pursuant to which Xinjiang Non-ferrous agreed to lease the office property on the 7th floor, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC with a total gross floor area of approximately 996 square metres to the Company from 1 July 2016 to 31 December 2018 for office use.

For each of the three years ending 31 December 2016, 2017 and 2018, the annual caps of the rental payable to Xinjiang Non-ferrous by the Company are approximate RMB1.2 million, RMB0.8 million and RMB0.8 million respectively. For the year ended 31 December 2018, the rental payable by the Company to Xinjiang Non-ferrous was approximately RMB0.8 million.

* The English name is a translation of the original Chinese name and provided for reference only.

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed the said transactions as set out in the annual report and the accounts of the Company and are of the view that the continuing connected transactions:

- (I) were in the ordinary and usual course of business of the Company;
- (II) have been entered into by the Company on normal commercial terms or on terms no less favorable to the Company than terms to or by independent third parties; and
- (III) have been entered in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the Shareholders as a whole.

PricewaterhouseCoopers Zhong Tian LLP, the auditors of the Company, has performed certain procedures on the continuing connected transactions and confirmed in writing to the Board that the above-mentioned continuing connected transactions:

- 1. have been approved by the Board;
- 2. are in accordance with the pricing policies of the Company if the transactions involved provision of goods or services by the Company;
- 3. have been entered into and conducted in accordance with the relevant agreements governing the transactions; and
- 4. have not exceeded the annual caps and revised annual caps disclosed in the relevant announcements of the continuing connected transactions.

CONTROLLING SHAREHOLDER'S INTERESTS IN SIGNIFICANT CONTRACTS

Save as disclosed in note 8 to the Financial Statements section headed "Related Parties and Related Party Transactions, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholders or any of its subsidiaries entered into any contract of significance for the provision of services by the controlling shareholders or any of its subsidiaries to the Company or any of its subsidiaries.

REPORT OF THE DIRECTORS

COMPLIANCE WITH LAWS AND REGULATIONS

To the best of our knowledge, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holdings in the Shares.

NON-COMPETITION AGREEMENT

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, the exercise or non-exercise of the right of first refusal to purchase the 34% shareholding or any part thereof in Ashele Copper (as defined in the Prospectus) as held by Xinjiang Non-ferrous under the Non-competition Agreement (as defined in the Prospectus). The non-competition restrictions took effect on 12 October 2007. Xinjiang Non-ferrous has confirmed that it has not breached any of the terms of the Non-competition Agreement and has provided all information necessary for annual review by the independent non-executive Directors of the Company. An annual review has been conducted by the independent non-executive Directors of the Company on such decisions whether to exercise or not to exercise the right of first refusal.

RELATED PARTY TRANSACTIONS

The Group is also involved in a number of related party transactions, details of which have been disclosed in note 8 to the Financial Statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CLOSURE OF REGISTER FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 24 April 2019 to 24 May 2019 (both days inclusive), during which time no share transfers will be registered. In order to be eligible to attend the 2018 annual general meeting of the Company, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 23 April 2019.

REPORT OF THE DIRECTORS

AUDIT COMMITTEE

Written terms of reference of the audit committee based primarily on “A Guide for Effective Audit Committees” issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board of Directors.

The audit committee provides an important link between the Board of Directors and the Company’s auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The audit committee comprises one non-executive Director namely, Mr. Hu Chengye and two independent non-executive Directors, namely, Mr. Hu Benyuan and Mr. Li Wing Sum, Steven, with Mr. Hu Benyuan serving as the Chairman. The audit committee and management have reviewed the audited results of the Group for the year ended 31 December 2018.

AUDITORS

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers Zhong Tian LLP, who will retire upon the conclusion of the forthcoming annual general meeting of the Company. A resolution for the re-appointment of PricewaterhouseCoopers Zhong Tian LLP as the international and the PRC auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

By order of the Board

Zhang Guohua

Chairman

Xinjiang, the PRC

22 March 2019

REPORT OF THE SUPERVISORY COMMITTEE

To all Shareholders,

In 2018, the Supervisory Committee of the Company (the “Supervisory Committee”), with all the Supervisors, has been committed to fulfilling and fully complied with the work duties and performed their supervisory duties effectively in compliance with the Company Law and other relevant laws and regulations and the relevant requirements of Articles of Association of the Company to effectively fulfill the interests of the shareholders of the Company. The independent opinion report in relation to basic status of the works and duties fulfilled by the Supervisory Committee is set out below.

I. DAILY OPERATION OF THE SUPERVISORY COMMITTEE

- (I) The Supervisory Committee held two meetings in 2018. Adhering to the principle of complying with the law and the Articles of Association of the Company, working with diligence and fulfilling the interests of shareholders of the Company, the five Supervisors of the Company, with conscientious and responsible attitude, provided definite and true opinions on the issues to be reviewed. The status of the meeting is as follows:

On the second meeting of the fifth session of the Supervisory Committee of the Company held on 23 March 2018, five relevant resolutions were considered and approved, including the Report of the Supervisory Committee of the Company for 2017, the audited Consolidated Financial Statement of Xinjiang Xinxin Mining Industry Co., Ltd. for the year ended 31 December 2017, the resolution regarding that no final dividend shall be paid by the Company for the year ended 31 December 2017, the Annual Report of the Company for 2017, the internal audit report of the Company for 2017 and the internal audit plan for 2018.

On the third meeting of the fifth session of the Supervisory Committee of the Company held on 30 August 2018, two resolutions were considered and approved, including the Consolidated Financial Statement of the Company for the six months ended 30 June 2018 (unaudited) and the interim report of the Company for 2018.

- (II) Through attending various Board meetings of the Company in 2018, the Supervisory Committee exercised effective supervision over the legality of the meetings, whether the contents of resolutions are in compliance with the requirements of relevant laws, regulations and the Articles of Association of the Company, whether the resolutions are in line with the general meetings of the Company, as well as the actual needs of the operation and development of the Company.
- (III) Through various activities including the attendance at the meeting of the Party Committee, the general manager’s meetings, the Supervisory Committee has effectively monitored significant economic activities of the Company such as resources integration, project construction, connected transactions, operation performance evaluation of subsidiaries and branch. The Supervisory Committee members have conducted site visits, investigation and research studies, especially comprehensive investigation on plants and mines to provide relevant opinions and recommendations regarding the issues concerned.
- (IV) The Supervisory Committee has monitored the lawfulness and truth of the financial operations of the Company by examining its financial plans and reviewing various financial statements of the Company.
- (V) The Supervisory Committee has monitored the performance of the senior management of the Company and the management of the Company’s subsidiaries, maintained frequent communications with them and offered their opinions and suggestions on job performance.

REPORT OF THE SUPERVISORY COMMITTEE

In 2018, all Supervisors of the Company have uplifted their ability of job performance and carried out their obligations and duties diligently in accordance with the annual work plan of the Supervisory Committee. As the sophisticated specialists in their professional fields, two independent Supervisors and one shareholder Supervisor played their role with due diligence to improve the supervision capability over the operation of the Company in compliance with the law and strengthen the independence of the Supervisory Committee for exercising rights and leveraging proper functions.

II. INDEPENDENT OPINION OF THE SUPERVISORY COMMITTEE

(I) Operation of the Company in Compliance with the Law

In 2018, the Supervisory Committee supervised the operation of the Company and attended the Board meeting and general meetings of the Company in compliance with the law, and strictly supervised the implementation of decision-making procedures of the Company and performance of duties conducted by members of the Board and senior management of the Company. The Supervisory Committee believed that the decision-making procedures of the Company and the convening and holding of general meetings and Board meetings are strictly in compliance with the Company Law and relevant requirements of Articles of Association of the Company. Members of the Board and senior management of the Company performed their duties faithfully and diligently in accordance with laws and regulations of the State and the Articles of Association of the Company. During the Reporting Period, the Company and senior management of the Company did not have any behavior that was in breach of laws and regulations and the Articles of Association of the Company and that has undermined the interest of the Company and Shareholders when performing their duties and exercising their power and rights.

(II) Assets of the Company

In 2018, the Company had no mergers and acquisitions.

The details of the Company's loans and financing, fixed assets, investments on technological renovation projects and geological prospecting and other assets, have been truthfully disclosed in the financial report of the Company.

(III) Financial Management of the Company

The Supervisory Committee has conscientiously inspected, audited and supervised the financial position and management of the Company for 2018 in accordance with laws. PricewaterhouseCoopers Zhong Tian LLP have audited the 2018 financial statements of the Company which have been prepared in accordance with the CASBE and issued the auditors' report with standard unqualified opinion. The Supervisory Committee is of the view that the Company has a sound financial system, standard internal operation and good financial position. The 2018 financial statements of the Company truly, accurately and completely present the financial position and operating results of the Company.

Operating revenue of the Group for 2018 was RMB1,750.0 million and the comprehensive loss attributable to shareholders of the Company was RMB54.2 million.

In 2018, the Company did not encounter any circumstances of misappropriation of fund of the Company by controlling shareholders and other connected parties.

REPORT OF THE SUPERVISORY COMMITTEE

(IV) Connected Transactions

In 2018, the Group was involved in connected transactions with the Company's controlling shareholder Xinjiang Non-ferrous and its subsidiaries, with regard to construction service, supply of raw material and transportation service which amounted to RMB113.6 million, labour service payment to Fuyun Xingtong which amounted to RMB3.2 million, product sales which amounted to RMB77.1 million and lease payment which amounted to RMB0.8 million. All connected transactions were conducted within the scope of the Mutual Supply Master Agreement between Xinjiang Non-ferrous Metal Industry (Group) Ltd. and Xinjiang Xinxin Mining Industry Co., Ltd. The transaction amounts also have not exceeded the Company's 2018 annual caps of continuing connected transaction, which were approved by the Board or general meetings. All the connected transactions were made pursuant to the market rule, being fair and reasonable. No deterioration of the Company's interests was found under reviews. The Company has also engaged PricewaterhouseCoopers Zhong Tian LLP to perform the duties of international auditors and perform certain procedures on relevant transactions, for details please refer to pages 158 to 168 of this annual report.

(V) Internal Control of the Company

The Supervisory Committee is of the view that, the Company has established a relatively sound corporate governance structure and an internal control and management system in accordance with relevant laws, regulations and the Company's actual situation, which is in line with the actual demands and development demands of production, operation and management of the Company at the current stage and ensures the standard operation of the Company's businesses and segments, and the effective prevention and control of operation risks. In the reporting period, the Company's internal control system was standard and legal, and run in an effective way.

The Company strictly complied with laws, regulations and policies of the State, strengthening costs control, increasing revenue and reducing expenses as control procedures in the financial operation of the Company.

The Company implemented a set of performance assessment mechanism for remuneration management and ensured fairness and transparency, which greatly aroused the enthusiasm of staff.

On production management, the Company explored internal potentials and endeavored to increase and stabilize production, pursued a streamlined management, met the index of "two down and one up (兩降一升)" at different levels, uplifted levels of skills and techniques further and continuously improved the recycle rate of metal and the ability of comprehensive multi-metal recycling. The reasonable use of external resources helped increase the total output of the Company. The Company achieved its target of production safety throughout the year with zero death or severe injury in mines and factories. The environmental governance has also reached a new level.

For procurement, the Company underwent at-least-three-bids system with qualitative products, competitive price and open tender to ensure the quality of products, so as to reduce the procurement costs, level of inventory and guarantee the production.

For sales of products, the Company kept a close eye on any updated news on international and domestic markets, carried out in-depth analysis on price trend, conducted research and adjusted the marketing strategies in time and realized the sales in high price and maximized its benefits.

Construction projects of the Company were carried out on schedule. The major progress was under control of the Company and the quality of the works was comprehensively guaranteed.

REPORT OF THE SUPERVISORY COMMITTEE

In respect of human resources management, the Company recruited, trained and maintained various kinds of talents, and continuously improved the quality of the team of employees in accordance with the requirements of the continuous development of the Company.

The internal audit of the Company has been continuously effective, performing important roles particularly in supervising and refining the tendering and bidding of major projects.

(VI) Performance of Duties by the Directors and Senior Management of the Company

All directors and senior management of the Company were diligent and responsible in their work during 2018. They conformed to the laws and regulations and demonstrated cooperation. Their duties were properly segregated. They were responsible and ensured effective implementation of all resolutions as approved by general meetings and the Board. In carrying out their duties, there were no breaches of the laws and regulations, the Articles of Association of the Company or any other actions which were against the interests of the Company. As a result of the scientific decisions on the major issues of the Company and efficient implementation made by the Board and the management, the Company achieved better performance in various aspects including production, safety, operations and project construction, and managed a turnaround to profit for the first time in three years.

III. FOCUS OF THE SUPERVISORY COMMITTEE IN 2019

In 2019, the Supervisory Committee will continue to perform the official duties faithfully and further promote the standard operation of the Company in accordance with the Company Law and other relevant laws and regulations and the relevant requirements of Articles of Association of the Company. The key points of the Supervisory Committee in 2019 are as follows:

- (I) Continuously exploring new methods and new ways to exercise the supervisory and review functions of the Supervisory Committee in accordance with relevant laws and regulations. Prudently improving self-construction, fully leveraging the functions of all Supervisors, and continuously enhancing the working standards of the Supervisory Committee to ensure the implementation of the decisions made by the general meeting and the Board.
- (II) Supervising the operation of the Company in compliance with the law and proactively urging the construction and effective operation of the internal control system of the Company.
- (III) Reviewing the financial operation of the Company and monitoring the financial operation by inquiring upon and reviewing the financial reports on a regular basis.
- (IV) Supervising the due diligence of the Directors and senior management to prevent any behavior that would undermine the interest and image of the Company.
- (V) Strengthening the supervision over capital operation, property disposal, merger and acquisition, connected transaction, financial management and other major issues to ensure healthy development of the Company and effectively protect the interests of the shareholders of the Company

Yu Wenjiang
Chairman of the Supervisory Committee

22 March 2019

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2019) No. 15007

(Page 1 of 8)

TO THE SHAREHOLDERS OF
XINJIANG XINXIN MINING INDUSTRY CO., LTD.

OPINION

What we have audited

We have audited the accompanying financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (hereinafter "Xinjiang Xinxin Mining Co."), which comprise the consolidated and company balance sheets as at 31 December 2018, and the consolidated and company income statements, the consolidated and company cash flow statements, the consolidated and company statements of changes in shareholders' equity for the year then ended, and the notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Xinjiang Xinxin Mining Co. as at 31 December 2018, and their 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 Xinjiang Xinxin Mining Co. 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.

普华永道中天会计师事务所(特殊普通合伙)
PricewaterhouseCoopers Zhong Tian LLP, 11/F, PricewaterhouseCoopers Center
2 Link Square, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
T: +86 (21) 2323 8888, F: +86 (21) 2323 8800, www.pwccn.com

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2019) No. 15007

(Page 2 of 8)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment of goodwill and other long-term assets
- Deferred tax assets

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|--|---|
| <p>Impairment of goodwill and other long-term assets</p> <p>Refer to note 2(30), note 4(9), note 4(10), note 4(11) and note 4(12) to the financial statements.</p> <p>As at 31 December 2018, the book value of goodwill amounted to RMB27,832,805.11, which was resulted from the acquisitions of Xinjiang Yakesi Resource Development Co., Ltd., Hami Jubao Resource Development Co., Ltd. and Xinjiang Zhongxin Mining Co., Ltd. in 2009. Pursuant to No.8 of Accounting Standards for Business Enterprises, management should carry out impairment assessment for goodwill at least at each year end.</p> <p>As at 31 December 2018, the book value of other long-term assets amounted to RMB4,875,367,676.58, mainly included mining rights, land use rights, property, plant and equipment and etc. The main business of Xinjiang Xinxin Mining Co. is producing of nickel and copper; the financial performance was loss due to sluggish market for nickel and copper, therefore the indication that other long-term assets might be impaired existed.</p> | <p>We understood and evaluated the accounting policies, the designed processes and the internal controls related to impairment assessment on goodwill and other long-term assets.</p> <p>With regard to the management's assessment on the impairment provision for goodwill and other long-term assets and the result of the valuation, Our audit work mainly included:</p> <ul style="list-style-type: none">– We inquired the management, and evaluated the scope of management's impairment assessment on goodwill and related long-term assets by considering the indications of impairment independently.– We understood and evaluated the method that the management estimated the future cash flow in the impairment independently;– We obtained the approved forecast of future cash flows, and compared them with the data used in the impairment assessment. |

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2018) No. 15007

(Page 3 of 8)

| Key Audit Matters (Cont'd) | How our audit addressed the Key Audit Matter (Cont'd) |
|---|--|
| <p>Impairment of goodwill and other long-term assets (Cont'd)</p> <p>As at 31 December 2018, the management did the assessment to determine whether impairment losses for goodwill and other long-term assets should be recognized. The present value of estimated future cash flows of these assets was used to determine the recoverable amount in the assessment. The conclusion was that no impairment provision were provided.</p> <p>We focused on this area because that there are several key assumptions and significant judgements made by the management in the impairment assessment, such as the long-term price of nickel, copper and other metals, reserves, production volumes, capital expenditures, operation costs, the applied discount rates and etc.</p> | <ul style="list-style-type: none"> - We obtained the key assumptions used in the impairment assessment of goodwill and other long-term assets, including the long-term price of nickel, copper and other metals, reserves, production volumes, capital expenditures, operation costs and the applied discount rates and etc. We compared the long-term price of metals and inflation rate with recent comparable data from the market, and we reassessed the discount rate. We compared the mineral reserves with the exploration results and the reserves data filed in the Bureau of Land and Resources. We compared the production volume with the designed capacity in the feasibility report and historical data. We compared capital expenditure and operation costs with historical data and budget approved by the board of directors. We assessed the aforementioned key assumptions and evaluated whether the judgments were within acceptable range. - We examined the sensitivity test prepared by the management, including sensitivity test of long-term metal price and applied discount rate. <p>Based on the information we obtained and the aforementioned audit procedures performed, key assumptions and significant judgments made by the management in the impairment assessment of goodwill and other long-term assets, and the disclosures in note 4(9), note 4(10), note 4(11) and note 4(12) were supportable.</p> |

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2018) No. 15007

(Page 4 of 8)

| Key Audit Matters (Cont'd) | How our audit addressed the Key Audit Matter (Cont'd) |
|--|---|
| <p>Deferred tax assets</p> <p>Refer to note 2(30) and note 4(26) to the financial statements.</p> <p>As at 31 December 2018, deferred tax assets of RMB128,659,429.17 were recognized in the balance sheet, including deferred tax assets of RMB96,945,780.29 recognized for the deductible losses estimated to be utilised in the next five years.</p> | <p>We obtained previous year's tax return report and checked that the accumulated deductible losses of previous years had been verified by the tax authority.</p> <p>We obtained the management's calculation of taxable income for current year, examined the detailed calculation of tax losses incurred in the current year and recalculated the major tax adjustment items.</p> <p>To assess whether there will be adequate taxable income for the reversal of deductible losses in the future, we considered the following matters:</p> <ol style="list-style-type: none">1. Taxable income that could be generated from normal production and operation: we obtained the forecast and key assumptions made for taxable income in the next five years by the management, such as the forecast of long-term price, production volume of nickel, copper and other metals and the operation costs, and checked the aforementioned information was consistent with the evidence obtained from the impairment assessment of goodwill and other long-term assets, and examined the taxable income generated from normal production and operation in the next five years. |

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2018) No. 15007

(Page 5 of 8)

| Key Audit Matters (Cont'd) | How our audit addressed the Key Audit Matter (Cont'd) |
|---|---|
| <p>Deferred tax assets (continued)</p> <p>We focused on this area because deferred tax assets recognized for deductible losses required the management's judgment on the sufficient taxable income in the next five years. The judgment is based on several key assumptions, such as the long-term price, production volume of nickel, copper and other metals and operation costs adopted in the forecast of taxable income for the next five years, future taxable income resulted from the reversal of temporary differences, and the applicable tax rate during the corresponding periods.</p> | <p>2. We obtained the management's estimation of the taxable income resulted from the reversal of recognised temporary differences as at 31 December 2018, and compared them with the historical reversed amounts of taxable temporary differences.</p> <p>We compared the future tax rate forecasted by the management with the tax policy applied, and reassessed the deferred tax assets based on the forecasted taxable income and the applicable tax rate in the next five years.</p> <p>Based on the information we obtained and the aforementioned audit procedures performed, key assumptions and significant judgments made by the management in the recognition of deferred tax and the disclosures in note 4(26) were supportable.</p> |

OTHER INFORMATION

Management of Xinjiang Xinxin Mining Co. is responsible for the other information. The other information comprises all of the information included in 2018 annual report of Xinjiang Xinxin Mining Co. other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2018) No. 15007

(Page 6 of 8)

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management of Xinjiang Xinxin Mining Co. 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.

In preparing these financial statements, management is responsible for assessing Xinjiang Xinxin Mining Co.'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 Xinjiang Xinxin Mining Co. or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing Xinjiang Xinxin Mining Co.'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 the expressing an opinion on the effectiveness of Xinjiang Xinxin Mining Co.'s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2018) No. 15007

(Page 7 of 8)

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 Xinjiang Xinxin Mining Co.'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 Xinjiang Xinxin Mining Co. 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Xinjiang Xinxin Mining Co. to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with audit committee 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.

We also provide audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT



普华永道

AUDITOR'S REPORT

PwC ZT Shen Zi (2018) No. 15007
(Page 8 of 8)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA

Zheng JiaYan
(Engagement Partner)

Shanghai, the People's Republic of China
22 March 2019

Signing CPA

Zhao XianDa

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| ASSETS | Note | 31 December 2018 Consolidated | 31 December 2017 Consolidated | 1 January 2017 Consolidated | 31 December 2018 Company | 31 December 2017 Company | 1 January 2017 Company |
|-----------------------------------|---------------|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|--------------------------------|------------------------------|
| Current assets | | | | | | | |
| Cash at bank and on hand | 4(1), 15(1) | 570,015,187.94 | 416,681,699.08 | 153,014,245.00 | 326,400,963.16 | 314,594,437.82 | 56,306,656.46 |
| Financial assets held for trading | 4(2), 15(2) | 186,500,000.00 | - | - | 176,500,000.00 | - | - |
| Accounts and notes receivable | 4(3), 15(3) | 265,085,094.66 | 205,835,929.24 | 302,802,714.18 | 237,788,381.30 | 160,488,528.23 | 264,106,063.24 |
| Advances to suppliers | 4(4), 15(4) | 60,975,569.97 | 23,519,896.61 | 24,005,985.16 | 428,278,611.90 | 813,537,077.18 | 97,055,086.44 |
| Other receivables | 4(5), 15(5) | 39,146,989.01 | 100,665,053.61 | 106,104,633.53 | 764,718,308.31 | 1,120,719,543.88 | 1,097,806,893.64 |
| Inventories | 4(6), 15(6) | 1,316,416,580.50 | 1,428,790,791.90 | 1,385,290,969.53 | 916,344,318.81 | 998,578,598.54 | 1,008,871,742.88 |
| Other current assets | 4(7), 15(7) | 248,439,206.20 | 143,427,989.51 | 628,858,538.72 | 24,917,442.70 | 118,368,828.82 | 387,700,632.32 |
| Total current assets | | 2,686,578,628.28 | 2,318,921,359.95 | 2,600,077,086.12 | 2,874,948,026.18 | 3,526,287,014.47 | 2,911,847,074.98 |
| Non-current assets | | | | | | | |
| Long-term receivable | 15(8) | - | - | - | 401,000,000.00 | 135,000,000.00 | 800,000,000.00 |
| Long-term equity investments | 4(8), 15(9) | 145,069,311.44 | 144,503,820.49 | 130,802,279.44 | 2,539,466,025.00 | 2,499,308,678.80 | 2,481,966,513.94 |
| Fixed assets | 4(9), 15(10) | 2,792,157,344.52 | 2,949,827,613.12 | 2,799,957,815.87 | 475,488,807.98 | 515,999,232.73 | 511,774,658.57 |
| Construction in progress | 4(10) | 1,369,133,708.36 | 1,245,440,140.55 | 1,412,360,166.15 | 76,429,184.89 | 58,101,322.45 | 55,736,471.58 |
| Intangible assets | 4(11), 15(11) | 714,076,623.70 | 944,698,745.40 | 963,989,772.34 | 44,885,428.26 | 46,129,732.03 | 47,358,951.94 |
| Goodwill | 4(12) | 27,832,805.11 | 28,087,550.20 | 28,087,550.20 | - | - | - |
| Long-term prepaid expenses | | - | 8,798.53 | 57,738.75 | - | - | - |
| Deferred tax assets | 4(26), 15(12) | 128,659,429.17 | 132,627,628.88 | 130,950,672.60 | 88,198,061.26 | 86,259,691.58 | 103,629,021.18 |
| Other non-current assets | 4(13) | 38,510,710.77 | 15,800,000.00 | 22,000,000.00 | - | - | - |
| Total non-current assets | | 5,215,439,933.07 | 5,460,994,297.17 | 5,488,205,995.35 | 3,625,467,507.39 | 3,340,798,657.59 | 4,000,465,617.21 |
| TOTAL ASSETS | | 7,902,018,561.35 | 7,779,915,657.12 | 8,088,283,081.47 | 6,500,415,533.57 | 6,867,085,672.06 | 6,912,312,692.19 |

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | | 31 December 2018 | 31 December 2017 | 1 January 2017 | 31 December 2018 | 31 December 2017 | 1 January 2017 |
|---|---------------|-------------------------|---------------------|-------------------|-------------------------|---------------------|-------------------|
| LIABILITIES AND OWNERS' EQUITY | Note | Consolidated | Consolidated | Consolidated | Company | Company | Company |
| Current liabilities | | | | | | | |
| Short-term borrowings | 4(22)(b) | 1,240,000,000.00 | 770,000,000.00 | 420,000,000.00 | 600,000,000.00 | 580,000,000.00 | - |
| Financial liabilities at fair value through profit or loss | | - | 183,555,504.34 | 137,693,150.55 | - | - | - |
| Accounts and notes payable | 4(15), 15(14) | 549,907,312.43 | 550,149,952.15 | 404,110,921.14 | 383,850,131.57 | 344,303,125.71 | 300,593,554.50 |
| Contract liabilities | 4(16), 15(15) | 22,054,471.54 | - | - | 3,758,619.42 | - | - |
| Advances from customers | | - | 26,494,587.46 | 24,336,532.36 | - | 4,042,956.06 | 23,467,067.55 |
| Employee benefits payable | 4(17), 15(16) | 61,927,572.42 | 64,444,364.48 | 55,117,302.59 | 25,728,468.70 | 24,674,387.01 | 20,113,679.21 |
| Taxes payable | 4(18), 15(17) | 9,274,521.28 | 19,350,063.04 | 11,137,582.93 | 1,008,218.70 | 1,971,553.63 | 3,330,022.98 |
| Other payables | 4(19), 15(18) | 198,440,835.24 | 222,472,575.65 | 292,196,469.84 | 40,785,759.16 | 57,389,700.14 | 305,449,801.52 |
| Current portion of non-current liabilities | 4(20) | 580,209,380.00 | 840,000,000.00 | 662,000,000.00 | 292,500,000.00 | 800,000,000.00 | 500,000,000.00 |
| Provision | 4(21) | 161,558,910.11 | - | - | - | - | - |
| Total current liabilities | | 2,823,373,003.02 | 2,676,467,047.12 | 2,006,591,959.41 | 1,347,631,197.55 | 1,812,381,722.55 | 1,152,954,125.76 |
| Non-current liabilities | | | | | | | |
| Long-term borrowings | 4(22)(a) | 655,000,000.00 | 35,000,000.00 | 75,000,000.00 | 355,000,000.00 | - | - |
| Bond payables | 4(20) | - | - | 800,000,000.00 | - | - | 800,000,000.00 |
| Long-term payables | 4(23) | 13,193,941.11 | 13,193,941.11 | 59,978,281.32 | - | - | - |
| Provisions | 4(24) | 9,076,747.01 | 8,652,761.68 | 8,248,582.21 | - | - | - |
| Deferred income | 4(25) | 30,871,586.30 | 33,078,429.71 | 33,562,996.66 | 1,603,118.00 | 1,664,450.00 | 1,725,782.00 |
| Deferred tax liabilities | 4(26) | 142,349,514.12 | 148,295,328.00 | 150,479,836.70 | - | - | - |
| Other non-current liabilities | 4(27) | - | 502,709,380.00 | 502,709,380.00 | - | 250,000,000.00 | 250,000,000.00 |
| Total non-current liabilities | | 850,491,788.54 | 740,929,840.50 | 1,629,979,076.89 | 356,603,118.00 | 251,664,450.00 | 1,051,725,782.00 |
| Total liabilities | | 3,673,864,791.56 | 3,417,396,887.62 | 3,636,571,036.30 | 1,704,234,315.55 | 2,064,046,172.55 | 2,204,679,907.76 |
| Owners' equity | | | | | | | |
| Share capital | 4(28) | 552,500,000.00 | 552,500,000.00 | 552,500,000.00 | 552,500,000.00 | 552,500,000.00 | 552,500,000.00 |
| Capital surplus | 4(29) | 4,258,569,997.76 | 4,258,569,997.76 | 4,263,591,716.44 | 4,254,754,857.49 | 4,254,754,857.49 | 4,254,754,857.49 |
| Specific reserve | 4(30) | - | 232,071.41 | 1,543,421.85 | - | - | - |
| Surplus reserve | 4(31) | 249,625,789.74 | 249,625,789.74 | 249,625,789.74 | 249,625,789.74 | 249,625,789.74 | 249,625,789.74 |
| Accumulated Losses | 4(32) | (827,165,586.11) | (772,972,140.31) | (691,384,794.32) | (260,699,429.21) | (253,841,147.72) | (349,247,862.80) |

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| LIABILITIES AND OWNERS' EQUITY | Note | 31 December 2018 Consolidated | 31 December 2017 Consolidated | 1 January 2017 Consolidated | 31 December 2018 Company | 31 December 2017 Company | 1 January 2017 Company |
|--|------|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------|--------------------------------|------------------------------|
| Total equity attributable to shareholders of the Company | | 4,233,530,201.39 | 4,287,955,718.60 | 4,375,876,133.71 | 4,796,181,218.02 | 4,803,039,499.51 | 4,707,632,784.43 |
| Non-controlling interests | 5(1) | (5,376,431.60) | 74,563,050.90 | 75,835,911.46 | - | - | - |
| Total owners' equity | | 4,228,153,769.79 | 4,362,518,769.50 | 4,451,712,045.17 | 4,796,181,218.02 | 4,803,039,499.51 | 4,707,632,784.43 |
| TOTAL LIABILITIES AND OWNERS' EQUITY | | 7,902,018,561.35 | 7,779,915,657.12 | 8,088,283,081.47 | 6,500,415,533.57 | 6,867,085,672.06 | 6,912,312,692.19 |

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

Legal representative:
Zhang Guohua

Principal in charge of accounting:
He Hongfeng

Head of accounting department:
Wang Tong

CONSOLIDATED AND COMPANY INCOME STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | Note | 2018 Consolidated | 2017 Consolidated | 2018 Company | 2017 Company |
|--|----------------------|---------------------------|----------------------|---------------------------|--------------------|
| 1. Revenue | 4(33), 15(19) | 1,749,978,258.60 | 1,385,641,932.05 | 1,637,154,015.35 | 1,278,736,948.42 |
| Less: Cost of sales | 4(33), 15(19) | (1,439,538,820.25) | (1,187,983,269.08) | (1,473,763,314.64) | (1,087,219,376.06) |
| Taxes and surcharges | 4(35) | (38,715,331.50) | (29,794,434.33) | (11,639,896.72) | (7,844,240.37) |
| Selling and distribution expenses | 4(36) | (31,961,818.17) | (26,123,543.26) | (9,282,259.13) | (10,591,826.97) |
| General and administrative expenses | 4(37) | (102,253,113.31) | (104,453,517.07) | (35,589,892.46) | (34,615,303.10) |
| Financial expenses-net | 4(38), 15(20) | (133,493,899.89) | (120,664,768.87) | (102,203,261.39) | (94,152,481.29) |
| Including: Interest expenses | | (132,665,680.08) | (116,363,563.06) | (102,223,415.58) | (90,257,167.37) |
| Interest income | | 4,444,114.49 | 1,415,888.77 | 4,192,419.32 | 982,922.35 |
| Assets impairment losses | 4(14), 4(39), 15(13) | (1,432,860.02) | (9,623,068.15) | (80,000,000.00) | (7,275.60) |
| Credit impairment losses | 4(40) | (123,048.42) | - | (6,478,129.27) | - |
| Losses from changes in fair value | 4(41) | (895,135.66) | (2,896,153.79) | - | - |
| Add: Other income | 4(44) | 5,022,669.71 | 5,254,123.09 | 61,332.00 | 269,332.00 |
| Investment income | 4(42), 15(22) | 19,268,655.08 | 8,002,573.69 | 73,662,175.56 | 68,450,988.34 |
| Including: Share of gain/(loss) of joint venture | | 5,157,346.20 | (2,657,835.14) | 5,157,346.20 | (2,657,835.14) |
| Gains on disposal of non-current assets | 4(43) | 9,786.41 | 90,028.95 | 9,786.41 | - |
| 2. Operating profit/(loss) | | 25,865,342.58 | (82,550,096.77) | (8,069,444.29) | 113,026,765.37 |
| Add: Non-operating income | 4(45) | 1,528,978.37 | 1,275,576.46 | 107,761.97 | 29,279.31 |
| Less: Non-operating expenses | 4(46) | (162,932,357.48) | (5,407,644.16) | (298,332.32) | (280,000.00) |
| 3. Total (loss)/profit | | (135,538,036.53) | (86,682,164.47) | (8,260,014.64) | 112,776,044.68 |
| Less: Income tax expenses | 4(47), 15(23) | 1,405,108.23 | 3,821,957.92 | 1,401,733.15 | (17,369,329.60) |
| 4. Net (loss)/profit | | (134,132,928.30) | (82,860,206.55) | (6,858,281.49) | 95,406,715.08 |
| Classified by continuity of operations | | | | | |
| Net (loss)/profit from continuing operations | | (134,132,928.30) | (82,860,206.55) | (6,858,281.49) | 95,406,715.08 |
| Net (loss)/profit from termination of operations | | - | - | - | - |
| Net (loss)/profit is attributable to: | | | | | |
| Shareholders of the Company | | (54,193,445.80) | (81,587,345.99) | (6,858,281.49) | 95,406,715.08 |
| Net loss attributable to non-controlling interests | 5(1) | (79,939,482.50) | (1,272,860.56) | - | - |

CONSOLIDATED AND COMPANY INCOME STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | Note | 2018 Consolidated | 2017 Consolidated | 2018 Company | 2017 Company |
|---|-------|----------------------|----------------------|-----------------|-----------------|
| 5. Other comprehensive income after tax | | - | - | - | - |
| 6. Total comprehensive (loss)/income | | (134,132,928.30) | (82,860,206.55) | (6,858,281.49) | 95,406,715.08 |
| Comprehensive (loss)/income attributable to shareholders of the Company | | (54,193,445.80) | (81,587,345.99) | (6,858,281.49) | 95,406,715.08 |
| Comprehensive loss attributable to non-controlling interests | | (79,939,482.50) | (1,272,860.56) | - | - |
| 7. Loss per share | | | | | |
| Basic loss per share | 4(48) | (0.025) | (0.037) | - | - |
| Diluted loss per share | 4(48) | (0.025) | (0.037) | - | - |

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

Legal representative:
Zhang Guohua

Principal in charge of accounting:
He Hongfeng

Head of accounting department:
Wang Tong

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | Note | 2018 Consolidated | 2017 Consolidated | 2018 Company | 2017 Company |
|--|----------|---------------------------|---------------------------|---------------------------|---------------------------|
| 1. Cash flows from operating activities | | | | | |
| Cash received from sales of goods or rendering of services | | 1,047,457,579.83 | 1,718,186,163.31 | 918,044,161.41 | 1,577,870,946.95 |
| Refund of taxes and surcharges | | – | 3,375,055.30 | – | 3,375,055.30 |
| Cash received relating to other operating activities | 4(49)(a) | 8,041,662.03 | 3,884,062.48 | 4,300,181.29 | 52,286,814.90 |
| Sub-total of cash inflows | | 1,055,499,241.86 | 1,725,445,281.09 | 922,344,342.70 | 1,633,532,817.15 |
| Cash paid for goods and services | | (256,904,593.66) | (807,480,675.41) | (115,091,102.25) | (1,795,911,122.93) |
| Cash paid to and on behalf of employees | | (254,529,807.80) | (236,924,306.03) | (98,064,462.88) | (86,613,016.26) |
| Payments of taxes and surcharges | | (213,276,450.37) | (123,680,730.29) | (71,533,456.98) | (28,298,612.81) |
| Cash paid relating to other operating activities | 4(49)(b) | (68,852,923.48) | (70,189,036.15) | (47,028,216.89) | (275,116,625.95) |
| Sub-total of cash outflows | | (793,563,775.31) | (1,238,274,747.88) | (331,717,239.00) | (2,185,939,377.95) |
| Net cash flows generated from/(used in) operating activities | | 261,935,466.55 | 487,170,533.21 | 590,627,103.70 | (552,406,560.80) |
| 2. Cash flows from investing activities | | | | | |
| Cash received from returns on investments | | 18,915,281.63 | 14,088,915.15 | 18,161,195.57 | 11,319,520.50 |
| Cash received from disposal of fixed assets and other long-term assets | | 10,085.55 | 11,061,595.18 | 9,786.41 | – |
| Cash received from disposal of available-for-sale financial assets | | 5,136,400,000.00 | 1,363,037,000.00 | 4,906,870,000.00 | 360,437,000.00 |
| Cash received relating to other investing activities | 4(49)(c) | 215,547,000.00 | 134,143,900.00 | 626,203,852.54 | 926,095,439.50 |
| Sub-total of cash inflows | | 5,370,872,367.18 | 1,522,331,410.33 | 5,551,244,834.52 | 1,297,851,960.00 |
| Cash paid to acquire fixed assets and other long-term assets | | (72,976,895.88) | (129,147,171.27) | (28,387,662.80) | (129,147,171.27) |
| Cash paid for disposal of a subsidiary | | – | – | (115,000,000.00) | – |
| Cash paid to acquire available-for-sale financial assets | | (5,217,280,000.00) | (903,620,000.00) | (4,987,410,000.00) | (122,760,000.00) |
| Cash paid to provide loans to subsidiaries | | – | – | (326,826,200.00) | (135,785,400.00) |
| Capital injection to joint venture | | – | (20,000,000.00) | – | (20,000,000.00) |
| Cash paid relating to other investing activities | 4(49)(d) | (193,000,000.00) | (139,500,000.00) | (193,000,000.00) | (139,500,000.00) |
| Sub-total of cash outflows | | (5,483,256,895.88) | (1,192,267,171.27) | (5,650,623,862.80) | (466,306,822.66) |
| Net cash flows (used in)/generated from investing activities | | (112,384,528.70) | 330,064,239.06 | (99,379,028.28) | 831,545,137.34 |

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | Note | 2018 Consolidated | 2017 Consolidated | 2018 Company | 2017 Company |
|--|----------|---------------------------|----------------------|---------------------------|------------------|
| 3. Cash flows from financing activities | | | | | |
| Cash received from borrowings | | 2,090,000,000.00 | 1,100,807,200.00 | 1,150,000,000.00 | 580,000,000.00 |
| Sub-total of cash inflows | | 2,090,000,000.00 | 1,100,807,200.00 | 1,150,000,000.00 | 580,000,000.00 |
| Cash repayments of borrowings | | (1,947,007,438.99) | (1,504,841,000.00) | (1,532,500,000.00) | (500,000,000.00) |
| Cash payments for interest expenses | | (149,646,419.63) | (167,300,016.21) | (107,322,261.63) | (167,300,016.21) |
| Sub-total of cash outflows | | (2,096,653,858.62) | (1,672,141,016.21) | (1,639,822,261.63) | (622,529,054.75) |
| Net cash flows used in financing activities | | (6,653,858.62) | (571,333,816.21) | (489,822,261.63) | (42,529,054.75) |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | | - | - | - | - |
| 5. Net increase in cash and cash equivalents | | | | | |
| | 4(50)(a) | 142,897,079.23 | 245,900,956.06 | 1,425,813.79 | 236,609,521.79 |
| Add: Cash and cash equivalents at beginning of year | 4(50)(a) | 346,307,415.13 | 100,406,459.07 | 255,179,264.57 | 18,569,742.78 |
| 6. Cash and cash equivalents at end of year | 4(50)(b) | 489,204,494.36 | 346,307,415.13 | 256,605,078.36 | 255,179,264.57 |

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

Legal representative:
Zhang Guohua

Principal in charge of accounting:
He Hongfeng

Head of accounting department:
Wang Tong

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | Attributable to shareholders of the Company | | | | | | Non-controlling interests (note 5(1)) | Total owners' equity |
|--|---|--------------------------------|----------------------------------|---------------------------------|------------------------------------|------------------|--|----------------------|
| | Share capital (note 4(28)) | Capita surplus (note 4(29)) | Specific reserve (note 4(30)) | Surplus reserve (note 4(31)) | Accumulated losses (note 4(32)) | Sub-total | | |
| Balance at 1 January 2017 | 552,500,000.00 | 4,263,591,716.44 | 1,543,421.85 | 249,625,789.74 | (691,384,794.32) | 4,375,876,133.71 | 75,835,911.46 | 4,451,712,045.17 |
| Movements for the year ended | | | | | | | | |
| 31 December 2017 | | | | | | | | |
| Comprehensive loss | | | | | | | | |
| – Net loss | - | - | - | - | (81,587,345.99) | (81,587,345.99) | (1,272,860.56) | (82,860,206.55) |
| Total comprehensive loss | - | - | - | - | (81,587,345.99) | (81,587,345.99) | (1,272,860.56) | (82,860,206.55) |
| Shareholder's investment and capital reduction | | | | | | | | |
| – Other | - | (5,021,718.68) | - | - | - | (5,021,718.68) | - | (5,021,718.68) |
| Appropriation to specific reserve | - | - | 36,597,725.52 | - | - | 36,597,725.52 | - | 36,597,725.52 |
| Utilisation of specific reserve | - | - | (37,909,075.96) | - | - | (37,909,075.96) | - | (37,909,075.96) |
| Balance at 31 December 2017 | 552,500,000.00 | 4,258,569,997.76 | 232,071.41 | 249,625,789.74 | (772,972,140.31) | 4,287,955,718.60 | 74,563,050.90 | 4,362,518,769.50 |
| Balance at 1 January 2018 | 552,500,000.00 | 4,258,569,997.76 | 232,071.41 | 249,625,789.74 | (772,972,140.31) | 4,287,955,718.60 | 74,563,050.90 | 4,362,518,769.50 |
| Movements for the year ended | | | | | | | | |
| 31 December 2018 | | | | | | | | |
| Comprehensive loss | | | | | | | | |
| – Net loss | - | - | - | - | (54,193,445.80) | (54,193,445.80) | (79,939,482.50) | (134,132,928.30) |
| Total comprehensive loss | - | - | - | - | (54,193,445.80) | (54,193,445.80) | (79,939,482.50) | (134,132,928.30) |
| Appropriation to specific reserve | - | - | 37,434,701.86 | - | - | 37,434,701.86 | - | 37,434,701.86 |
| Utilisation of specific reserve | - | - | (37,666,773.27) | - | - | (37,666,773.27) | - | (37,666,773.27) |
| Balance at 31 December 2018 | 552,500,000.00 | 4,258,569,997.76 | - | 249,625,789.74 | (827,165,586.11) | 4,233,530,201.39 | (5,376,431.60) | 4,228,153,769.79 |

The following notes is a part of financial statement.

Legal representative:
Zhang Guohua

Principal in charge of accounting:
He Hongfeng

Head of accounting department:
Wang Tong

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

| | Share capital | Capital surplus | Specific reserve | Surplus reserve | Accumulated losses | Total owners' equity |
|--|----------------|------------------|------------------|-----------------|--------------------|----------------------|
| Balance at 1 January 2017 | 552,500,000.00 | 4,254,754,857.49 | - | 249,625,789.74 | (349,247,862.80) | 4,707,632,784.43 |
| Movements for the year ended 31 December 2017 | | | | | | |
| Comprehensive income | | | | | | |
| – Net profit | - | - | - | - | 95,406,715.08 | 95,406,715.08 |
| Total comprehensive income | - | - | - | - | 95,406,715.08 | 95,406,715.08 |
| Appropriation to specific reserve | - | - | 7,471,187.88 | - | - | 7,471,187.88 |
| Utilisation of specific reserve | - | - | (7,471,187.88) | - | - | (7,471,187.88) |
| Balance at 31 December 2017 | 552,500,000.00 | 4,254,754,857.49 | - | 249,625,789.74 | (253,841,147.72) | 4,803,039,499.51 |
| Balance at 1 January 2018 | 552,500,000.00 | 4,254,754,857.49 | - | 249,625,789.74 | (253,841,147.72) | 4,803,039,499.51 |
| Movements for the year ended 31 December 2018 | | | | | | |
| Comprehensive loss | | | | | | |
| – Net loss | - | - | - | - | (6,858,281.49) | (6,858,281.49) |
| Total comprehensive loss | - | - | - | - | (6,858,281.49) | (6,858,281.49) |
| Appropriation to specific reserve | - | - | 6,659,880.45 | - | - | 6,659,880.45 |
| Utilisation of specific reserve | - | - | (6,659,880.45) | - | - | (6,659,880.45) |
| Balance at 31 December 2018 | 552,500,000.00 | 4,254,754,857.49 | - | 249,625,789.74 | (260,699,429.21) | 4,796,181,218.02 |

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

Legal representative:
Zhang Guohua

Principal in charge of accounting:
He Hongfeng

Head of accounting department:
Wang Tong

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

1 GENERAL INFORMATION

Xinjiang Xinxin Mining Industry Co., Ltd. (the “Company”) was incorporated on 1 September 2005 in Urumqi, Xinjiang Uygur Autonomous Region of the People’s Republic of China (the “PRC”) together by Xinjiang Non-ferrous Metal Industry (Group) Ltd. (“Xinjiang Non-ferrous Group”), Shanghai Yilian Kuangneng Co., Ltd. (“Shanghai Yilian”), Zhongjin Investment (Group) Ltd. (“Zhongjin Investment”), Xiamen Zijin Technology Co., Ltd. (now changed the name to Zijin Mining Group (Xiamen) Investment Co., Ltd. “Xiamen Zijin”), Xinjiang Xinying New Material Co., Ltd. (“Xinjiang Xinying”) and Shaanxi Honghao Industry Co., Ltd. (“Shaanxi Honghao”). Xinjiang Non-ferrous Group is the holding company. The Company is established with the total equity of RMB300,000,000.00 divided into 300,000,000 shares of RMB1 each.

On 19 May 2006, the Company issued 80,000,000 new shares of RMB1 each, the registered capital increased from RMB300,000,000.00 to RMB380,000,000.00. Xinjiang Non-ferrous Group injected its land use rights of Kalatongke Mine and Fukang Refinery as increased capital. Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao paid the increased capital in cash.

Pursuant to a resolution of the shareholders of the Company dated 11 May 2007 and the approval from China Securities Regulatory Commission dated 29 August 2007, each share of RMB1 was subdivided into four shares of RMB0.25 each with effect from 27 September 2007. The total number of shares immediately after the share split was 1,520,000,000.

In October 2007, the Company completed the issue of 690,000,000 H shares of RMB0.25 each at HK\$6.5 (equivalent to approximately RMB6.3) per share as a result of the Initial Public Offering and listing of the Company’s H shares on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, pursuant to the relevant approval from the State-owned Assets Supervision and Administration Commission of the State Council (the “SASAC”), upon the completion of the H share listing, 69,000,000 domestic shares held by Xinjiang Non-ferrous Group were converted into an equivalent number of H shares and transferred to the National Council for Social Security Fund of the PRC. Total capital increased to RMB552,500,000.00 after this issue.

On 9 March 2016, Shaanxi Honghao transferred all of 6,272,000 domestic shares held by it in the Company to Shaanxi Guangyou Trading Co., Ltd. (“Shaanxi Guangyou”) by means of negotiated assignment.

The Company and its subsidiaries (together, the “Group”) are principally engaged in the mining, ore processing, smelting, refining of nickel, copper and vanadium, and sales of nickel, copper and other non-ferrous metal products.

These financial statements were authorised for issue by the Company’s Board of Directors on 22 March 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group applies specific accounting policies and accounting estimates in regards of provisions for doubtful debts of receivables (note 2(9)), measurement of inventories (note 2(10)), depreciation of fixed assets and amortisation of intangible assets (note 2(12), (15)) and revenue recognition (note 2(24)).

The criterion of adoption of important accounting policies and accounting estimates by the Group is listed in note 2(30).

(1) Basis of preparation

The financial statements have been prepared according to the Basic Standard of the Accounting Standards for Business Enterprises, the specific standards and other relevant regulations issued by the Ministry of Finance on and after 15 February 2006, thereafter (hereafter collectively referred to as “the Accounting Standard for Business Enterprises” or “CAS”), the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 15 – the General Provisions of Financial Reports issued by the China Securities and Regulatory Commission.

For the year ended 31 December 2018, the Group’s net losses were RMB134,132,928.30, which includes the provisions of RMB161,558,910.11 (note 4(21)) for litigations involving Shaanxi Xinxin, a subsidiary of the Company. The operation cash inflow were RMB261,935,466.55; and the Group’s net current liabilities were RMB136,794,374.74 at 31 December 2018. The directors believe that the Group will generate sufficient cash inflow from future operating cash inflow, the use of current banking facility and the renewal of existing loans to enable its going concern, therefore the consolidated financial statements are prepared on a going concern basis.

The new Hong Kong Companies Ordinance went into effect in 3 March 2014, some of the disclosures have been adjusted to the requirement of Hong Kong Companies Ordinance.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the period ended 31 December 2018 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Group and the Company as of 31 December 2018 and of their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

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

(4) Recording currency

The recording currency is Renminbi (RMB).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(5) Business combinations

(a) Business combinations involving entities under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(b) Business combinations involving entities not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. Where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(6) Preparation of consolidated financial statements (continued)

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of subsidiaries' net profits and losses for the period not attributable to the Company are recognised as non-controlling interests and presented separately in the consolidated financial statements under equity and net profits respectively. The unrealised intra-group profits from sales of assets by the Company to its subsidiaries are eliminated from the net profits of the Company. In contrast, the unrealised intra-group profits from sales of the assets by subsidiaries to the Company are eliminated in the net profits of the Company and its non-controlling interests based on the percentages of equity investments. The unrealised intra-group profits among subsidiaries are eliminated based on the proportions of equity investments by the Company and non-controlling interests on the subsidiaries selling the assets and allocated between the net profit of the Company and non-controlling interests.

A transaction will be adjusted from perspective of the Group in condition that assertions are different when accounting entities are the Group and the Company or its subsidiaries.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency transactions

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments

A financial instrument is a contract that forms the financial assets of a party and forms the financial liabilities or equity instruments of other parties. When the Group becomes a party to a financial instrument contract, it confirms the financial assets or financial liabilities involved.

(a) Financial assets

(i) Classification & Measurement

According to the business model of financial assets management and the contractual terms of the cash flows of financial assets, the Group classifies its financial assets in the following categories: (1) financial assets carried at amortised cost; (2) financial assets at fair value through other comprehensive benefits; (3) financial assets at fair value through profit or loss.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. For the accounts receivable or notes receivable arising from the sales of products or services that do not contain or do not take into account significant financing components, the Group determines the amount of the consideration to be received as the initial recognition amount.

Debt instruments

The debt instruments held by the Group refer to the tools that are in line with the definition of financial liabilities from the issuer's point of view. There are three categories into which the Group classifies its debt instruments:

At amortised cost:

The group's business model for managing such financial assets is to collect the contractual cash flows, and the contractual cash flow characteristics of such financial assets are consistent with the basic lending arrangements. That is, the cash flows generated on a specific date, represent solely payment of the principal and interest on the outstanding principal amount. The Group recognizes interest income for such financial assets in accordance with the effective interest method. Such financial assets mainly include cash and bank, notes and trade receivables, other receivables, debt investment and long-term receivables. The investment of debt and long-term receivables of the group that mature within one year since the balance sheet date (including one year) are presented as non-current assets that mature in one year, while debt investments of which the period is within one year (inclusive) are presented as other current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(i) Classification & Measurement (continued)

Debt instruments (continued)

at fair value through other comprehensive income (FVOCI):

The group's business model for managing such financial assets is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flow characteristics of such financial assets are consistent with the basic lending arrangements. Such financial assets are measured at fair value through other comprehensive income, but impairment losses or gains, exchange gains and losses, and interest income calculated by effective interests method are recognised in the current profit and loss. Such financial assets are presented as other debt investments, and other debt investments mature within one year since the balance sheet date (including one years) are presented as non-current assets that mature in one year, and other debt investments that have a period of one year (including one year) are presented as other current assets.

at fair value through profit or loss (FVPL):

Debts that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss as financial assets held for trading. In the initial recognition, the group designates some financial assets as financial assets at fair value through profit or loss in order to eliminate or significantly reduce the accounting mismatch. For those mature and are expected to be held more than one year from the balance sheet date, they are presented as other non-current assets.

Equity instruments

Investments in equity instruments that the Group has no control, jointly control or significant influence are measured at fair value through profit or loss and presented as financial assets held for trading on the balance sheet. For those mature and are expected to be held more than one year from the balance sheet date are presented as other non-current assets.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment of financial assets

For the Group recognise provision based on expected credit losses for amortised cost and FVOCI, contract assets and financial guarantee contracts.

Based on reasonable information such as past events, current conditions and economic forecasts, the Group calculate the default-risk-weighted present value of the difference between the agreed and expected cash flow to project the default loss of our contracts.

At each balance sheet date, the Group measures expected credit losses for financial instruments at different stages respectively. At first stage, the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses; At second stage, the credit risk on a financial instrument has increased significantly but not to the point that it is considered credit-impaired, the Group measure the loss allowance for that financial instrument at an amount equal to full lifetime expected credit losses. At third stage, financial instrument is considered credit-impaired, the Group measure the loss allowance for that financial instrument at an amount equal to full lifetime expected credit losses.

For financial instruments with lower credit risk on the balance sheet day, the group assumes that its credit risk has not increased significantly since its initial confirmation, and the loss allowance recognised during the period was therefore limited to 12 months expected losses.

The Group calculates interest income for financial instruments that are in phase I and Phase II, as well as for lower credit risk, in accordance with their book balances and real interest rates, which are not deducted from the impairment value. For financial instruments in phase III, interest income is calculated on the basis of the amount of the surplus cost and the actual interest rate after the book balance has been reduced.

The Group measure the loss allowance at an amount equal to lifetime expected credit losses for trade and note receivables, regardless of whether it contains a significant financing component or not.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(ii) Impairment of financial assets (continued)

When single financial asset is unable to measure expected credit loss by reasonable cost, the Group would according to credit risk characteristics group accounts receivable into serial group, then calculate the expected credit loss. The Group determines the basis of the group as follows:

| | |
|---------------------------------|---------------------|
| The group of Related party | Related parties |
| The group of Non- Related party | Non-Related parties |
| The group of reserve | Staff reserve |
| Others | Others |

For the notes receivable classified as a group, the Group refers to the historical credit loss experience, combined with the forecast of the current and the future economic condition to calculate the expected credit loss according to the default risk exposure and the expected credit loss rate throughout the lifetime.

For the trade receivable classified as a group, the Group refers to the historical credit loss experience, combined with the forecast of the current and the future economic condition to calculate the expected credit loss according to the days overdue and expected credit loss through full life time in reference.

For the other receivable classified as a group, the Group refers to the historical credit loss experience, combined with the forecast of the current and the future economic condition to calculate the expected credit loss according to the default risk exposure and expected credit loss rates over the next 12 months or throughout the lifetime.

The Group recognise the gains or losses in profit or loss of the provision or reversal of the impairment. In the case of a debt instrument held at fair value through other comprehensive income, the Group adjusts other comprehensive income while recording gain or loss in profit and loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(a) Financial assets (continued)

(iii) Derecognition of financial assets

A financial asset is derecognised when any of the below criteria is met: (i) the contractual rights to receive the cash flows from the financial asset expire; (ii) the financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; or (iii) the financial asset has been transferred and the Group has not retained control of the financial asset, although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

On derecognition of other equity instruments, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that had been recognised directly in other comprehensive benefits, is recognised in retained earnings, and on derecognition of other financial instrument is recognised in retained earnings.

(b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. The financial liabilities of the Group mainly financial instruments which are measured by the amortization cost, including notes payable and Accounts payable, other payables, Borrowings and bond payable. The financial liabilities are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method. Financial liabilities with maturities no more than one year are classified as current liabilities. financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the financial liability or the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(9) Financial instruments (continued)

(c) 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. For the financial instrument which is not traded in active market, the fair value is determined by using a valuation technique with enough available data and other information to support in current situation. Valuation techniques include market approach, income approach and etc. When a valuation technique is used to establish the fair value of a financial instrument, we should consider the market inputs of the assets or liabilities which have consistent features of the assets or liabilities traded by market participants and make the maximum use of observable market inputs. When relevant observable market inputs can not be obtained, we shall use unobservable market inputs.

(10) Inventories

(a) Classification

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

(b) Costing of inventories

Cost is determined using the weighted average method. The cost of finished goods, semi-finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable 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.

(d) The Group adopts the perpetual inventory system.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. Joint ventures are the investees over which the Group is able to exercise joint control together with other venturers and of which the Group can only enjoy rights of the net assets. Associates are the investees that the Group has significant influence on their financial and operating policies.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method. Accounting policies of joint ventures and associates are consistent with the policies adopted by the Group.

(a) Determination of investment cost

For long-term equity investments acquired through a business combination: for long-term equity investments acquired through a business combination involving entities under common control, the investment cost shall be the absorbing party's share of the carrying amount of owners' equity of the party being absorbed at the combination date; for long-term equity investment acquired through a business combination involving entities not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition of related profit and loss

For long-term equity investments accounted for using the cost method, they are measured at the initial investment costs, and cash dividends or profit distribution declared by the investees are recognised as investment income in profit or loss.

For long-term equity investments accounted for using the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the long-term equity investment is measured at the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the acquisition date, the difference is included in profit or loss and the cost of the long-term equity investment is adjusted upwards accordingly.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(11) Long-term equity investments (continued)

(b) Subsequent measurement and recognition of related profit and loss (continued)

For long-term equity investments accounted for using the equity method, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in owners' equity of the investee other than those arising from its net profit or loss, its other comprehensive income, and its distributable profits, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gains or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, any unrealised loss is not eliminated.

(c) Basis for determining existence of control, jointly control or significant influence over investees

Control is possessing power over the investee so as to obtain variable returns from its operating activities. And it has the ability to use the power to impact the amount of return.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amount of long term equity investments in subsidiaries, joint ventures and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (note 2(19)).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, mining structures, machinery, motor vehicles, electronic and office equipment.

Fixed assets are recognised when it is probable that the related economic benefits will flow to the Group and the costs can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the acquisition date. The fixed assets contributed by the State shareholders at the reorganisation of the Company into a corporation entity are recognised based on the revaluated amounts approved by the state-owned assets administration department.

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 Group 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.

(b) Depreciation methods of fixed assets

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 but mining structures. 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 service life, net residual value and annual depreciation rate of fixed assets outside the construction of the tunnel are listed as follows:

| Categories | Estimated useful lives | Estimated residual value | Annual depreciation rate |
|---------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Buildings | 10 to 50 years | 3% or 5% | 1.90%–9.70% |
| Machinery | 5 to 20 years | 3% or 5% | 4.75%–19.40% |
| Motor vehicles | 4 to 12 years | 3% or 5% | 7.92%–24.25% |
| Electronic and office equipment | 3 to 12 years | 3% or 5% | 7.92%–32.33% |

Mining structures comprise the main and auxiliary mine shafts and underground tunnels. Depreciation of mining structures is provided to write off the cost of the mining structure using the unit-of-production method.

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 least at each year-end

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(12) Fixed assets (continued)

(c) The carrying amount of fixed assets shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (note 2(19)).

(d) Disposal of fixed assets

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 disposal 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.

(13) 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. The carrying amount of construction in progress shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (note 2(19)).

(14) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time of acquisition and construction 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, 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.

For the specific borrowings obtained for the acquisition or construction of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(15) Intangible assets

Intangible assets include mining rights, exploration rights, land use rights and others, and are initially measured at cost or fair value.

(a) Mining rights

Mining rights are stated at the actual cost. While mining rights acquired by the business combination are recognised at the fair value at the acquisition date, then subsequently are recorded at cost less accumulated amortisation and impairment losses. Mining rights are amortised upon the commencement of mining production using the straight-line method over 19 to 33 years.

(b) Exploration rights

Exploration rights acquired by business combination involving enterprises not under common control are recognised at the fair value at the acquisition date. Upon transformation to mining rights, accounting policies relating to mining rights are used to account for.

(c) Land use rights

Land use rights invested by the share shareholders holders are recognised at the value agreed by all the shareholders unless the agreed value is not fair. Purchased land use rights are stated at actual cost, while land use rights acquired by the business combination are recognised at the fair value at the acquisition date, then subsequently are recorded at cost less accumulated amortisation and impairment losses. Land use rights are amortised on the straight-line basis over the period of the land use rights varying from 10 to 70 years.

(d) Periodical review of useful life and amortisation method

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

(e) Impairment of intangible assets

The carrying amount of intangible assets shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (note 2(19)).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(16) Exploration assets and filling cost

The Group's exploration assets include topographical and geological exploration, exploration drilling, sampling, trenching and relevant commercial and technical feasibility study, and the expenditure arising from expanding existing orebody exploration and improving the orebody productivity.

At the initial stage of the exploration project, exploration and evaluation expenditures are recognised in profit or loss when they occurred. When the project has technical feasibility and commercial feasibility, the exploration and evaluation expenditures (including the cost of purchasing the mineral exploration right) are capitalised into exploration and evaluation assets by individual project.

Exploration and evaluation assets are recorded in construction in progress, transferred to fixed assets or intangible assets at the date that the assets are ready for its intended use, and are depreciated or amortised over the term of the rights. When the project is aborted, the relevant unrecoverable cost will be written off and recognised in profit or loss when it occurred.

Filling cost incurred after mineral mining is recorded in the cost of production.

(17) Goodwill

Goodwill is recognised at the excess of the cost of a business combination involving enterprises not under common control over the interest in the fair value of the acquirees' identifiable net assets acquired in the business combination as at the acquisition date.

(18) Long-term prepaid expenses

Long-term prepaid expenses include the expenditure for improvements to fixed assets held under operating leases, and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that an asset may be impaired at the balance date. For intangible assets which have not been ready to use, regardless of the existence of the indicators of impairment losses, the impairment tests should be carried out annually. If the result of the impairment test indicates that the recoverable amount of the 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.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset groups or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset groups or groups of asset groups in proportion to the carrying amounts of assets other than goodwill.

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

(20) Employee benefits

Employee benefits mainly include short-term employment benefit, post-employment benefits and termination benefits incurred in exchange for service rendered by employees or labour relation terminated.

(a) Short-term employment benefits

Short-term employment benefits mainly include wages or salaries, bonuses, allowances and subsidies, staff welfare, medical insurance, work injury insurance, maternity insurance, housing funds, labour union funds, employee education funds, short-term payable leaves, etc. The short-term employment compensation is recognised as salaries and wages payable in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable. Non-monetary benefits are measured at fair value.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Employee benefits (continued)

(b) Post-employment benefits

Post-employment benefits are classified as defined contribution plan and defined benefit plan. Defined contribution is post-employment benefits plan in which the Group is not obliged to make further payment after paying a certain amount to individual funds. Defined benefit plans is other post-employment benefits plan except for defined contribution plan. During the period, post-employment benefits mainly include basic social pension security and unemployed insurance, both of which are defined contribution plan.

Basic pension benefits

Employees of the Group participate in the defined contribution pension plan set up and administered by local labour and social security departments. Based on salaries of the employees, basic pensions are provided for monthly according to stipulated proportions, which is paid to local labour and social security institutions. After the employees are retired, the local labour and social security departments have the responsibility to pay basic pension benefits to them. Basic pension benefits are recognised as payables in the accounting period in which an employee has rendered service, as costs of assets or expenses to whichever the employee service is attributable.

(c) Termination benefits

Termination benefits are payables when employment is terminated by the Group before the employment contract expire, or compensation provided as an offer to encourage employees to accept voluntary redundancy. The Group recognizes termination benefits as liabilities and charges to profit or losses at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of termination plan; and (ii) when the Group recognizes costs for restructuring which involving the payment of termination benefits.

Early retirement benefits

The Group provides early retirement benefits to employees who accept early retirement arrangements. Early retirement benefits mean wages and social insurance charges paid for those employees who voluntarily remove themselves from their posts with the approval of the management of the Group before their normal retirement ages. The Group pays early retirement benefits for the period from the early retirement date to their normal retirement date. The Group accounts for early retirement benefits as termination benefits. When the recognition criteria in respect of termination benefits are met, the early retirement benefits proposed to be paid by the Group are recognised as liabilities, with a corresponding charge to profit or loss for the period. The difference resulting from the charge of actuarial assumptions and benefit level is recognised as profit or loss as occurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(20) Employee benefits (continued)

(c) Termination benefits (continued)

Early retirement benefits (continued)

The termination benefits which will be paid off in the next financial year are listed as current liabilities in the balance sheet.

(21) Payables for specific projects

Payables for specific projects are the special or specific purpose funds that the group obtained from governments as the owner of the enterprise, which should be included in the payables for specific projects when the funds are actually received. After the completion of the specific project, the expenditure that form assets is recognized as deferred income according to actual costs. Other expenditure that does not form assets, which need to hand in or write off, should be written down from the payables for specific projects after approved.

(22) Dividend distribution

Cash dividend is recognised as a liability for the period in which the dividend is approved by the annual general meeting.

(23) Provisions

Provisions for closure of tailings and environmental restoration are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably. Asset retirement obligations which meet the criteria of provisions are recognised as provisions and the amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements, while a corresponding addition to the related fixed assets of an amount equivalent to the provision is also created. This is subsequently depleted as part of the costs of the fixed assets. Interest expenses from the assets retirement obligations for each period are recognised with the effective interest method during the useful lives of the related fixed assets. If the conditions for the recognition of the provisions are not met, the expenditures for the decommissioning, removal and site cleaning will be expensed in the income statement when occurred.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(23) Provisions (continued)

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

The provisions expected to be settled within one year since the balance sheet date are classified as current liabilities.

(24) Revenue recognition

The Group recognize revenue in accordance with the amount of the consideration to be received when customers acquire the control of the relevant commodity.

(a) Sale of goods

Revenue is recognised when the rights and risks of the products have been transferred to the purchaser, the Group has no control of the products, the economic benefits associated with the transaction will flow to the Group and the related revenue can be reliably measured.

(25) Safety fund

Pursuant to regulation No. [2012]16, "Management measures of accrual and use of safety fund of business enterprises", issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to accrue safety fund. The fund is earmarked for improving the safety of production

Pursuant to regulation No. [2010]8, "No. 3 Interpretation of CAS", issued by the Ministry of Finance on 21 June 2010, enterprises in high-risk industry should accrue safety fund under China's law and regulation, and the fund should be accrued to production costs or current profit or loss, and credited to specific reserve. The safety expenditures of the Group that are expenses in nature are directly debited to specific reserve. The safety expenditures of the Group that are formed into fixed assets through collection of construction in progress are recognised as fixed assets when the safety projects are completed and to the expected conditions for use; at the same time, specific reserve is written down through the costs of formed fixed assets, and the same amount is confirmed to accumulated depreciation. For these fixed assets, there will be no further depreciation in the following accounting periods.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(26) Government grants

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

Government grants are recognised when the grants can be received and the Group 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 Group 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 deducted against related costs, expenses or losses directly in current period. The Group 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.

(27) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(27) Deferred tax assets and deferred tax liabilities (continued)

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, joint ventures and associates, except where the Group is able to control the timing of the reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, joint ventures and associates will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

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

(28) Leases

A lease that in substance transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. Others are classified as operating lease.

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.

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

(29) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance; (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(30) Critical accounting estimates and assumptions

The Group 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.

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) *Carrying value of evaluate non-current assets*

The Group annually evaluate whether fixed assets, construction in progress, land use rights, mining rights and exploration rights have suffered from any impairment due to events or changes in circumstances indicating that the carrying amount of the asset exceeds its recoverable amount, in accordance with accounting policy stated in note 2(19) to the financial statements.

As at 31 December 2018, there was no impairment provided for fixed assets, construction in progress, land use rights, mining rights and exploration rights. As determined by management, a group of assets that is able to generate independent cash flows includes fixed assets, construction in progress, land use rights, mining rights and exploration rights which can be determined as an independent cash generating unit, of which the recoverable amounts have been determined based on value-in-use calculations using cash flow projections approved by management and management's assumptions and estimates of selling price of metals, discount rates and inflation rate. The discount rate used to calculate the value-in-use is 14%, of which is a pre-tax discount rate that reflects the specific risks of relevant business. The major assumptions and estimates used in the recoverable value calculation of assets include forecast of selling price of nickel and copper, discount rates and inflation rate.

(ii) *Accounting estimates on impairment of goodwill*

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of asset groups and groups of asset groups is the present value of the future cash flows expected to be derived from them. These calculations require use of estimates (note 2(19)).

As at 31 December 2018, there was no impairment for goodwill. The recoverable amounts of different cash generating units to which the goodwill, have been determined based on value-in-use calculations using cash flow projections, based on financial budgets approved by senior management and management's assumptions and estimates including forecast of selling prices of metal products, reserves and production volumes, discount rates and inflation rate. The discount rates used in cash flow projections varied with different cash generating units.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(30) Critical accounting estimates and assumptions (continued)

Critical accounting estimates and key assumptions (continued)

(iii) *Income tax*

The Group is subject to income taxes in numerous jurisdictions. 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 Group in determining the provision for income taxes 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.

According to the accounting policy mentioned in note 2(27), the Group compiles profit forecast annually. For those deductible temporary losses and deductible temporary differences which can be deducted from the taxable income in future years in accordance with the tax law, they should be recognised as deferred tax assets.

The estimates of deferred tax assets require estimates over future taxable profit and corresponding applicable income tax rates of respective years. The realisation of deferred tax assets depends on the realisation of sufficient profitability (taxable profit) of the Group. The change in future income tax rates and timing of reversals of taxable temporary differences would affect income tax expense (benefits) and balances of deferred tax. Deviation of aforesaid estimates could result in material adjustment to the carrying amount of deferred income tax.

As at 31 December 2018, deferred tax assets of RMB128,659,429.17 have been recognised in the Group's balance sheet. As stated in note 4(26)(d), the Group still has unrecognised deductible temporary losses of RMB119,865,264.57 at 31 December 2018. Deferred tax assets have not been recognised due to the fact that there is no certainty of obtaining approval from local tax authorities or there is no certainty of their respective realisation of these tax benefits through available future taxable profits of those subsidiaries concerned. In cases where the actual future assessable profits are more or less than expected or approval from local tax authorities are obtained, a recognition or reversal of deferred tax assets may arise accordingly.

(iv) *Useful lives of fixed assets and intangible assets*

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for its fixed assets and intangible assets. This estimate is based on the historical experience of the actual useful lives of fixed assets and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation or amortisation charges where useful lives are less than previously estimated lives.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(30) Critical accounting estimates and assumptions (continued)

Critical accounting estimates and key assumptions (continued)

(v) *Mineral reserves*

Engineering estimates of the Group's mineral reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved" and "probable". Proved and probable mineral reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment losses. Depreciation rates are determined based on mineral reserve quantity being mined (the denominator) and capitalised costs of mining structures (the numerator). The capitalised cost of mining structures is amortised based on the units of non-ferrous metals produced.

(vi) *Estimate of inventory net realizable value*

The net realisable value of inventories is under management's regular review, and as a result, write-down of inventories is recognised for the excess of inventories' carrying amounts over their net realisable value. Write-down evaluation needs judgment and estimate of the management. Once difference occurs between the expectation and the original estimate will influence the book value of the current inventory and inventory shrinkage.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(30) Critical accounting estimates and assumptions (continued)

Critical accounting estimates and key assumptions (continued)

(vii) *Measurement of expected credit losses*

The group calculates the expected credit losses through default exposures and expected credit loss rates, and determines the expected credit loss rate based on default probability and default loss rate. In determining the expected credit loss rate, the group uses data such as internal historical credit loss experience, and adjusts historical data in combination with current status and forward-looking information. In considering forward-looking information, the group uses indicators such as the risk of an economic slowdown, the growth of the expected unemployment rate, the external market environment, the technological environment and changes in the customer situation. The group regularly monitors and reviews assumptions related to the calculation of expected credit losses. The above estimation techniques and key assumptions have not changed significantly in 2018.

(viii) *Classification of financial assets*

The group's key judgments in determining the classification of financial assets include business models and the analysis of contract cash flow characteristics.

The group defines the business model for managing financial assets at the level of the portfolio of financial assets, taking into account the way in which financial asset performance is evaluated and reported to key managers, the risks affecting financial asset performance, and how they are managed, and the way in which the relevant business managers receive compensation.

In assessing whether the contractual cash flows of financial assets are in line with the basic lending arrangements, the group has the following main judgments: whether the principal is likely to cause a change in the time distribution or amount of money during the lifetime due to prepayment, or whether the interest includes only currency time value, credit risk, Other basic borrowing risks as well as the cost and profit of the price. For example, whether the amount paid in advance reflects only outstanding principal and interest on the basis of outstanding principal, and reasonable compensation paid for the early termination of the contract.

(ix) *Provisions for pending litigations*

Based on the evidence available, the Group estimates and judges whether the pending litigations will result in the Group's possibility of undertaking current obligations. If the management believes the Group has assumed current obligation due to pending litigations, and the Group can make the best estimate of the required expenditure, the Group recognises the best estimate of the required expenditure to settle the current obligations related to pending litigations as provisions (Note 4(21)). Changes in the above estimate may result in significant adjustments to provisions.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Significant changes in accounting policies

In 2017, the Ministry of Finance released the modified “Accounting Standard for Business Enterprises No. 14 – Revenue” (the “New Revenue Standard”) and modified “Accounting Standard for Business Enterprises No. 22 – Financial Instruments Recognition and Measurement”, “Accounting Standard for Business Enterprises No. 23 – Financial Assets Transfer” and “Accounting Standard for Business Enterprises No. 37 – Financial Instruments” (the “New Financial Instruments”). In 2018, the ministry of Finance released the “Circular on Amendment to Formats of Financial Statements of General Industry” and its interpretation (Cai Kuai [2018] 15). The financial statements are prepared in accordance with the above standards and circular, and impacts on the financial statement of the Group and the Company are as follows:

(a) General Industry Formates Amendment

(i) Impact on the Consolidated balance sheet and income statement as follow:

| The nature and the reasons of the changes in accounting policies | The line items affected | The amounts affected | |
|---|-----------------------------------|----------------------|------------------|
| | | 31 December 2017 | 1 January 2017 |
| The group incorporates notes receivable and accounts receivable into one account. | Accounts receivable | (105,474,868.86) | (190,672,515.58) |
| | Notes receivable | (100,361,060.38) | (112,130,198.60) |
| | Notes receivable and | 205,835,929.24 | 302,802,714.18 |
| | Accounts receivable | | |
| The group incorporates interest receivable, dividend receivable and other receivables into one account. | Interests receivable | (212,117.50) | – |
| | Other receivables | 212,117.50 | – |
| The Group incorporate construction in process and engineering materials into one account. | Construction in process | 643,582.37 | 642,609.04 |
| | Engineering Materials | (643,582.37) | (642,609.04) |
| The Group incorporates notes payable and accounts payables into one account. | Accounts payable | (271,749,952.15) | (302,860,921.14) |
| | Notes payable | (278,400,000.00) | (101,250,000.00) |
| | Notes payable and Account payable | 550,149,952.15 | 404,110,921.14 |
| The Group incorporates interest payable, dividend payable and other payable into one account. | Interest payable | (8,291,991.51) | (40,942,962.32) |
| | Other payables | 8,291,991.51 | 40,942,962.32 |
| The group incorporates long-term payable and Payables for specific projects into one account. | Long-term payables | 13,193,941.11 | – |
| | Payables for specific projects | (13,193,941.11) | – |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Significant changes in accounting policies (continued)

(a) General Industry Formates Amendment (continued)

(ii) Impact on the Company balance sheet and income sheet as follow:

| The nature and the reasons of the changes in accounting policies | The line items affected | The amounts affected | |
|--|--|----------------------|------------------|
| | | 31 December 2017 | 1 January 2017 |
| The Company incorporate notes receivable and accounts receivable into one account. | Accounts receivable | (81,512,144.85) | (190,328,580.58) |
| | Notes receivable | (78,976,383.38) | (73,777,482.66) |
| | Notes receivable and accounts receivable | 160,488,528.23 | 264,106,063.24 |
| The Company incorporates interest receivable, dividend receivable and other receivables into one account. | Interest receivable | (6,412,500.00) | (5,381,847.21) |
| | Other receivables | 6,412,500.00 | 5,381,847.21 |
| The Company incorporates Construction in process and engineering materials into one account. | Construction in progress | 17,549.34 | 16,439.93 |
| | Engineering material | (17,549.34) | (16,439.93) |
| The Company incorporates notes payable and accounts payable into one account. | Notes payable | (278,400,000.00) | (93,200,000.00) |
| | Accounts payable | (65,903,125.71) | (207,393,554.50) |
| | Notes payable and accounts payable | 344,303,125.71 | 300,593,554.50 |
| The Company incorporates interest payable, dividend payable and other payable into one account. | Interest payable | (6,788,888.89) | (39,060,776.27) |
| | Other payables | 6,788,888.89 | 39,060,776.27 |
| The nature and the reasons of the changes in accounting policies | The line items affected | 2017 | |
| | | | |
| The Company reclassifies the interest income of consignment loans from financial expenses into investment income | Financial expenses | | (59,789,302.98) |
| | Investment income | | 59,789,302.98 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Significant changes in accounting policies (continued)

(b) Revenue

According to the relevant provisions of the New Revenue Standard, the New Revenue Standard should be implemented since 1 January, 2018. The New Revenue Standard does not have a significant impact on the owners' equity of the Group's consolidated financial statements. The Group and the Company's first implementation of the New Revenue Standard affects other related items in the financial statements as follows, and the comparative financial statements for 2017 has not been restated.

| The nature and the reasons of the changes in accounting policies | The line items affected | The amounts affected | |
|--|-------------------------|----------------------|----------------|
| | | 1 January 2018 | |
| | | Consolidated | Company |
| Due to the implementation of the New Revenue Standard, the Group and the Company reclassifies advances from customers into contract liability and the 2017 comparative financial statements were not restated. | Contract liability | 26,494,587.46 | 4,042,956.06 |
| | Advances from customers | (26,494,587.46) | (4,042,956.06) |

Compared with the original Revenue Standard, implementing the New Revenue Standard affects related items in the financial statements for 2018 as follows:

| The line items affected | The amounts affected | |
|-------------------------|----------------------|----------------|
| | 31 December 2018 | |
| | Consolidated | Company |
| Contract liability | 22,054,471.54 | 3,758,619.42 |
| Advances from customers | (22,054,471.54) | (3,758,619.42) |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Significant changes in accounting policies (continued)

(c) Financial instruments

According to the New Financial Instruments Standard, the Group and the Company adjusted the opening retained earnings of 2018 and other related items in the financial statements for the cumulative impact of the first implementation of the standard. The comparative financial statements for 2017 has not been restated.

(i) On 1 January 2018, the results of financial assets were categorized and measured in accordance with the rules of the original financial instruments standards and the New Financial standard comparatively. The adjustments are listed below.

| Guidelines for original financial instruments | | | Guidelines for new financial instruments | | |
|---|--|----------------|--|---|----------------|
| Line items | Measurement category | Carrying value | Line items | Measurement category | Carrying value |
| Cash at bank and on hand | At Amortization costs | 416,681,699.08 | Cash at bank and on hand | At Amortization costs | 416,681,699.08 |
| | | | Financial asset held for trading | At fair value and through profit and loss | - |
| Notes receivable & account receivable | At Amortization costs | 205,835,929.24 | Notes receivable & account receivable | At Amortization costs | 205,835,929.24 |
| | | | Other current assets | At fair value and through other comprehensive incomes | - |
| Other receivables | At Amortization costs | 100,665,053.61 | Other receivables | At Amortization costs | 100,665,053.61 |
| Available-for-sale financial assets | Financial assets measured at fair value and through other comprehensive income | 105,620,000.00 | Financial asset held for trading | At fair value and through profit and loss | 105,620,000.00 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Significant changes in accounting policies (continued)

(c) Financial instruments (continued)

- (ii) On 1 January 2018, the book value of the original financial assets were adjusted into the book value of the new financial instruments categories under the measurement category of the New Financial Instrument Standard:

| | |
|--|-----------|
| Measurement categories under the New Financial Instrument Standard | (note) |
| At fair value and through profit and loss | (Table 1) |
| At fair value and through other comprehensive income | (Table 2) |

Table 1. Financial assets measured at fair value through profit and losses under the New Financial Instrument Standard.

| | Note | Book value | |
|---|------|----------------|---------------|
| | | Consolidated | Company |
| Financial assets held for trading | | | |
| 31 December 2017 | | - | - |
| Add: Available-for-sale financial assets (original Financial Instruments Standards) | i) | 105,620,000.00 | 95,960,000.00 |
| 1 January 2018 | | 105,620,000.00 | 95,960,000.00 |
| Total of financial assets measured at fair value through profit and loss (New Financial Instrument Standards) | | 105,620,000.00 | 95,960,000.00 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

(31) Significant changes in accounting policies (continued)

(c) Financial instruments (continued)

- (ii) On 1 January 2018, the book value of the original financial assets were adjusted into the book value of the new financial instruments categories under the measurement category of the New Financial Instrument Standard: (continued)

Table 2. Financial assets measured at fair value through other comprehensive income under the New Financial Instrument Standard.

| | Note | Book Value | |
|---|------|----------------|---------------|
| | | Consolidated | Company |
| Available-for-sale financial assets | | | |
| 31 December 2017 | | 105,620,000.00 | 95,960,000.00 |
| Less: Reclassified into financial assets measured at fair value through profit and loss of fair value (New Financial Instrument standard) | i) | 105,620,000.00 | 95,960,000.00 |
| 1 January 2018 | | - | - |
| Total of financial assets measured at fair value through other comprehensive income (New Financial Instrument standards) | | - | - |

- i) On December 31, 2017, the balance of non guaranteed and floating-earning financial products that the Group held were RMB105,620,000.00. After the Group's adoption of the New Financial Instruments Standard, the contractual cash flow characteristics of the financial products are not in line with the basic lending arrangements. Therefore, on 1 January, 2018, the Group reclassified the financial products to measured at fair value through profit and loss, presented as financial assets held for trading.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

3 TAXATION

The principal types and rates of taxes applicable to the Group are set out below:

| Type | Taxable base | Tax rate |
|-------------------------|---|---------------------------------------|
| Corporate income tax | Taxable income | 15%/20%/25% (note (1)) |
| Value-added tax ("VAT") | Taxable turnover amount (Tax payable is calculated using the taxable sales amount multiplied by the effective tax rate less deductible VAT input of current period) | 17%/16% (note (2)) |
| Resources tax | Amount of ore output during the current month or taxable sales revenue of products or consumption of taxable products regarded as sales | 4% (note (3)) |
| Urban construction tax | VAT and business tax | 7%/5%/1% |
| Education surcharge | VAT and business tax | 3% |
| Property tax | Taxable residual value of property | 1.20% |
| | Rental income of property | 12% |
| Environment tax | Pollution equivalent | RMB1.2/pollution equivalent (note(4)) |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

3 TAXATION (CONTINUED)

(1) Corporate income tax

The Group applies the PRC Corporate Income Tax Law passed by the National People's Congress on 16 March 2007. The corporate income tax rate is 25%.

The rate of income tax applicable to the Group and the relevant approval documents are set out below:

- (a) According to the 'Circular on Enterprise Income Tax Policy concerning Deductions for Equipment and Appliances'(Cai Shui [2018] No.45) and relevant standards announced by the State Administration of Taxation, during the period from 1 January 2018 to 31 December 2020, newly purchased equipments of less than RMB5 million can be included in the current costs in the next month when the assets are put into use. The costs can be deducted from taxable income of current year at one time, instead of being included in annual depreciation.
- (b) On 6 April 2012, the State Administration of Taxation announced about carrying out the Western Development Strategy on the issue of corporate income tax, and the Company has obtained the recognition that its business is within the catalogue of encouraged industries from the Committee of Economics and Information of Xinjiang Uygur Autonomous Region. The Company calculated and paid corporate income tax using the preferential rate of 15% for the year ended 31 December 2018 after communication with local tax authorities (2017: 15%).
- (c) The applicable income tax rate of Shanghai Sales Branch of the Company is 25% in 2018 (2017: 25%).
- (d) The subsidiary Xinjiang Yakesi Resource Development Co., Ltd here after "Xinjiang Yakesi" as obtained the recognition that its business is within the catalogue of encouraged industries from the committee of Economics and information of Xinjiang Uygur Autonomous Region Xinjiang Yakesi calculated and paid corporate income tax using the preferential rate of 15% for the year ended 31 December 2018 after communication with local tax authorities (2017: 15%).
- (e) The subsidiary, Hami Jubao Resource Development Co., Ltd. (hereafter "Hami Jubao"), has obtained the recognition that its business is within the catalogue of encouraged industries from the Committee of Economics and Information of Xinjiang Uygur Autonomous Region. Hami Jubao calculated and paid corporate income tax using the preferential rate of 15% for the year ended 31 December 2018 after communication with local tax authorities (2017: 15%).
- (f) The subsidiary, Xinjiang Kalatongke Mining Industry Co., Ltd. (hereafter "Kalatongke Mining") has obtained the recognition that its business is within the catalogue of encouraged industries from the Committee of Economics and Information of Xinjiang Uygur Autonomous Region. Kalatongke Mining calculated and paid corporate income tax using the preferential 15% he year ended 31 December 2018 after communication with local tax authorities (2017:15%).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

3 TAXATION (CONTINUED)

(1) Corporate income tax (continued)

- (g) The subsidiary, Xinjiang Mengxi Mining Co., Ltd. (hereafter “Mengxi Mining”), applied the Small-Scaled Minimal Profit Enterprise income tax preferential policy announced by the State Administration of Taxation. Mengxi Mining calculated and paid corporate income tax for the preferential taxable income using the preferential rate of 20% for the year ended 31 December 2018 after communication with local tax authorities (2017: 20%).
- (h) Other subsidiaries, including Xinjiang Zhongxin Mining Industry Co., Ltd. (hereafter “Zhongxin Mining”), Beijing Xinding Shunze High Technology Co., Ltd. (hereafter “Beijing Xinding”) and Shaanxi Xinxin are subject to corporate income tax rate of 25% in 2018 (2017: 25%).

(2) Value-added tax

The Group's main product sales are subject to VAT. Output VAT rate was 17% before 1 May 2018 and was 16% after 1 May 2018.

For the purchase of raw materials, fuel, power, and equipment input VAT can deduct output VAT. Value-added tax payable equals to the output VAT less deductible input VAT of current period.

(3) Resources tax

Pursuant to “Notification of Financial Department of Xinjiang Uygur Autonomous Region and Regional Tax Bureau of Xinjiang Uygur Autonomous Region about adjusting local copper and nickel ore resources tax rate”, before 1 July 2016, Kalatongke Mining pays resources tax of RMB12 per ton based on ore production in current month, and Xinjiang Yakesi and Hami Jubao pay RMB6 per ton based on ore production in current month. Pursuant to regulation No.[2016]24, “Regional Tax Bureau of Xinjiang Uygur Autonomous Region about adjusting local resources tax rate, conversion ratio and concentration ratio” since 1 July 2016, Kalatongke Mining pays resources tax of 4% of consumption of taxable products regarded as sales in current month, and Xinjiang Yakesi and Hami Jubao pay 4% of sales based on sales of taxable products in current month.

(4) Environment tax

Pursuant to Regulation No. [2018] 23, “Notice on environment protection”, since 1 January 2018, Kalatongke Mining, Xingjiang Yakesi, Hami JuBao, Zhongxin Mining and Fukang refinery pay RMB1.2 per pollution equivalent based on the weight of the pollution equivalent, which is converted from the amount of pollution emissions.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Cash at bank and on hand

| | 31 December 2018 | 31 December 2017 |
|------------------------------|-----------------------|---------------------|
| Cash on hand | 7,097.04 | 23,357.99 |
| Cash at bank | 489,197,397.32 | 346,284,057.14 |
| Restricted cash at banks (a) | 80,810,693.58 | 70,374,283.95 |
| | 570,015,187.94 | 416,681,699.08 |

(a) Restricted cash at bank were shown as follows:

| | 31 December 2018 | 31 December 2017 |
|--|----------------------|---------------------|
| Deposits for issue of bank acceptance notes | 69,108,221.12 | 58,718,639.68 |
| Deposits for environmental recovery and safety | 11,003,924.55 | 10,959,110.70 |
| Deposits for exploration right | 698,547.91 | 696,533.57 |
| | 80,810,693.58 | 70,374,283.95 |

(2) Financial assets held for trading

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Financial assets that at fair value and through profit and loss | 186,500,000.00 | - |

(3) Notes receivable & Accounts receivable

| | 31 December 2018 | 31 December 2017 |
|-------------------------|-----------------------|---------------------|
| Notes receivable (a) | 30,889,176.54 | 100,361,060.38 |
| Accounts receivable (b) | 234,195,918.12 | 105,474,868.86 |
| | 265,085,094.66 | 205,835,929.24 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (Continued)

(a) Notes receivable

| | 31 December 2018 | 31 December 2017 |
|-----------------------|-----------------------------|---------------------|
| Bank acceptance notes | 30,889,176.54 | 100,361,060.38 |

All the notes receivable are bank acceptance notes which will be matured within 180 days.

As at 31 December 2018 and 31 December 2017, there were no notes receivable pledged as collateral.

(b) Accounts receivable

| | 31 December 2018 | 31 December 2017 |
|-------------------------------|-----------------------------|---------------------|
| Accounts receivable | 238,089,761.52 | 109,245,663.84 |
| Less: provision for bad debts | (3,893,843.40) | (3,770,794.98) |
| | 234,195,918.12 | 105,474,868.86 |

The Group conducted sales transactions mainly through cash on delivery, cash receipts in advance or bank acceptance notes. For other sales transactions, credit terms were granted not exceeding 180 days.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (Continued)

(b) Accounts receivable (Continued)

(i) Aging-of-accounts analysis of accounts receivable:

| | 31 December 2018 | 31 December 2017 |
|----------------------|-----------------------|---------------------|
| Less than one year | 212,001,540.90 | 69,429,011.77 |
| One to two years | 2,271,568.55 | 11,463,054.43 |
| Two to three years | 11,463,054.43 | 18,934,881.90 |
| Three to four years | 5,335,812.59 | 5,638,695.51 |
| Four to five years | 3,237,764.82 | 74,400.20 |
| More than five years | 3,780,020.23 | 3,705,620.03 |
| | 238,089,761.52 | 109,245,663.84 |

(ii) On 31 December, 2018, the top five accounts receivable were analysed as follows:

| | Ending Balance | Provision for bad debts | % of total balance |
|---|-------------------|----------------------------|-----------------------|
| Total amount of the top five accounts receivable | 229,559,041.32 | (1,155,416.10) | 96.42% |

(iii) No accounts receivable terminated due to transfer of financial assets during the period.

(c) Provision for bad debts

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------|---------------------|
| Provision for bad debts of Accounts Receivable | (3,893,843.40) | (3,770,794.98) |

The group measure provision for bad debts based on the provision credits losing whether it has majority financing process. As at 31 December 2018, the impact of the expected credit loss rate for account receivables is assessed to be insignificant.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (Continued)

(c) Provision for bad debts (Continued)

- (i) On 31 December 2018, the related provision of bad debts receivable notes and Accounts receivable analysis as follows:

Group – Related parties:

| | 31 December 2018 | | |
|-----------------------------|----------------------|---|-----------------------|
| | Ending Balance | Provision for bad debts | |
| | Amount | Expected credit loss rate throughout the duration | Amount |
| Not overdue | 5,962,250.74 | | – |
| 1–6 months overdue | – | | – |
| 7–18 months overdue | 2,271,568.55 | | – |
| More than 18 months overdue | 21,276,042.94 | 6.85% | (1,456,617.80) |
| | <u>29,509,862.23</u> | | <u>(1,456,617.80)</u> |

Group – Non-related parties :

| | 31 December 2018 | | |
|-----------------------------|-----------------------|---|-----------------------|
| | Ending Balance | Provision for bad debts | |
| | Amount | Expected credit loss rate throughout the duration | Amount |
| Not overdue | 204,527,758.55 | | – |
| 1–6 months overdue | 1,511,531.61 | | – |
| 7–18 months overdue | – | | – |
| More than 18 months overdue | 2,540,609.13 | 95.93% | (2,437,225.60) |
| | <u>208,579,899.29</u> | | <u>(2,437,225.60)</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (Continued)

(c) Provision for bad debts (Continued)

(ii) This period's amount of provision for bad debts is RMB123,048.42, did not occur to recover or revert to the provision of bad debts.

(d) No write-off of accounts receivable occurred during this period.

(e) As at 31 December 2017 and 31 December 2018, there is no accounts receivable pledged as collaterals to bank for borrowings.

(4) Advances to suppliers

(a) The ageing of advances to suppliers was analysed as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---------------|----------------------|--------------------|------------------|--------------------|
| | Amount | % of total balance | Amount | % of total balance |
| Within 1 year | 54,326,518.81 | 89.10% | 18,762,511.33 | 79.77% |
| 1 to 2 years | 3,097,267.98 | 5.08% | 1,093,347.89 | 4.65% |
| 2 to 3 years | 189,613.89 | 0.31% | 1,368,046.21 | 5.82% |
| Over 3 years | 3,362,169.29 | 5.51% | 2,295,991.18 | 9.76% |
| | 60,975,569.97 | 100.00% | 23,519,896.61 | 100.00% |

At 31 December 2018, advances to suppliers over 1 year with carrying amount of RMB6,649,051.16 (31 December 2017: RMB4,757,385.28) were mainly advances paid for purchasing raw materials.

(b) As at 31 December 2018, the top five advances to suppliers were analysed as follows:

| | Amount | % of total balance |
|--|---------------|--------------------|
| Total amount of the top five advances to suppliers | 36,148,975.95 | 59.28% |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------|---------------------|
| Accounts receivable from related parties (note 8(6)(b)) | 36,656,571.32 | 98,129,480.94 |
| Accounts receivable from equity and debt transfer (a) | 5,812,100.00 | 5,812,100.00 |
| Others | 4,586,764.10 | 4,419,801.58 |
| Interest receivable | – | 212,117.50 |
| | 47,055,435.42 | 108,573,500.02 |
| Less: provision for bad debts (b) | (7,908,446.41) | (7,908,446.41) |
| | 39,146,989.01 | 100,665,053.61 |

(a) Amount due from equity and debt transfer was the receivables resulted from the transfer of equity and debt of Tibet Puxiong Mining Co., Ltd. – an associate of Xinjiang Yakesi in 2013.

(b) The movement of ending balance and provision for bad debts

(i) On 31 December 2018, the analysis of provision for bad debts of other receivables in the first stage was as follows:

| | Ending Balance | Expected credit losses in the next 12 months | Provision for bad debts | Reason |
|---------------------------|----------------------|---|-------------------------------|--------|
| on the grouping basis: | | | | |
| Relate party | 36,656,571.32 | – | – | |
| Staff Reserve | 438,637.58 | – | – | |
| other | 2,148,126.52 | 4.49% | (96,346.41) | |
| | 39,243,335.42 | | (96,346.41) | |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (Continued)

(b) The movement of ending balance and provision for bad debts (Continued)

(ii) On 31 December 2018, the analysis of bad debts for other receivables in second stage was analysed as follows:

| | Ending Balance | Expected credit losses in whole period | provision for bad debts | Reason |
|---|---------------------|---|----------------------------|--------|
| on the individual basis: | | | | |
| Transfer of debt receivable from Gansu Ximai New Material Technology Co., Ltd | 5,812,100.00 | 100.00% | (5,812,100.00) | i) |
| Funds receivable from Bei'a Railway Co., Ltd | 2,000,000.00 | 100.00% | (2,000,000.00) | ii) |
| | <u>7,812,100.00</u> | | <u>(7,812,100.00)</u> | |

i) On 31 December 2018, the amount of accounts receivable of equity and debts transfer from Gansu Ximai New Material Technology Co., Ltd is RMB5,812,100.00. However, because they have financial strain and also involve several lawsuit, the group believe that it is hard to collect these money and re-classified it into provision for bad debt.

ii) On 31 December 2018, the amount of accounts receivable from Xinjiang Bei'a Railway Co., Ltd. is RMB2,000,000.00. However, because the construction project Beitun Ataille Railway do not have significant progress, the group believe that it is an unsuccessful investment, which should account as provision for bad debt.

(iii) On 31 December 2018, the group did not have other receivables in third stage.

(c) This period has no provision for bad debt and the Group do not receive or carry-back provision for bad debt.

(d) This period do not have other receivable's cancel after verification.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (Continued)

(e) As at 31 December 2018, the top five other receivables were analysed as follows:

| | Nature | Ending Balance | Ageing | Ageing % of total balance | Provision of bad debts |
|---|-----------------------------|----------------------|---------------|------------------------------|---------------------------|
| Hami Jinhui Real Estate Development Co.,Ltd. | Transfer of receivables | 30,000,000.00 | 2-3 years | 63.75% | - |
| Gansu Ximai New Material Technology Co.,Ltd. | Transfer of equity and debt | 5,812,100.00 | Over 5 years | 12.35% | (5,812,100.00) |
| Hami Hexin Mining | Loan | 2,755,234.41 | Within 1 year | 5.86% | - |
| Xinjiang Non-ferrous Metal Industry (Group) Quanzin Construction Co.,Ltd. | Transaction receivables | 2,741,330.40 | Within 1 year | 5.83% | - |
| Xinjiang Bei'a Railway Co.,Ltd. | Loan | 2,000,000.00 | 4-5 years | 4.25% | (2,000,000.00) |
| | | 43,308,664.81 | | 92.04% | (7,812,100.00) |

(6) Inventories

(a) Classification of inventories was as follows:

| | 31 December 2018 | | | 31 December 2017 | | |
|---------------------|-------------------------|--|-------------------------|-------------------------|--|-------------------------|
| | Ending balance | Provision for declines in value of inventories | Carrying amount | Ending balance | Provision for declines in value of inventories | Carrying amount |
| Raw materials | 211,179,952.66 | (4,336,822.90) | 206,843,129.76 | 219,690,786.72 | (4,336,822.90) | 215,353,963.82 |
| Work in progress | 106,180,752.56 | - | 106,180,752.56 | 182,206,856.90 | - | 182,206,856.90 |
| Semi-finished goods | 713,042,797.83 | - | 713,042,797.83 | 554,865,961.61 | - | 554,865,961.61 |
| Finished goods | 294,290,540.15 | (3,940,639.80) | 290,349,900.35 | 479,833,575.30 | (3,469,565.73) | 476,364,009.57 |
| | 1,324,694,043.20 | (8,277,462.70) | 1,316,416,580.50 | 1,436,597,180.53 | (7,806,388.63) | 1,428,790,791.90 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(6) Inventories (Continued)

(b) Provisions for declines in value of inventories were analysed as follows:

| | 31 December 2017 | Increase in current period Accrue ment | Decrease in current period Sold | 31 December 2018 |
|----------------|---------------------|--|---------------------------------------|-----------------------|
| Raw materials | (4,336,822.90) | – | – | (4,336,822.90) |
| Finished goods | (3,469,565.73) | (1,178,114.93) | 707,040.86 | (3,940,639.80) |
| | (7,806,388.63) | (1,178,114.93) | 707,040.86 | (8,277,462.70) |

(c) Provision for decline in value of inventories was as follows:

Inventories are stated at the lower of cost and net realisable value. Net realisable value is 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 reasons for decrease of provision for finished goods was sales of the inventories.

(7) Other current assets

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------|---------------------|
| Other current assets that reclassified from long term assets (note 4(21)) | 210,189,954.72 | – |
| Input VAT to be deducted | 27,604,527.66 | 26,911,225.29 |
| Prepaid income tax | 10,644,723.82 | 10,896,764.22 |
| Available-for-sale financial assets | – | 105,620,000.00 |
| | 248,439,206.20 | 143,427,989.51 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(8) Long-term equity investments

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------|---------------------|
| Joint venture (a) | 145,069,311.44 | 144,503,820.49 |
| Less: provision of long-term equity investments | – | – |
| | 145,069,311.44 | 144,503,820.49 |

The joint venture investment is non-listed and does not have significant limitation of transfer.

(a) Joint ventures

| | 31 December 2017 | Increase in investment | Share of net profit using the equity method (note 4(42)) | Offsetting the unrealised loss of internal transaction (note 5(2)(b)) | Other comprehensive income adjustment | Other changes in equity | Cash dividend declared | Impairment provided in the current year | 31 December 2018 | Provision for impairment |
|--------------|---------------------|---------------------------|---|---|--|-------------------------------|------------------------------|--|-----------------------|--------------------------------|
| Hexin Mining | 144,503,820.49 | – | 5,157,346.20 | (4,591,855.25) | – | – | – | – | 145,069,311.44 | – |

The place of registration and main premises of Hexin Mining are both in China, Hexin Mining is one of the major raw material suppliers of the Group and has strategic significance to ensure the raw material supply.

Refer to note 5(2) for relevant equity information in joint venture.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Fixed assets

(a) Fixed assets

| | Buildings | Mining structure | Machinery and equipment | Motor vehicles | Electronic and office equipment | Total |
|---|-------------------------|-----------------------|-------------------------|----------------------|---------------------------------|-------------------------|
| Cost | | | | | | |
| 31 December 2017 | 1,678,860,287.00 | 1,060,026,492.74 | 1,420,235,620.97 | 48,913,881.37 | 89,447,709.07 | 4,297,483,991.15 |
| Additions | | | | | | |
| Purchase | 3,249,482.92 | - | 42,284,876.53 | 72,003.85 | 6,136,510.17 | 51,742,873.47 |
| Transfer-in from construction in progress (note 4(10)(a)) | 63,251,918.19 | 627,008.74 | 7,603,530.62 | - | 2,428,184.19 | 73,910,641.74 |
| Reductions | | | | | | |
| Transfer to construction in progress | - | (112,535,084.97) | (10,763,348.07) | - | - | (123,298,433.04) |
| Other disposal | - | - | (589,214.05) | (450,000.00) | (275,598.18) | (1,314,812.23) |
| Other Reductions | - | - | - | - | (21,149.60) | (21,149.60) |
| 31 December 2018 | 1,745,361,688.11 | 948,118,416.51 | 1,458,771,466.00 | 48,535,885.22 | 97,715,655.65 | 4,298,503,111.49 |
| Accumulated depreciation | | | | | | |
| 31 December 2017 | 412,355,495.74 | 197,612,972.09 | 650,860,221.31 | 36,061,331.44 | 50,766,357.45 | 1,347,656,378.03 |
| Accrument | 55,023,321.06 | 33,821,541.18 | 100,355,671.94 | 2,868,382.94 | 9,675,716.85 | 201,744,633.97 |
| Transfer to construction in progress | - | (34,494,298.23) | (7,329,425.13) | - | - | (41,823,723.36) |
| Other disposal and retirement | - | - | (509,565.00) | (436,500.00) | (267,188.79) | (1,213,253.79) |
| Other Reductions | - | - | - | - | (18,267.88) | (18,267.88) |
| 31 December 2018 | 467,378,816.80 | 196,940,215.04 | 743,376,903.12 | 38,493,214.38 | 60,156,617.63 | 1,506,345,766.97 |
| Net Book Value | | | | | | |
| 31 December 2018 | 1,277,982,871.31 | 751,178,201.47 | 715,394,562.88 | 10,042,670.84 | 37,559,038.02 | 2,792,157,344.52 |
| 31 December 2017 | 1,266,504,791.26 | 862,413,520.65 | 769,375,399.66 | 12,852,549.93 | 38,681,351.62 | 2,949,827,613.12 |

For the accounting year 2018, depreciation expense of fixed assets amounted to RMB201,744,633.97 (for the accounting year 2017: RMB198,375,958.06), of which RMB190,447,602.14 were charged to cost of sales, RMB10,951,904.61 to general and administrative expenses, RMB137,945.43 to selling expense and RMB207,181.79 to construction in progress (for the accounting year 2017: RMB188,168,668.48, RMB9,831,903.36, RMB164,342.90 and RMB211,043.32, respectively).

The costs of fixed assets transferred- in from construction in progress amounted to RMB73,910,641.74 for the accounting year ended 31 December 2018. (for the accounting year ended 31 December 2017 is RMB323,794,507.29).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(9) Fixed assets (Continued)

(b) Temporarily idle fixed assets

On 31 December 2018, fixed assets with carrying amount of RMB15,279,922.39 (cost of RMB69,754,474.17) were temporarily idle for the purpose of production facility improvement (31 December 2017: RMB91,271,381.32 (cost of RMB192,302,138.02)), and analysed as follows:

| | Costs | Accumulated depreciation | Net Book Value |
|---------------------------------|---------------|-----------------------------|-------------------|
| Machinery and equipment | 38,073,672.14 | (34,617,213.06) | 3,456,459.08 |
| Buildings | 30,810,218.40 | (19,063,390.82) | 11,746,827.58 |
| Electronic and office equipment | 870,583.63 | (793,947.90) | 76,635.73 |
| | 69,754,474.17 | (54,474,551.78) | 15,279,922.39 |

(c) Fixed assets with pending certificates of ownership

On 31 December 2018, the net book value of RMB521,051,074.42 of buildings were in the process of applying the property ownership certificates. The Group's management believes that there is no substantial difficulty in obtaining the property ownership certificate and there is no significant adverse effect on the Group's operation.

(10) Construction in progress

| | 31 December 2018 | 31 December 2017 |
|------------------------------|---------------------|---------------------|
| Construction in progress (a) | 1,369,116,159.02 | 1,244,796,558.18 |
| Construction materials (b) | 17,549.34 | 643,582.37 |
| | 1,369,133,708.36 | 1,245,440,140.55 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Construction in progress (Continued)

(a) Construction in progress

| | 31 December 2018 | | | 31 December 2017 | | |
|--|------------------|--------------------------|------------------|------------------|--------------------------|------------------|
| | Ending balance | Provision for impairment | Carrying amount | Ending balance | Provision for impairment | Carrying amount |
| The Company: | | | | | | |
| Headquarters | 449,593.18 | - | 449,593.18 | - | - | - |
| Fukang Refinery | | | | | | |
| Final stage improvements for 10,000 tons of nickel | 3,396,048.11 | - | 3,396,048.11 | 3,396,048.11 | - | 3,396,048.11 |
| Other projects | 72,565,994.26 | - | 72,565,994.26 | 54,687,725.00 | - | 54,687,725.00 |
| Sub-total of the Company | 76,411,635.55 | - | 76,411,635.55 | 58,083,773.11 | - | 58,083,773.11 |
| Subsidiaries: | | | | | | |
| Kalatongke Mining | | | | | | |
| Final stage mining for 10,000 tons of nickel | 45,383,258.88 | - | 45,383,258.88 | 45,240,110.86 | - | 45,240,110.86 |
| Final stages of mining extension | 83,141,247.00 | - | 83,141,247.00 | 64,246,416.65 | - | 64,246,416.65 |
| Resource exploration project | 31,475,940.59 | - | 31,475,940.59 | 28,989,771.71 | - | 28,989,771.71 |
| Fugitive gas desulphurization project | 22,212,629.34 | - | 22,212,629.34 | - | - | - |
| Other constructions in progress for production | 91,334,225.80 | - | 91,334,225.80 | 88,152,608.88 | - | 88,152,608.88 |
| Xinjiang Yakes | | | | | | |
| Huangshanxi mining and ore processing project | 727,656,275.13 | - | 727,656,275.13 | 753,513,158.89 | - | 753,513,158.89 |
| Other projects | 626,759.43 | - | 626,759.43 | 626,759.43 | - | 626,759.43 |
| Hami Jubao | | | | | | |
| Huangshandong #12 mine project | 113,018,039.87 | - | 113,018,039.87 | 28,001,313.30 | - | 28,001,313.30 |
| Zhongxin Mining | | | | | | |
| Other projects | 900,292.79 | - | 900,292.79 | - | - | - |
| Shaanxi Xinxin | | | | | | |
| Other projects | - | - | - | 2,034,073.00 | - | 2,034,073.00 |
| Beijing Xinding | | | | | | |
| Construction projects of the base for research and warehousing | 176,955,854.64 | - | 176,955,854.64 | 175,908,572.35 | - | 175,908,572.35 |
| Sub-total of subsidiaries | 1,292,704,523.47 | - | 1,292,704,523.47 | 1,186,712,785.07 | - | 1,186,712,785.07 |
| Total | 1,369,116,159.02 | - | 1,369,116,159.02 | 1,244,796,558.18 | - | 1,244,796,558.18 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Construction in progress (Continued)

(a) Construction in progress (Continued)

(i) Significant changes to construction in progress

| Project name | Budget | 31 December 2017 | Current year adding | Transfer from fixed assets (note 4(10)) | Transfer to fixed assets | Current year lossing | 31 December 2018 | % of expenditures incurred to budgeted amount | Cumulative capitalised borrowing costs | Including: borrowing costs capitalised in current year (note 4(44)) | Capitalisation rate | Source of funds |
|---|------------------|------------------|---------------------|---|--------------------------|----------------------|------------------|---|--|---|---------------------|---|
| The company | | | | | | | | | | | | |
| Headquarters | | | | | | | | | | | | |
| Other projects | 15,000,000.00 | - | 449,593.18 | - | - | - | 449,593.18 | 29.97% | - | - | - | Self funding |
| Fukang Refinery | | | | | | | | | | | | |
| Final stage improvements for 10,000 tons of nickel | 10,000,000.00 | 3,396,048.11 | - | - | - | - | 3,396,048.11 | 33.96% | - | - | - | Self funding |
| Other projects | 80,900,000.00 | 54,687,725.00 | 18,847,916.81 | - | (969,647.55) | - | 72,565,994.26 | 51.28% | - | - | - | Self funding |
| Sub-total of the Company | 90,900,000.00 | 58,083,773.11 | 19,297,509.99 | - | (969,647.55) | - | 76,411,635.55 | | | | | |
| Subsidiaries: | | | | | | | | | | | | |
| Kalatongke Mining | | | | | | | | | | | | |
| Final stage mining for 10,000 tons of nickel | 58,144,000.00 | 45,240,110.86 | 1,272,003.93 | - | (1,128,855.91) | - | 45,383,258.88 | 87.62% | 3,654,986.91 | - | - | Self funding/ borrowing/ government grant |
| Final stages of mining extension | 194,650,000.00 | 64,246,416.65 | 18,894,830.35 | - | - | - | 83,141,247.00 | 42.71% | - | - | - | Self funding |
| Resource exploration project | 74,710,806.00 | 28,989,771.71 | 2,486,168.88 | - | - | - | 31,475,940.59 | 98.65% | - | - | - | self funding/ government grant |
| Fugitive gas desulphurization project | 80,000,000.00 | - | 22,212,629.34 | - | - | - | 22,212,629.34 | 27.77% | - | - | - | Self funding |
| Other constructions in progress for production | 142,846,239.00 | 88,152,608.88 | 3,181,616.92 | - | - | - | 91,334,225.80 | 81.38% | - | - | - | Self funding |
| Xinjiang Yakes | | | | | | | | | | | | |
| Huangshanxi mining and ore processing project | 1,531,259,700.00 | 753,513,158.89 | 38,875,669.70 | - | (64,732,553.46) | - | 727,656,275.13 | 93.98% | 151,622,460.62 | 12,781,385.37 | 8.43% | Self funding/ borrowing/ government grant |
| Huangshandong #17 mine construction project | 146,000,000.00 | - | 445,701.75 | - | (445,701.75) | - | - | 98.56% | - | - | - | Self funding |
| Other project | 800,000.00 | 626,759.43 | - | - | - | - | 626,759.43 | 78.34% | - | - | - | Self funding |
| Hami Jubao | | | | | | | | | | | | |
| Huangshandong #12 mine project | 177,312,100.00 | 28,001,313.30 | 4,040,664.97 | 80,976,061.60 | - | - | 113,018,039.87 | 54.27% | - | - | - | Self funding |
| Zhongxin Mining | | | | | | | | | | | | |
| Other projects | 17,000,000.00 | - | 7,035,527.78 | 498,648.08 | (6,633,883.07) | - | 900,292.79 | 88.39% | - | - | - | Self funding/ government grant |
| Shaanxi Xinxin | | | | | | | | | | | | |
| Other projects | 10,000,000.00 | 2,034,073.00 | - | - | (2,034,073.00) | - | - | 20.34% | - | - | - | Self funding |
| Beijing Xinding | | | | | | | | | | | | |
| Construction projects of the base for research and ware housing | 178,000,000.00 | 175,908,572.35 | 1,047,282.29 | - | - | - | 176,955,854.64 | 99.41% | 1,270,438.36 | - | - | Self funding |
| Sub-total of subsidiaries | 2,603,722,845.00 | 1,186,712,785.07 | 99,492,095.91 | 81,474,709.68 | (72,940,994.19) | (2,034,073.00) | 1,292,704,523.47 | | 156,547,885.89 | 12,781,385.37 | | |
| Total | 2,694,622,845.00 | 1,244,796,558.18 | 118,789,605.90 | 81,474,709.68 | (73,910,641.74) | (2,034,073.00) | 1,369,115,159.02 | | 156,547,885.89 | 12,781,385.37 | | |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(10) Construction in progress (Continued)

(b) Construction materials

| | 31 December 2018 | 31 December 2017 |
|------------------------|---------------------|---------------------|
| Construction materials | 17,549.34 | 643,582.37 |

(11) Intangible assets

| | Mining rights | Exploration rights | Land use rights | Others | Total |
|---------------------------------|-----------------------|--------------------|-----------------------|---------------------|-----------------------|
| Cost | | | | | |
| 31 December 2017 | 699,654,158.24 | 208,153,000.00 | 221,641,470.12 | 2,171,054.06 | 1,131,619,682.42 |
| Additions – Purchase | – | – | – | 5,000.00 | 5,000.00 |
| Other Reductions | – | (208,153,000.00) | – | – | (208,153,000.00) |
| 31 December 2018 | 699,654,158.24 | – | 221,641,470.12 | 2,176,054.06 | 923,471,682.42 |
| Accumulated amortisation | | | | | |
| 31 December 2017 | 144,851,880.13 | – | 40,519,717.63 | 1,549,339.26 | 186,920,937.02 |
| Additions – Accrument | 17,611,036.36 | – | 4,702,654.25 | 160,431.09 | 22,474,121.70 |
| 31 December 2018 | 162,462,916.49 | – | 45,222,371.88 | 1,709,770.35 | 209,395,058.72 |
| Net book value | | | | | |
| 31 December 2018 | 537,191,241.75 | – | 176,419,098.24 | 466,283.71 | 714,076,623.70 |
| 31 December 2017 | 554,802,278.11 | 208,153,000.00 | 181,121,752.49 | 621,714.80 | 944,698,745.40 |

In the accounting year 2018, amortisation expense of intangible assets amounted to RMB22,474,121.70 (In the accounting year 2017 is RMB19,461,229.32).

The exploration rights were acquired through the acquisition of Shaanxi Xinxin by the Group in 2011. As at 31 December 2018, the certificate of the exploration has expired. The group still applies for the extension of the validity period of the exploration rights, the application was in the process of approving.

As at 31 December 2018 and 31 December 2017, there was no impairment on intangible assets provided.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(12) Goodwill

| | 31 December 2018 | 31 December 2017 |
|--------------------------------|----------------------|---------------------|
| Good will– | | |
| Zhongxin Mining | 17,844,894.10 | 17,844,894.10 |
| Xinjiang Yakesi and Hami Jubao | 9,987,911.01 | 9,987,911.01 |
| Shaanxi Xinxin | 254,745.09 | 254,745.09 |
| | 28,087,550.20 | 28,087,550.20 |
| Provision– | | |
| Shaanxi Xinxin | (254,745.09) | – |
| | (254,745.09) | – |
| | 27,832,805.11 | 28,087,550.20 |

As at 31 December 2018 and 31 December 2017, the Group assessed impairment of goodwill (note 2(30)) according to the accounting policy of note 2(19). Based on the result of assessment, the Group did not make impairment provision on Shaanxi Xinxin's goodwill (note 4 (39)).

The recoverable amount of assets group is calculated using discounted cash flow models in accordance with the approved five year budget by management. The cash flow beyond five years is extrapolated using the estimated growth rate below.

The key assumptions of discounted cash flow models were as follows:

| | Zhongxin Mining | Xinjiang Yakesi and Hami Jubao |
|---------------|-----------------|-----------------------------------|
| Growth rate | 3% | 3% |
| Gross margin | 9% | 21% |
| Discount rate | 14% | 14% |

The weighted average growth rates applied by management are referred to those estimated in the industry reports, and do not exceed the long-term average growth rates of each product. Management determines budgeted gross margin based on past experience and forecast on future market development. The discount rates used by management are the pre-tax interests rates that are able to reflect the risks specific to the related asset groups and consolidation of asset groups. The above assumptions are used to assess the recoverable amount of each asset group and the consolidation of asset groups.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(13) Other non-current assets

| | 31 December 2018 | 31 December 2017 |
|-----------------------|-----------------------------|---------------------|
| Prepaid utilities (a) | 38,510,710.77 | 15,800,000.00 |

(a) The balance represented the prepayment for utilities of Xinjiang Yakesi, which will be offset the utilities to be incurred in the future.

(14) Provision for asset impairment

| | 31 December 2017 | Current year Additions (note 4(39),4(40)) | Current year reductions | | 31 December 2018 |
|---|---------------------|---|--------------------------------|--------------|----------------------|
| | | | Reversal (note 4(39),4(40)) | Sold | |
| Provision for bad debts | 11,679,241.39 | 123,048.42 | - | - | 11,802,289.81 |
| Including: Accounts receivable | 3,770,794.98 | 123,048.42 | - | - | 3,893,843.40 |
| Other receivables | 7,908,446.41 | - | - | - | 7,908,446.41 |
| Provision for decline in value of inventories | 7,806,388.63 | 1,178,114.93 | - | (707,040.86) | 8,277,462.70 |
| Provision for Goodwill impairment | - | 254,745.09 | - | - | 254,745.09 |
| | 19,485,630.02 | 1,555,908.44 | - | (707,040.86) | 20,334,497.60 |

(15) Notes payable & Accounts payable

| | 31 December 2018 | 31 December 2017 |
|---------------------|-----------------------------|---------------------|
| Notes payable (a) | 316,611,800.00 | 278,400,000.00 |
| Account payable (b) | 233,295,512.43 | 271,749,952.15 |
| | 549,907,312.43 | 550,149,952.15 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(15) Notes payable & Accounts payable (Continued)

(a) Notes payable

| | 31 December 2018 | 31 December 2017 |
|---------------------------|-----------------------|---------------------|
| Bank acceptance notes | 216,611,800.00 | 178,400,000.00 |
| Letter of credit payables | 100,000,000.00 | 100,000,000.00 |
| | 316,611,800.00 | 278,400,000.00 |

As at 31 December 2018 and 31 December 2017, all bank acceptance notes were due within 180 days, letter of credit payables were due within 360 days.

(b) Accounts payable

| | 31 December 2018 | 31 December 2017 |
|-----------------------------------|-----------------------|---------------------|
| Payable for purchase of materials | 197,911,710.21 | 198,824,430.73 |
| Payable for purchase of services | 22,832,188.15 | 57,239,965.56 |
| Payable for transportation fees | 10,889,881.68 | 13,774,291.04 |
| Others | 1,661,732.39 | 1,911,264.82 |
| | 233,295,512.43 | 271,749,952.15 |

(a) As at 31 December 2018, accounts payable over one year with carrying amount of RMB29,091,840.04 (31 December 2017: RMB33,361,669.39) were mainly payables for purchase of materials.

(b) The ageing of accounts payable based on their recording dates was analysed as follows:

| | 31 December 2018 | 31 December 2017 |
|-----------------|-----------------------|---------------------|
| Within 3 months | 154,338,797.59 | 186,303,440.26 |
| 3 to 6 months | 34,007,896.94 | 33,854,955.28 |
| Over 6 months | 44,948,817.90 | 51,591,556.61 |
| | 233,295,512.43 | 271,749,952.15 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(16) Contract Liabilities

| | 31 December 2018 | 31 December 2017 |
|-----------------------------|----------------------|---------------------|
| Advances for sales of goods | 22,054,471.54 | – |

(a) On 1 January 2018, The balance of the Group's contract liabilities was RMB26,494,587.46, of which RMB25,759,975.01 has been recognized as revenue in 2018.

(17) Employee benefits payable

| | 31 December 2018 | 31 December 2017 |
|--|----------------------|---------------------|
| Short-term employee benefits payable (a) | 61,908,957.23 | 62,405,881.61 |
| Defined contribution plans payable (b) | 18,615.19 | 2,038,482.87 |
| | 61,927,572.42 | 64,444,364.48 |

(a) Short-term employee benefit payable

| | 31 December 2017 | Current period additions | Current period payments | 31 December 2018 |
|---|---------------------|-----------------------------|----------------------------|----------------------|
| Salaries, bonuses, allowances and subsidies | 47,254,149.02 | 183,859,731.96 | (182,065,760.87) | 49,048,120.11 |
| Staff welfare | – | 7,612,208.92 | (7,612,208.92) | – |
| Social insurances | 1,537,882.23 | 14,080,203.70 | (15,612,318.16) | 5,767.77 |
| Including: Medical insurance | 1,044,805.60 | 10,826,445.11 | (11,868,483.24) | 2,767.47 |
| Work injury insurance | 418,393.89 | 2,530,856.11 | (2,949,239.84) | 10.16 |
| Maternity insurance | 69,357.24 | 687,423.17 | (756,739.77) | 40.64 |
| Illness insurance | 5,325.50 | 35,479.31 | (37,855.31) | 2,949.50 |
| Housing funds | 2,031,109.51 | 14,975,703.73 | (16,515,099.24) | 491,714.00 |
| Labor union fund and employee education fund | 11,576,803.35 | 5,139,349.11 | (4,355,067.11) | 12,361,085.35 |
| Other short-time salary | 5,937.50 | 134,277.00 | (139,194.50) | 1,020.00 |
| Dismiss benefits | – | 17,610.00 | (16,360.00) | 1,250.00 |
| | 62,405,881.61 | 225,819,084.42 | (226,316,008.80) | 61,908,957.23 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(17) Employee benefits payable (Continued)

(b) Defined contribution plans payable

| | 31 December 2017 | Current period additions | Current period payments | 31 December 2018 |
|------------------------|---------------------|-----------------------------|----------------------------|---------------------|
| Pension insurance | 1,997,218.26 | 25,638,755.42 | (27,623,954.77) | 12,018.91 |
| Unemployment insurance | 41,264.61 | 710,713.65 | (745,381.98) | 6,596.28 |
| | 2,038,482.87 | 26,349,469.07 | (28,369,336.75) | 18,615.19 |

(18) Taxes payable

| | 31 December 2018 | 31 December 2017 |
|--------------------------------|---------------------|---------------------|
| Value added tax payable | 5,511,208.97 | 12,655,700.22 |
| Resource tax | 2,425,271.35 | 3,311,800.66 |
| Individual income tax | 347,625.10 | 211,947.29 |
| Stamp duty | 304,235.09 | 735,614.60 |
| Urban construction tax payable | 258,226.99 | 277,231.50 |
| Educational surcharge payable | 168,275.20 | 340,527.95 |
| Environmental tariff | 134,214.84 | – |
| Income tax payable | 7,185.27 | – |
| Resource compensation fee | – | 1,522,342.74 |
| Others | 118,278.47 | 294,898.08 |
| | 9,274,521.28 | 19,350,063.04 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(19) Other payables

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------|---------------------|
| Payables due to third parties for construction projects | 95,935,468.95 | 103,214,130.22 |
| Payables due to related parties (note 8(6)(e)) | 39,618,015.75 | 58,759,869.82 |
| Payables for purchase of equipments | 24,901,517.14 | 24,442,920.47 |
| Deposit for quality guarantee | 7,987,531.93 | 5,048,374.05 |
| Interest of borrowings | 4,035,838.34 | 8,291,991.51 |
| Payable for professional service | 2,650,734.15 | 3,407,119.33 |
| Payable for sewage charges | – | 3,644,703.00 |
| Others | 23,311,728.98 | 15,663,467.25 |
| | 198,440,835.24 | 222,472,575.65 |

- (a) As at 31 December 2018, other payables over 1 year with carrying amount of RMB56,509,861.29 (31 December 2017: RMB71,247,587.48) were mainly payable for construction projects, equipment and deposit for quality guarantee. Due to the related projects have not been finished yet, these payable balance were not settled.

(20) Current portion of non-current liabilities

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------|---------------------|
| Current portion of other non-current liabilities (note 4(27)) | 502,709,380.00 | – |
| Current portion of long-term borrowings (note 4(22) (a)) | 77,500,000.00 | 40,000,000.00 |
| Current portion of bond payable | – | 800,000,000.00 |
| | 580,209,380.00 | 840,000,000.00 |

(21) Provision

| | 31 December 2017 | Current year additions (Note 4(46)) | Current year reductions | 31 December 2018 |
|--------------------|---------------------|---|----------------------------|-----------------------|
| Pending litigation | – | 161,558,910.11 | – | 161,558,910.11 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(21) Provision (Continued)

During the period from year 2014 to 2016, Shaanxi Mingtai Engineering Construction Co., Ltd. ("Shaanxi Mingtai"), a minority shareholder of Shaanxi Xinxin which is a subsidiary of the Group, obtained four bank loans aggregately amounting to RMB330 million and issued SME bonds amounting to RMB400 million, which were guaranteed by Xi An Investment Holding Co., Ltd. ("Xi An Investment"). Shaanxi Xinxin provided an unauthorised counter-guarantee in respect of the loans and bonds to Xi An Investment under an asset disposal entrustment agreement. In 2018, as Shaanxi Mingtai was unable to repay the four loans, bonds and related interest when they fell due, Xi An Investment repaid the loans, bonds and related interest on behalf of Shaanxi Mingtai. Shaanxi Xinxin and the other respective counter-guarantors under the four loans are jointly and severally liable to Xi An Investment's claim in respect of the RMB330 million bank loan according to the court judgments. Xi An Investment's claim in respect of the repayment of the RMB400 million SME bonds is still in progress. No judgment in respect of the claim has been handed down by the court. As of 31 December 2018, the Group provided a provision of RMB161 million based on the reliable estimate made of the amount of the obligation and all the non-current assets of Shaanxi Xinxin were reclassified to the other current assets.

(22) Borrowings

(a) Long-term borrowings

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------|---------------------|
| Unsecured loans | 732,500,000.00 | 75,000,000.00 |
| Less: current portion of long-term borrowings (note 4(26)) | (77,500,000.00) | (40,000,000.00) |
| | 655,000,000.00 | 35,000,000.00 |

As at 31 December 2018, the long-term borrowings were due for repayment since June 2020. The interests are paid on a quarterly basis. As at 31 December 2018, the interest rates of long-term borrowings were between 4.99% and 5.32% annually (31 December 2017: between 5.15% and 6.50%).

(b) Short-term borrowings

| | 31 December 2018 | 31 December 2017 |
|-----------------|---------------------|---------------------|
| Unsecured loans | 1,240,000,000.00 | 770,000,000.00 |

On 31 December 2018, the interest rate of short-term borrowing is between 4.35% and 4.79% (31 December 2017 is between 4.13% to 4.35%)

(23) Long-term due payment

| | 31 December 2017 | Current year additions | Current year reductions | 31 December 2018 |
|---|---------------------|---------------------------|----------------------------|----------------------|
| Water/power/air supply and property management | 13,193,941.11 | - | - | 13,193,941.11 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(24) Provisions

| | 31 December 2017 | Current year additions (note 4(38)) | 31 December 2018 |
|---|---------------------|---|---------------------|
| Provision for close down, restoration and environmental costs | 8,652,761.68 | 423,985.33 | 9,076,747.01 |

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam of Kalatongke Mining, Xinjiang Yakesi and Hami Jubao which has been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

(25) Deferred income

| | 31 December 2017 | Current year increase | Current year decrease | 31 December 2018 | Causes | |
|---|------------------|------------------------|---|------------------------------------|-----------------------------------|------------------------------|
| Government grants | 33,078,429.71 | 345,000.00 | (2,551,843.41) | 30,871,586.30 | Encourage enterprises development | |
| Government grants items | 31 December 2017 | Current year additions | Credited into other income (note 4(44)) | Credited into non-operating income | 31 December 2018 | Asset related/Income related |
| The Company: | | | | | | |
| - Water resource utilisation project | 657,335.13 | - | (55,999.87) | - | 601,335.26 | Asset related |
| - Project on concentration of reducing sodium | 7,114.87 | - | (5,332.13) | - | 1,782.74 | Asset related |
| - Special funds for energy conservation | 1,000,000.00 | - | - | - | 1,000,000.00 | Asset related |
| Sub-total of the Company | 1,664,450.00 | - | (61,332.00) | - | 1,603,118.00 | |
| Subsidiaries: | | | | | | |
| - Project on energy saving | 3,911,111.10 | - | (738,333.36) | - | 3,172,777.74 | Asset related |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Deferred income (Continued)

| Government grants items | 31 December 2017 | Current year additions | Credited into other income (note 4(44)) | Credited into non-operating income | 31 December 2018 | Asset related/Income related |
|---|------------------|------------------------|---|------------------------------------|------------------|------------------------------|
| - Project on use of well water | 1,620,000.00 | - | (270,000.00) | - | 1,350,000.00 | Asset related |
| - Project on exploration of No. 2 mine in Kalatongke Mining | 6,829,333.66 | - | (262,666.56) | - | 6,566,667.10 | Asset related |
| - Project on technology improvement of nickel smelting | 1,195,833.46 | - | (174,999.96) | - | 1,020,833.50 | Asset related |
| - General improvement project | 960,000.12 | - | (159,999.96) | - | 800,000.16 | Asset related |
| - Subsidies for clean energy | 1,188,000.00 | - | (144,000.00) | - | 1,044,000.00 | Asset related |
| - Project on technology improvement of Yellow Mountain West | 1,131,111.28 | - | (53,333.28) | - | 1,077,778.00 | Asset related |
| - Online monitoring of pollution sources | 240,000.12 | - | (39,999.96) | - | 200,000.16 | Asset related |
| - Land use right | 8,286,224.20 | - | - | (209,777.88) | 8,076,446.32 | Asset related |
| - Gas device for composite desulfurization | 2,500,000.00 | - | - | - | 2,500,000.00 | Asset related |
| - Department of finance seedling special funds | 800,000.00 | - | (80,000.00) | - | 720,000.00 | Asset related |
| - Final stages of mining extension | 1,100,000.00 | - | - | - | 1,100,000.00 | Asset related |
| - Others | 1,652,365.77 | - | (71,484.00) | - | 1,580,881.77 | Asset related/Income related |
| Safety production | - | 345,000.00 | (285,916.45) | - | 59,083.55 | Asset related |
| Sub-total of Subsidiaries | 31,413,979.71 | 345,000.00 | (2,280,733.53) | (209,777.88) | 29,268,468.30 | |
| Total | 33,078,429.71 | 345,000.00 | (2,342,065.53) | (209,777.88) | 30,871,586.30 | |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(25) Deferred income (continued)

The government grants recognised in profit or loss or deducted against related expenses in the current year are set out as follows:

| Government grants | Nature | Amount | Presentation items |
|---|--------------------|-----------------------|----------------------|
| - Project on energy saving | recognised in loss | (738,333.36) | Other income |
| - Safety production | recognised in loss | (285,916.45) | Other income |
| - Project on use of well water | recognised in loss | (270,000.00) | Other income |
| - Project on exploration of No. 2 mine in Kalatongke Mining | recognised in loss | (262,666.56) | Other income |
| - Land use right | recognised in loss | (209,777.88) | Non-operating income |
| - Project on technology improvement of nickel smelting | recognised in loss | (174,999.96) | Other income |
| - General improvement project | recognised in loss | (159,999.96) | Other income |
| - Subsidies for clean energy | recognised in loss | (144,000.00) | Other income |
| - Department of finance seedling special funds | recognised in loss | (80,000.00) | Other income |
| - Water resource utilisation project | recognised in loss | (55,999.87) | Other income |
| - Project on technology improvement Huang mountain West | recognised in loss | (53,333.28) | Other income |
| - Online monitoring of pollution sources | recognised in loss | (39,999.96) | Other income |
| - Project on concentration of reducing sodium | recognised in loss | (5,332.13) | Other income |
| - Others | recognised in loss | (71,484.00) | Other income |
| | | <u>(2,551,843.41)</u> | |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

| | 31 December 2018 | | 31 December 2017 | |
|---|--|-----------------------|--|---------------------|
| | Deductible temporary differences and deductible losses | Deferred tax assets | Deductible temporary differences and deductible losses | Deferred tax assets |
| Unrealised profits | 61,528,567.05 | 10,394,727.13 | 30,451,553.29 | 5,304,615.85 |
| Deductible losses | 591,427,272.89 | 96,945,780.29 | 748,835,335.89 | 122,831,406.85 |
| Government grants | 30,835,150.51 | 5,537,317.21 | 33,022,983.88 | 5,900,870.00 |
| Assets impairment | 100,079,752.51 | 15,104,992.36 | 19,485,630.02 | 2,968,766.58 |
| Changes in fair value gains and losses | – | – | 2,037,285.36 | 305,592.80 |
| Depreciation of fixed assets | 4,510,113.18 | 947,161.85 | 2,483,970.58 | 620,992.65 |
| | 788,381,856.14 | 128,929,978.84 | 836,316,759.02 | 137,932,244.73 |
| Including | | | | |
| Deferred tax asset to be recovered within 1 year (including 1 year) | | 39,001,993.47 | | 31,275,114.65 |
| Deferred tax asset to be recovered after 1 year | | 89,927,985.37 | | 106,657,130.08 |
| | | 128,929,978.84 | | 137,932,244.73 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Deferred tax assets and deferred tax liabilities (continued)

(b) Deferred tax liabilities before offsetting

| | 31 December 2018 | | 31 December 2017 | |
|--|-------------------------------|--------------------------|-------------------------------|--------------------------|
| | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities |
| Business combination involving entities not under common control (i) | 610,353,815.52 | 139,291,435.32 | 579,523,081.53 | 140,425,474.03 |
| Unrealised losses | – | – | 66,438,331.86 | 9,965,749.78 |
| Depreciation | 22,190,856.45 | 3,328,628.47 | 21,391,466.94 | 3,208,720.04 |
| | 632,544,671.97 | 142,620,063.79 | 667,352,880.33 | 153,599,943.85 |
| Including | | | | |
| Deferred tax asset to be recovered within 1 year (including 1 year) | | 53,250,917.19 | | 11,099,788.50 |
| Deferred tax asset to be recovered after 1 year | | 89,369,146.60 | | 142,500,155.35 |
| | | 142,620,063.79 | | 153,599,943.85 |

(i) Deferred tax liabilities mainly represented the difference between the fair value and tax base of the mining rights, exploration rights, fixed assets and land use rights arising from the business combination involving entities not under common control.

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets were analysed as follows:

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|-----------------------|------------------|
| Deductible losses | 119,865,264.57 | 119,436,396.18 |
| Deductible temporary differences | – | 4,673,437.44 |
| | 119,865,264.57 | 124,109,833.62 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(26) Deferred tax assets and deferred tax liabilities (continued)

(d) Deductible temporary differences that are not recognised as deferred tax assets will fall due in the following years:

| | 31 December 2018 | 31 December 2017 |
|------|-----------------------|---------------------|
| 2018 | – | 2,096,732.11 |
| 2019 | 27,930,955.34 | 27,930,955.34 |
| 2020 | 25,451,347.97 | 25,451,347.97 |
| 2021 | 44,154,202.47 | 44,154,202.47 |
| 2022 | 19,803,158.29 | 19,803,158.29 |
| 2023 | 2,525,600.50 | – |
| | 119,865,264.57 | 119,436,396.18 |

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

| | 31 December 2018 | | 31 December 2017 | |
|--------------------------|------------------|------------------------------|------------------|------------------------------|
| | Setoff amount | Balances after offsetting | Setoff amount | Balances after offsetting |
| Deferred tax assets | 270,549.67 | 128,659,429.17 | 5,304,615.85 | 132,627,628.88 |
| Deferred tax liabilities | 270,549.67 | 142,349,514.12 | 5,304,615.85 | 148,295,328.00 |

(27) Other non-current liabilities

| | 31 December 2018 | 31 December 2017 |
|--|-------------------------|---------------------|
| Gold lease and related future contracts | 502,709,380.00 | 502,709,380.00 |
| Loss: other current liabilities maturity within 1 year | (502,709,380.00) | – |
| | – | 502,709,380.00 |

In 2016, the Company, Kalatongke Mining and Xinjiang Yakesi signed gold lease contracts with banks to obtain long-term financing. On 31 December 2018, the gold lease contracts will expire in March 2019.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(28) Share capital

| | 31 December 2018 | | 31 December 2017 | |
|-----------------|-------------------------|---------------------|------------------|---------------------|
| | Number of shares | % of issued capital | Number of shares | % of issued capital |
| Domestic shares | 1,451,000,000.00 | 65.66% | 1,451,000,000 | 65.66% |
| H share holders | 759,000,000.00 | 34.34% | 759,000,000 | 34.34% |
| | 2,210,000,000.00 | 100.00% | 2,210,000,000 | 100.00% |

The par value of each share is 0.25, and the total share capital is 552,500,000.00 (note 1).

There was no movement of share capital of the Company in the ended 31 December 2018.

(29) Capital surplus

| | 31 December 2017 | Current year additions | Current year deductions | 31 December 2018 |
|--|-------------------------|---------------------------|----------------------------|-------------------------|
| Contribution from Parent Company related to mining right (Note (1)) | 35,393,957.53 | – | – | 35,393,957.53 |
| Share Premium (Note (2)) | 4,219,360,899.96 | – | – | 4,219,360,899.96 |
| Other capital surplus – Others (Note (3)) | 3,815,140.27 | – | – | 3,815,140.27 |
| | 4,258,569,997.76 | – | – | 4,258,569,997.76 |

| | 31 December 2016 | Current year additions | Current year deductions | 31 December 2017 |
|--|---------------------|---------------------------|----------------------------|---------------------|
| Contribution from Parent Company related to mining right (Note (1)) | 35,393,957.53 | – | – | 35,393,957.53 |
| Share Premium (Note (2)) | 4,219,360,899.96 | – | – | 4,219,360,899.96 |
| Other capital surplus – Others (Note (3)) | 8,836,858.95 | – | (5,021,718.68) | 3,815,140.27 |
| | 4,263,591,716.44 | – | (5,021,718.68) | 4,258,569,997.76 |

Note (1) It represented the difference between the fair value of mining rights acquired from Xinjiang Non-ferrous Group and the discounted net present value of long-term payable for the mining rights acquired, which is formed prior to be listed on the Hong Kong Stock Exchange in 2007.

Note (2) Share premium represented the difference between nominal value of share issued and the fair value of net assets/considerations received by the Company.

Note (3) Xinjiang Non-ferrous Group provided long-term interest-free borrowings to the Company. At the date of initial recognition, the difference between loan principal and the fair value of loan was recorded as capital surplus. As at 31 December 2017, this loan was repaid.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(30) Specific reserve

| | 31 December 2017 | Current year additions | Current year reductions | 31 December 2018 |
|--------------------|---------------------|---------------------------|----------------------------|---------------------|
| Safety fund (Note) | 232,071.41 | 37,434,701.86 | (37,666,773.27) | – |
| | 31 December 2016 | Current year additions | Current year deductions | 31 December 2017 |
| Safety fund (Note) | 1,543,421.85 | 36,597,725.52 | (37,909,075.96) | 232,071.41 |

Note: Pursuant to regulation No. [2012]16 issued by the State Administration of Work Safety, Kalatongke Mining, Xinjiang Yakesi and Hami Jubao are required to set aside an amount to a safety fund at RMB10 (2017: RMB10) per ton of raw ore mined; Kalatongke Mining and Xinjiang Yakesi tailings pond measured as the amount of tailings that put in storage, third level and over than third level tailings are RMB1 per ton, fourth level and fifth level are RMB1.5 per ton; at 4% of consumed amount or revenue of vitriol of last year for Zhongxin Mining, Kalatongke Mining and FuKang Refinery; Zhongxin Mining, Fukang Refinery and Kalatongke Mining are required to apply the excess regressive method for the accrual of safety fund based on the refining revenue of last year. The accrual of safety fund is charged to production cost and credited to specific reserve. The safety expenditures that are expenses in nature are directly debited to specific reserve. Specific reserve expenditures of RMB37,666,773.27 were used for safety related projects for the year ended 31 December 2018 (the year ended 31 December 2017 is 37,909,075.96).

(31) Surplus reserve

| | 31 December 2017 | Current year additions | Current year reductions | 31 December 2018 |
|--------------------------------|---------------------|---------------------------|----------------------------|---------------------|
| Statutory reserve | 249,625,789.74 | – | – | 249,625,789.74 |
| | 31 December 2016 | Current year additions | Current year deductions | 31 December 2017 |
| Statutory surplus reserve fund | 249,625,789.74 | – | – | 249,625,789.74 |

Pursuant to the PRC Company Law and the Company's Articles of Association, every year the Company is required to appropriate 10% of the profit after taxation to the statutory reserve until the balance reaches 50% of the share capital. Subject to the approval, such reserve can be used to offset against net losses or to increase share capital. The Company did not appropriate surplus reserve 31 December 2018 due to the Company lossing profit year (31 December 2017: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(32) Accumulated losses

| | 2018 | 2017 |
|---|-------------------------|------------------|
| Accumulated losses at the beginning of the year | (772,972,140.31) | (691,384,794.32) |
| Add: Net profit/(loss) attributable to the shareholders of the Company for the year | 54,193,445.80 | (64,642,037.39) |
| Less: Appropriation for statutory reserve | - | - |
| Accumulated losses at the end of the year | (827,165,586.11) | (772,972,140.31) |

Pursuant to the resolution of board meeting on 22 March 2019, the Company proposed no payment of final dividend for year ended 31 December 2018.

(33) Revenue and cost of sales

| | 2018 | 2017 |
|------------------------------|-------------------------|------------------|
| Revenue from main operation | 1,735,612,032.22 | 1,364,644,493.22 |
| Revenue from other operation | 14,366,226.38 | 20,997,438.83 |
| | 1,749,978,258.60 | 1,385,641,932.05 |

| | 2018 | 2017 |
|------------------------------------|-------------------------|------------------|
| Cost of sales from main operation | 1,434,071,490.32 | 1,180,855,547.26 |
| Cost of sales from other operation | 5,467,329.93 | 7,127,721.82 |
| | 1,439,538,820.25 | 1,187,983,269.08 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(33) Revenue and cost of sales (Continued)

(a) Revenue and cost of sales from main operation

The Group is principally engaged in sales of nickel, copper and other non-ferrous metal products, all sales are conducted in the PRC.

| | 2018 | | 2017 | |
|----------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
| | Revenue from main operation | Cost of sales of main operation | Revenue from main operation | Cost of sales of main operation |
| Nickel cathode | 1,179,393,621.45 | 957,102,564.00 | 768,722,054.10 | 753,712,802.96 |
| Copper cathode | 412,487,926.15 | 384,035,721.75 | 305,697,628.85 | 231,108,282.25 |
| Others | 143,730,484.62 | 92,933,204.57 | 290,224,810.27 | 196,034,462.05 |
| | 1,735,612,032.22 | 1,434,071,490.32 | 1,364,644,493.22 | 1,180,855,547.26 |

(b) Revenue and cost of sales from other operation

| | 2018 | | 2017 | |
|----------------------|------------------------------|------------------------------------|------------------------------|------------------------------------|
| | Revenue from other operation | Cost of sales from other operation | Revenue from other operation | Cost of sales from other operation |
| Sales of electricity | 3,729,814.88 | 3,534,605.24 | 3,827,839.09 | 3,736,559.88 |
| Scrap sales | 5,149,134.61 | – | 8,904,019.71 | 306,937.01 |
| Sales of materials | 1,117,483.52 | 554,166.09 | 338,956.88 | 329,565.04 |
| Orefield heating | 1,056,392.60 | 1,056,392.60 | 3,008,046.77 | 2,387,457.52 |
| Others | 3,313,400.77 | 322,166.00 | 4,918,576.38 | 367,202.37 |
| | 14,366,226.38 | 5,467,329.93 | 20,997,438.83 | 7,127,721.82 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(34) Expenses by nature

Cost of sales, selling and distribution expenses, general and administrative expenses in Income Statements by nature were shown as below:

| | 2018 | 2017 |
|--|-------------------------|------------------|
| Raw materials and consumables used | 473,645,996.09 | 412,384,116.12 |
| Other production fees | 78,057,020.99 | 72,265,289.75 |
| Employee benefits | 252,168,553.49 | 246,302,557.95 |
| Depreciation (<i>note 4(9)</i>) | 201,537,452.18 | 198,164,914.74 |
| Reversal of inventory provision due to sales (<i>note 4(6)(b)</i>) | (707,040.86) | (33,257,474.01) |
| Electricity costs | 130,286,414.77 | 105,463,610.93 |
| External labor costs | 195,855,675.37 | 202,881,063.14 |
| Safety fund (<i>note 4(30)</i>) | 37,434,701.86 | 36,597,725.52 |
| Transportation fee | 28,123,418.16 | 22,863,355.58 |
| Amortisation of intangible assets | 22,383,430.38 | 17,999,503.35 |
| Taxation | 18,140,301.43 | 11,277,199.06 |
| Office expenses | 6,025,225.18 | 3,716,928.15 |
| Comprehensive support service charge (<i>note 4(37)</i>) | 3,226,415.04 | 3,226,415.04 |
| Operating leases expenses | 2,984,552.26 | 3,087,715.42 |
| Sewage charge (<i>note 4(37)</i>) | – | 4,859,762.00 |
| Audit fees (<i>note 4(37)</i>) | 2,120,000.00 | 2,020,000.00 |
| – Audit service | 2,120,000.00 | 2,020,000.00 |
| – Non-audit service | – | – |
| Changes in inventories of work in progress, semi-finished goods and finished goods (<i>note 4(6)(a)</i>) | 103,392,303.27 | (9,743,043.86) |
| Others | 19,079,332.13 | 18,450,690.53 |
| | 1,573,753,751.73 | 1,318,560,329.41 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(35) Taxes and surcharges

| | 2018 | 2017 | Tax base |
|------------------------|----------------------|---------------|----------|
| Resource tax | 10,815,648.38 | 6,178,890.01 | Note 3 |
| Property tax | 8,742,592.93 | 9,317,609.99 | Note 3 |
| Education surcharge | 7,293,179.49 | 4,599,796.45 | Note 3 |
| Urban construction tax | 6,219,426.09 | 3,967,653.46 | Note 3 |
| Land use tax | 3,674,405.80 | 3,748,767.58 | |
| Stamp tax | 1,891,042.67 | 1,888,410.20 | |
| Vehicle and Vessel tax | 79,036.14 | 93,240.30 | |
| Others | - | 66.34 | |
| | 38,715,331.50 | 29,794,434.33 | |

(36) Selling and administration expenses

| | 2018 | 2017 |
|-----------------------------------|----------------------|---------------|
| Transportation fee | 28,123,418.15 | 22,863,355.58 |
| Employee benefits | 2,471,725.12 | 2,073,552.52 |
| Travel and administrative expense | 166,806.07 | 164,342.90 |
| Depreciation | 137,945.43 | 147,608.57 |
| Others | 1,061,923.40 | 874,683.69 |
| | 31,961,818.17 | 26,123,543.26 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(37) General and administrative expenses

| | 2018 | 2017 |
|--------------------------------------|-----------------------|----------------|
| Employee benefits | 54,457,430.19 | 54,596,832.04 |
| Depreciation and amortisation | 15,588,887.99 | 12,894,615.67 |
| Office expense | 5,858,419.11 | 3,569,319.58 |
| Comprehensive support service charge | 3,226,415.04 | 3,226,415.04 |
| Operating leases expenses | 2,984,552.26 | 3,087,715.42 |
| Professional services fee | 2,673,331.61 | 4,103,177.71 |
| Audit fees | 2,120,000.00 | 2,020,000.00 |
| Sewage charge | – | 4,859,762.00 |
| Others | 15,344,077.11 | 16,095,679.61 |
| | 102,253,113.31 | 104,453,517.07 |

(38) Financial expenses – net

| | 2018 | 2017 |
|--|------------------------|-----------------|
| Interest expense | 145,447,065.45 | 134,649,045.40 |
| Less: Capitalised interest expenses (<i>note 4(10)(a)</i>) | (12,781,385.37) | (18,285,482.34) |
| Interest expenses | 132,665,680.08 | 116,363,563.06 |
| Less: Interest income | (4,444,114.49) | (1,415,888.77) |
| Bank charges | 4,848,348.97 | 5,312,915.11 |
| Unwinding of discount – net (<i>note 4(24)</i>) | 423,985.33 | 404,179.47 |
| | 133,493,899.89 | 120,664,768.87 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(39) Assets impairment losses (note 4(14))

| | 2018 | 2017 |
|---|-----------------------|----------------|
| Provision for decline in value of inventories | (1,178,114.93) | (7,468,203.21) |
| Reversal for decline in value of inventories | – | 2,836,734.97 |
| Provision for bad debts for accounts receivable and other receivables | – | (4,991,599.91) |
| Loss in declining of good will | (254,745.09) | – |
| | (1,432,860.02) | (9,623,068.15) |

(40) Credit impairment losses (note 4(14))

| | 2018 | 2017 |
|---|---------------------|------|
| Losses of bad debts for note receivable and accounts receivable | (123,048.42) | – |

(41) Loss from fair value changes

| | 2018 | 2017 |
|---|---------------------|----------------|
| Loss from fair value changes of gold lease and related future contracts (note 4(17)(a)) | (895,135.66) | (2,896,153.79) |

(42) Investment income

| | 2018 | 2017 |
|--|-----------------------|----------------|
| Net gain/loss from a joint-venture under equity method (note 4(8)a) | 5,157,346.20 | (2,657,835.14) |
| Unrealised net (profit)/loss between the joint-venture and the Group | (4,591,855.25) | (3,640,623.81) |
| Investment income from disposal of available-for-sale financial assets | 18,703,164.13 | 14,301,032.64 |
| | 19,268,655.08 | 8,002,573.69 |

The Group do not have significant restrict of investment income repatriation

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(43) Assets disposed income

| | 2018 | 2017 | Amount recognised in non-recurring profit or loss in 2018 |
|------------------------|-----------------|-----------|--|
| Assets disposed income | 9,786.41 | 90,028.95 | 9,786.41 |

(44) Other income

| | 2018 | 2017 | Asset related/ Income related |
|--|---------------------|--------------|----------------------------------|
| Energy conservation and emission reduction subsidy | 1,757,998.44 | 1,757,998.44 | Asset related |
| Special funds for technological transformation | 146,666.64 | 146,666.64 | Asset related |
| Others | 151,484.00 | 28,446.76 | Asset related |
| Subtotal | 2,056,149.08 | 1,933,111.84 | |
| Safety fund | 2,485,916.45 | – | Income related |
| Enterprise social security subsidy | 450,501.80 | 151,946.86 | Income related |
| Patent achievement | 30,102.38 | 50,000.00 | Income related |
| 2018 Special Fund for Safe production prevention and emergency | – | 900,000.00 | Income related |
| Platinum tax refund | – | 142,428.27 | Income related |
| Others | – | 2,076,636.12 | Income related |
| Sub-total | 2,966,520.63 | 3,321,011.25 | |
| Total | 5,022,669.71 | 5,254,123.09 | |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(45) Non-operating income

| | 2018 | 2017 | Amount recognised in non-recurring profit or loss in 2018 |
|-----------------------|---------------------|--------------|--|
| Government grants (a) | 209,777.88 | 209,777.88 | 209,777.88 |
| Others | 1,319,200.49 | 1,065,798.58 | 1,319,200.49 |
| | 1,528,978.37 | 1,275,576.46 | 1,528,978.37 |

(a) Details of government grants

| | 2018 | 2017 | Asset related/ Income related |
|-------------------|-------------------|------------|----------------------------------|
| Land compensation | 209,777.88 | 209,777.88 | Asset related |
| Total | 209,777.88 | 209,777.88 | |

(46) Non-operating expenses

| | 2018 | 2017 | Amount recognised in non-recurring profit or loss in 2018 |
|---------------------------------|-----------------------|--------------|--|
| Provision (note 4(21)) | 161,558,910.11 | – | 161,558,910.11 |
| Donations | 406,642.92 | 100,000.00 | 406,642.92 |
| Penalties and fines | 306,594.95 | 1,831,760.17 | 306,594.95 |
| Losses on scrap of fixed assets | 101,259.30 | 2,047,476.51 | 101,259.30 |
| Others | 558,950.20 | 1,428,407.48 | 558,950.20 |
| | 162,932,357.48 | 5,407,644.16 | 162,932,357.48 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(47) Income tax expenses

| | 2018 | 2017 |
|---------------------|-----------------------|----------------|
| Current income tax | 572,505.94 | 39,507.06 |
| Deferred income tax | (1,977,614.17) | (3,861,464.98) |
| | (1,405,108.23) | (3,821,957.92) |

The reconciliation from income tax calculated based on the applicable tax rates and total loss presented in the consolidated financial statements to the income tax expenses was listed below:

| | 2018 | 2017 |
|---|-------------------------|-----------------|
| Consolidated total loss | (135,538,036.53) | (86,682,164.47) |
| Income tax expenses calculated at applicable tax rate of 25% | (33,884,509.13) | (21,670,541.12) |
| Effect of tax reductions | (4,795,163.99) | 2,218,711.61 |
| Income not subject to tax | (872,846.85) | (60,467.95) |
| Costs, expenses and losses not to be deducted | 29,346,620.68 | 3,346,330.15 |
| Deductible temporary differences and deductible losses for which no deferred tax assets were recognised | 8,264,087.74 | 12,342,026.37 |
| Clearance differences in respect of prior years | 536,703.32 | 1,983.02 |
| | (1,405,108.23) | (3,821,957.92) |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(48) Loss per share

(a) loss per share

Basic loss per share is calculated by dividing consolidated net loss for the current year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue of the Company:

| | 2018 | 2017 |
|--|-------------------------|------------------|
| Consolidated net loss attributable to shareholders of the Company | (54,193,445.80) | (81,587,345.99) |
| Weighted average number of ordinary shares in issue of the Company | 2,210,000,000.00 | 2,210,000,000.00 |
| Basic loss per share | (0.025) | (0.037) |
| Including | | |
| – Basic loss per share under going concern | (0.025) | (0,037) |
| – Basic loss per share under discontinued operation | – | – |

(b) Diluted loss per share

Diluted loss per share is calculated by dividing net loss attributable to shareholders of the Company adjusted based on the dilutive potential ordinary shares by the adjusted weighted average number of ordinary shares in issue of the Company. As there were no dilutive potential ordinary shares in 2018 (in 2017: Nil), diluted loss per share equal to basic loss per share.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(49) Notes to consolidated cash flow statements

(a) Cash received relating to other operating activities

| | 2018 | 2017 |
|----------------------------|---------------------|--------------|
| Interest income | 4,444,114.49 | 1,415,888.77 |
| Government grants received | 2,995,501.80 | 1,402,375.11 |
| Others | 602,045.74 | 1,065,798.60 |
| | 8,041,662.03 | 3,884,062.48 |

(b) Cash paid relating to other operating activities

| | 2018 | 2017 |
|-------------------------------------|----------------------|---------------|
| Transportation expenses | 28,123,418.15 | 27,565,893.46 |
| Increase of restricted cash at bank | 10,436,409.63 | 17,766,498.02 |
| Office expenses | 5,858,419.11 | 3,569,319.58 |
| Professional service fee | 5,084,488.02 | 4,210,189.51 |
| Bank charges | 4,848,348.97 | 5,312,915.11 |
| Comprehensive supporting services | 3,226,415.04 | 3,226,415.04 |
| Leasing fees | 2,985,552.26 | 3,087,715.42 |
| Donations | 406,642.92 | 100,000.00 |
| Sewage charge | - | 2,359,776.00 |
| Others | 7,883,229.38 | 2,990,314.01 |
| | 68,852,923.48 | 70,189,036.15 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(49) Notes to consolidated cash flow statements (Continued)

(c) Cash received relating to other investing activities

| | 2018 | 2017 |
|--|-----------------------|----------------|
| Cash repayments of loans from Hexin Mining | 215,547,000.00 | 117,373,000.00 |
| Government grant of asset related | – | 14,843,745.16 |
| Other | – | 1,927,154.84 |
| | 215,547,000.00 | 134,143,900.00 |

(d) Cash paid relating to other investing activities

| | 2018 | 2017 |
|--------------------------------|-----------------------|----------------|
| Loans provided to Hexin Mining | 193,000,000.00 | 139,500,000.00 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) Notes to the consolidated cash flow statement

(a) Reconciliation from consolidated net loss to cash flows from operating

| | 2018 | 2017 |
|--|-------------------------|-----------------|
| Consolidated Net loss | (134,132,928.30) | (82,860,206.55) |
| Adjustment: Provisions for asset impairment (note 4(39)) | 1,432,860.02 | 9,623,068.15 |
| Credit impairment provision | 123,048.42 | – |
| Losses on the changes in fair value of financial liabilities at fair value through profit or loss (note 4(41)) | 895,135.66 | 2,896,153.79 |
| Depreciation of fixed assets (note 4(9)) | 201,537,452.18 | 198,164,914.74 |
| Amortisation of intangible assets (note 4(11)) | 22,383,430.38 | 17,999,503.35 |
| Gains on disposal of fixed assets | 91,472.89 | 1,957,447.56 |
| Decrease/(increase) in deferred tax assets (note 4(26)) | 3,968,199.71 | (1,676,956.28) |
| Decrease in deferred tax liabilities (note 4(26)) | (5,945,813.88) | (2,184,508.70) |
| Amortisation of deferred income (note 4(25)) | (2,206,843.41) | (2,142,889.72) |
| Amortisation of specific payable | – | (1,918,636.12) |
| Financial expenses (note 4(38)) | 133,089,665.41 | 116,767,742.53 |
| Amortisation of long-term prepaid expenses | 8,798.53 | 48,940.22 |
| Investment gains (note 4(42)) | (19,268,655.08) | (8,002,573.69) |
| Decrease/(increase) in inventories | 111,196,096.47 | (48,131,290.61) |
| Utilisation of safety fund-net (note 4(30)) | (232,071.41) | (1,311,350.44) |
| (Increase)/decrease in operating receivables | (153,972,512.95) | 118,111,937.55 |
| (Decrease)/increase in operating payables | (48,154,368.57) | 187,595,735.45 |
| Increase in restricted cash at banks | (10,436,409.63) | (17,766,498.02) |
| Increase in Provisions | 161,558,910.11 | – |
| Net cash flows generated from operating activities | 261,935,466.55 | 487,170,533.21 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

4 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(50) Notes to the consolidated cash flow statement (Continued)

(a) Reconciliation from consolidated net profit/(loss) to cash flows from operating (Continued)

Movement of cash and cash equivalents

| | 2018 | 2017 |
|--|-----------------------|------------------|
| Cash and cash equivalents at end of year (b) | 489,204,494.36 | 346,307,415.13 |
| Less: cash and cash equivalents at beginning of year | (346,307,415.13) | (100,406,459.07) |
| Net increase in cash and cash equivalents | 142,897,079.23 | 245,900,956.06 |

(b) Cash and cash equivalents

| | 31 December 2018 | 31 December 2017 |
|---------------------------|-----------------------|---------------------|
| Cash | 489,204,494.36 | 346,307,415.13 |
| Including: Cash on hand | 7,097.04 | 23,357.99 |
| Cash at bank | 489,197,397.32 | 346,284,057.14 |
| Cash and cash equivalents | 489,204,494.36 | 346,307,415.13 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES

(1) Investments in subsidiaries

(a) The constitutions of business combinations

| Name of subsidiaries | Type of legal representative | The main premises | Place of registration | Nature of business | % equity interest held by the Group | | Methods of investments |
|----------------------|--------------------------------|-------------------|-----------------------|--------------------------|-------------------------------------|----------|---|
| | | | | | Direct | Indirect | |
| Mengxi Mining | Corporate legal representative | Hami, the PRC | Hami, the PRC | Mining | 51% | – | Through establishment or investment |
| Kalatongke Mining | Corporate legal representative | Fuyun, the PRC | Fuyun, the PRC | Mining and smelting | 100% | – | Through establishment or investment |
| Beijing Xinding | Corporate legal representative | Beijing, the PRC | Beijing, the PRC | Research and Development | 100% | – | Through establishment or investment |
| Xinjiang Yakesi | Corporate legal representative | Hami, the PRC | Hami, the PRC | Mining | 99.51% | 0.49% | Business combination not under common control |
| Hami Jubao | Corporate legal representative | Hami, the PRC | Hami, the PRC | Mining | 98.96% | 1.04% | Business combination not under common control |
| Zhongxin Mining | Corporate legal representative | Hami, the PRC | Hami, the PRC | smelting | 97.58% | – | Business combination not under common control |
| Shaanxi Xinxin | Corporate legal representative | Shangnan, the PRC | Shangnan, the PRC | Mining | 51% | – | Business combination not under common control |

There is no significant restriction on using the Group's assets or paying off debt of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Investments in subsidiaries (Continued)

(b) Subsidiaries with non-controlling interests rights

| Name of subsidiaries | % equity interest held by non-controlling shareholders | Amount of gains or losses attributed to non-controlling shareholders in 2018 | Dividend declared/ allocated to non-controlling shareholders in 2018 | Non-controlling interests 31 December 2018 |
|----------------------|--|--|--|--|
| Zhongxin Mining | 2.42% | (357,501.38) | – | (485,617.14) |
| Shaanxi Xinxin | 49.00% | (79,739,837.95) | – | (7,408,095.37) |
| Mengxi Mining | 49.00% | 157,856.83 | – | 2,517,280.91 |
| | | (79,939,482.50) | – | (5,376,431.60) |

Main financial information of the above subsidiaries with significant non-controlling rights in 2018 was as follows:

| Name of subsidiaries | 31 December 2018 | | | | | |
|----------------------|------------------|--------------------|----------------|---------------------|-------------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total Liabilities |
| Zhongxin Mining | 201,654,959.45 | 195,707,976.82 | 397,362,936.27 | 473,127,560.41 | 15,945,790.04 | 489,073,350.45 |
| Shaanxi Xinxin | 210,347,160.11 | – | 210,347,160.11 | 30,312,722.10 | 48,788,250.00 | 79,100,972.10 |
| Mengxi Mining | 10,625,893.24 | – | 10,625,893.24 | 5,488,585.27 | – | 5,488,585.27 |

| Name of subsidiaries | 31 December 2017 | | | | | |
|----------------------|------------------|--------------------|----------------|---------------------|-------------------------|-------------------|
| | Current assets | Non-current assets | Total assets | Current liabilities | Non-current liabilities | Total Liabilities |
| Zhongxin Mining | 176,600,852.56 | 180,197,131.89 | 356,797,984.45 | 447,776,657.83 | 10,542,228.35 | 458,318,886.18 |
| Shaanxi Xinxin | 134,458.46 | 210,192,438.91 | 210,326,897.37 | 13,922,846.20 | 48,788,250.00 | 62,711,096.20 |
| Mengxi Mining | 10,318,077.11 | – | 10,318,077.11 | 5,502,925.94 | – | 5,502,925.94 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONTINUED)

(1) Investments in subsidiaries (Continued)

(b) Subsidiaries with non-controlling interests rights (Continued)

| Name of subsidiaries | In 2018 | | | Operating cash flow |
|----------------------|----------------|-------------------|-------------------------------------|---------------------|
| | Revenue | Net (loss)/profit | Total comprehensive (losses)/income | |
| Zhongxin Mining | 420,226,647.95 | (8,284,185.59) | (8,284,185.59) | 108,102,012.08 |
| Shaanxi Xinxin | – | (16,369,613.16) | (16,369,613.16) | (804,953.07) |
| Mengxi Mining | – | 322,156.80 | 322,156.80 | (50,700.39) |

| Name of subsidiaries | In 2017 | | | Operating cash flow |
|----------------------|----------------|-------------------|-----------------------------------|---------------------|
| | Revenue | Net (loss)/profit | Total comprehensive (loss)/income | |
| Zhongxin Mining | 206,541,341.50 | (55,505,956.51) | (55,505,956.51) | 21,135,756.97 |
| Shaanxi Xinxin | – | (1,413,734.65) | (1,413,734.65) | (240,102.76) |
| Mengxi Mining | – | 359,113.62 | 359,113.62 | (40,410.53) |

(2) Interests in joint-venture

(a) Basic information for important joint venture

| Name of joint-venture | The main premise | Place of registration | Nature of business | Strategic effects To group operations | % equity interest held by the Group | |
|-----------------------|------------------|-----------------------|--------------------|---------------------------------------|-------------------------------------|----------|
| | | | | | Direct | Indirect |
| Hexin Mining | Hami, the PRC | Hami, the PRC | Mining | Yes | 50% | – |

The Group adopted equity method for the above investment.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

5 EQUITY IN OTHER ENTITIES (CONTINUED)

(2) Interests in joint-venture (continued)

(b) Key financial information of the joint venture

| | 31 December 2018 | 31 December 2017 |
|---|-----------------------------|---------------------|
| Current assets | 68,183,192.65 | 65,063,509.35 |
| Including: cash and cash equivalents | 12,119,156.03 | 3,759,604.64 |
| Non-current assets | 415,819,692.47 | 427,107,126.47 |
| Total assets | 484,002,885.12 | 492,170,635.82 |
| Current liabilities | (264,670,449.55) | (283,152,892.66) |
| Non-current liabilities | – | – |
| Total liabilities | (264,670,449.55) | (283,152,892.66) |
| Owners' equity | 219,332,435.57 | 209,017,743.16 |
| Share of net assets (i) | 109,666,217.78 | 104,508,871.58 |
| Adjustments | | |
| – Goodwill | 44,668,386.35 | 44,668,386.35 |
| – Offset of unrealised losses | (9,265,292.69) | (4,673,437.44) |
| Book value of the investment of joint venture | 145,069,311.44 | 144,503,820.49 |
| Fair value of the joint venture in open market | Not applicable | Not applicable |
| | 31 December 2018 | 31 December 2017 |
| Revenue | 147,834,381.93 | 108,649,807.13 |
| Net profit/(loss) | 10,314,692.41 | (5,315,670.27) |
| Other comprehensive income | – | – |
| Total comprehensive profit/(losses) | 10,314,692.41 | (5,315,670.27) |
| Dividends received from joint venture | – | – |

- (i) The Group, based on the amount assigned to the Company in the financial statements of joint venture calculates asset share in proportion to the number of shares owned. The amount in the financial statements of joint venture has taken the fair value of identifiable asset and liability of the investee joint venture into consideration.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

6 SEGMENT INFORMATION

The Group are engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. Based on the Group's internal organisational structure, management requirements, internal reporting policies, and the segment reporting requirements stipulated by No. 3 Interpretation of CAS, management of the Group considers the Group itself is one operating segment.

On ended of 31 December 2018 and 2017, the Group's sales were conducted in China and the Group's assets and liabilities were in China.

On ended of 31 December 2018, revenue of top three customers of the Group accounted for 35%, 17% and 8% of the total revenue of the Group respectively (on ended 31 December 2017: 41%, 13% and 6%).

7 CONTINGENCIES

(1) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except as disclosed in note 4(24), the Group is presently not involved in any other environmental remediations and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislations, management of the Company believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and land development areas, whether operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislations cannot reasonably be estimated at present, and could be material.

(2) Insurance

The Group carries commercial insurance for its employees who work underground for personal injury and its mining equipments underground. However, such insurance may not be sufficient to cover the potential future losses. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management of the Company believes this can have a material adverse impact on the results of operations or the financial position of the Group.

(3) Guarantee provided

Please refer to note 8(5)(f)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information of the parent company

(a) Information of the parent company

| | Place of registration | Type of business |
|----------------------------|-----------------------|---|
| Xinjiang Non-ferrous Group | Urumqi, China | Mining, smelting and processing of nonferrous and precious metals |

The Company's ultimate controlling party is Xinjiang Non-ferrous Group, whose place of registration is Urumqi China.

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

| | 31 December 2017 | Current period additions | Current period reductions | 31 December 2018 |
|----------------------------|------------------|--------------------------|---------------------------|------------------|
| Xinjiang Non-ferrous Group | 1,512,356,129.00 | - | - | 1,512,356,129.00 |

(c) The proportion of equity interests and voting rights in the Company held by the parent company

| | 31 December 2018 % interests held and % voting rights | 31 December 2017 % interests held and % voting rights |
|----------------------------|---|---|
| Xinjiang Non-ferrous Group | 40.06% | 40.06% |

(2) Information of subsidiaries

Please refer to note 5(1).

(3) Information of joint-venture

Please refer to note 5(2).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(4) Other related party information

| Name of related parties | Relationship with the Group |
|--|---|
| Xinjiang Ashele Copper Industry Co., Ltd. | Associate of Xinjiang Non-ferrous Group |
| Fukang Juxin Industrial and Trade Co., Ltd. | Associate of Xinjiang Non-ferrous Group |
| Xinjiang Non-ferrous Industry Group Tianchi Mining Co., Ltd. | Associate of Xinjiang Non-ferrous Group |
| Xinjiang QianXin Mining Co., Ltd. | Associate of Xinjiang Non-ferrous Group |
| Hexin Mining | Joint venture |
| Xinjiang Haoxin Lithia Developing Co., Ltd. | Fellow subsidiary |
| China Non-ferrous Metal Import and Export Xinjiang Co., Ltd. | Fellow subsidiary |
| Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd. | Fellow subsidiary |
| Xinjiang Non-ferrous Metal Industrial Group Materials Co., Ltd. | Fellow subsidiary |
| Fukang Non-ferrous Development Co., Ltd. | Fellow subsidiary |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | Fellow subsidiary |
| Fuyun Hengsheng Beryllium Industry Co., Ltd. | Fellow subsidiary |
| Beijing Baodi Xindi Kemao Co., Ltd. | Fellow subsidiary |
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | Fellow subsidiary |
| Xinjiang Dongsanhuan Trading Co., Ltd. | Fellow subsidiary |
| The Western Gold Hami Gold Mine Co., Ltd. | Fellow subsidiary |
| Xinjiang Zhanxin Fire Insulation Materials Co., Ltd. | Fellow subsidiary |
| Fukang Non-ferrous Property Management Co., Ltd. | Fellow subsidiary |
| Urumqi Tianshan Star Precious Metals Smelting Co., Ltd. | Fellow subsidiary |
| Xinjiang Non-ferrous Metals Company Hospital. | Fellow subsidiary |
| Xinjiang Wuxin Copper Co., Ltd. | Fellow subsidiary |
| Hami Jinhui Real Estate Development Co., Ltd. | Fellow subsidiary |

(5) Related party transactions

(a) Pricing policy of transactions with related party

The prices of sales to related parties, purchases from related parties, provision of services by related parties and lease of properties from related parties were based on market price or agreement price.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(b) Purchases of materials from related parties

| | 2018 | 2017 |
|--|-----------------------|----------------|
| Purchase of nickel concentrate | | |
| Hexin Mining | 98,648,777.29 | 59,099,136.55 |
| Purchase of raw materials, consumables and equipment | | |
| Xinjiang Non-ferrous Metal Industrial Group Materials Co., Ltd. | 49,000,982.00 | 63,546,079.76 |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | 4,238,904.99 | 1,141,693.43 |
| Fukang Non-ferrous Development Co., Ltd. | 2,015,241.03 | 4,686,545.55 |
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | 1,146,863.79 | 1,455,252.58 |
| China Non-ferrous Metal Import and Export Xinjiang Co., Ltd. | 913,342.33 | 2,010,600.30 |
| Fukang Juxin Industrial and Trade Co., Ltd. | 389,695.21 | 212,541.02 |
| Xinjiang Dongsanhuan Trading Co., Ltd. | 319,207.61 | – |
| The Western Gold Hami Gold Mine Co., Ltd. | 45,525.49 | 113,350.44 |
| Purchase of equipment parts | | |
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | – | 1,243,493.81 |
| | 156,718,539.74 | 133,508,693.44 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (Continued)

(c) Receiving of services from related parties

| | 2018 | 2017 |
|---|----------------------|---------------|
| Construction services | | |
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | 47,180,951.79 | 39,785,540.60 |
| Transportation services | | |
| Fukang Non-ferrous Development Co., Ltd. | 4,331,584.45 | 4,886,016.76 |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | 1,950,892.84 | 3,247,488.38 |
| Other services | | |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | 1,762,363.20 | 586,514.63 |
| Fukang Non-ferrous Property Management Co., Ltd. | 8,751.45 | 10,563.96 |
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | – | 1,174,799.31 |
| Comprehensive supporting services | | |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | 3,226,415.09 | 3,226,415.09 |
| Storage fee | | |
| Beijing Baodi Xindi Kemao Co., Ltd. | 241,758.03 | 528,525.87 |
| Provision of heat | | |
| Fukang Non-ferrous Development Co., Ltd. | 19,708.72 | 19,871.07 |
| | 58,722,425.57 | 53,465,735.67 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(d) Sale of products and energy to related parties

| | 2018 | 2017 |
|--|----------------------|----------------|
| Xinjiang Wuxin Copper Co., Ltd. | 31,253,491.54 | 8,651,679.34 |
| Fuyun Hengsheng Beryllium Industry Co., Ltd. | 18,793,296.56 | 17,780,069.97 |
| Urumqi Tianshan Star Precious Metals Smelting Co., Ltd. | 14,655,520.38 | 10,149,803.00 |
| Xinjiang Non-ferrous Metal Industrial Group Materials Co., Ltd. | 9,808,667.22 | 69,559,447.62 |
| Xinjiang Dongsanhuan Trading Co., Ltd. | 1,471,663.33 | 1,373,377.45 |
| Xinjiang Zhanxin Fire Insulation Materials Co., Ltd | 587,240.31 | 214,916.82 |
| Xinjiang Non-ferrous Metal Industry (Group) Quaxin Construction Co., Ltd. | 229,676.83 | 300,529.00 |
| Hami Hexin Mining Co., Ltd. | 222,155.17 | - |
| The Western Gold Hami Gold Mine Co., Ltd. | 52,991.45 | - |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | 10,304.22 | 10,456.81 |
| | 77,085,007.01 | 108,040,280.01 |

(e) Leases

As lessor:

| Name of lessee | Type of rental assets | Lease revenue recognized in 2018 | Lease revenue Recognized in 2017 |
|--|-----------------------|----------------------------------|----------------------------------|
| Xinjiang Zhanxin Fire Isolation Materials Co., Ltd. Land-use right | Land-use right | 40,971.43 | 40,971.43 |

As lessee:

| Name of lessor | Type of rental assets | Lease expenses recognized in 2018 | Lease expenses Recognized in 2017 |
|--|-----------------------|-----------------------------------|-----------------------------------|
| Xinjiang Non-ferrous Group | Building | 779,014.28 | 779,014.30 |
| Fukang Non-ferrous Development Co., Ltd. | Equipment | 17,142.86 | 17,142.86 |
| | | 796,157.14 | 796,157.16 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(f) Guarantee

| Name of Company | Amount of bank loans and bank acceptance notes guaranteed | Starting date | Ending date | Fulfilled or not |
|-----------------|---|---------------|-------------|------------------|
| Hexin Mining | 25,000,000.00 | 29/06/2018 | 29/06/2021 | No |
| Hexin Mining | 18,000,000.00 | 04/12/2018 | 04/12/2019 | No |
| Hexin Mining | 13,500,000.00 | 14/12/2018 | 14/12/2019 | No |
| Hexin Mining | 13,000,000.00 | 07/11/2018 | 07/11/2019 | No |
| Hexin Mining | 10,000,000.00 | 09/12/2018 | 09/12/2019 | No |
| Hexin Mining | 6,200,549.60 | 08/08/2018 | 08/08/2019 | No |
| Total | 85,700,549.60 | | | |

(g) Loans provided to/(received) from related parties

| | 2018 | 2017 |
|----------------------------------|-------------------------|------------------|
| Loans provided to Hexin Mining | 193,000,000.00 | 139,500,000.00 |
| Loans received from Hexin Mining | (257,629,320.00) | (117,373,000.00) |
| Loans provided to Beijing Baodi | 100,000.00 | – |

(h) Loans repaid to related parties

| | 2018 | 2017 |
|--|------|------------------|
| Loans repaid to Xinjiang Non-ferrous Group | – | (135,000,000.00) |

(i) Interest of related party loans

| | 2018 | 2017 |
|----------------------------|------|-----------|
| Xinjiang Non-ferrous Group | – | 23,835.62 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(j) Use of registered trademark

Pursuant to the trademark agreements with Xinjiang Non-ferrous Group, the Group has the right to use the registered trademark of “Bo Feng” at no cost from 1 September 2005 to 20 March 2019.

(k) Remuneration of key management

| | 2018 | 2017 |
|--------------------------------|---------------------|--------------|
| Remuneration of key management | 3,561,120.04 | 2,492,150.60 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(I) Benefits and interests of directors

(i) Directors, supervisors and chief executive officer's emoluments

Directors, supervisors and chief executive officer's emoluments for the year ended 31 December 2018 were as follows:

| Name | Emoluments for providing services as directors | | | Emoluments for managing company or providing other services | Total |
|-------------------------------|--|----------------------|-------------------|---|---------------------|
| | Fee | Salary and allowance | Pension | | |
| Directors: | | | | | |
| Shi Wenfeng | - | - | - | - | - |
| Zhou Chuanyou | - | - | - | - | - |
| Hu Chengye | - | - | - | - | - |
| Guo Quan | - | 465,085.00 | 32,875.68 | - | 497,960.68 |
| Zhang Guohua | - | - | - | - | - |
| Liu Jun | - | 457,170.00 | 32,875.68 | - | 490,045.68 |
| Independent Directors: | | | | | |
| Li Wing Sum, Steven | 109,678.08 | - | - | - | 109,678.08 |
| Wang Lijin | 70,000.00 | - | - | - | 70,000.00 |
| Hu Benyuan | 70,000.00 | - | - | - | 70,000.00 |
| Supervisors: | | | | | |
| Yao Wenyong | 40,000.00 | - | - | - | 40,000.00 |
| Chen Rong | - | - | - | - | - |
| Yu Wenjiang | - | - | - | 368,948.68 | 368,948.68 |
| Li Jiangping | - | 337,523.00 | 32,875.68 | - | 370,398.68 |
| Meng Guojun | 40,000.00 | - | - | - | 40,000.00 |
| Senior management: | | | | | |
| Lam Cheuk Fai | - | 360,000.00 | 15,186.20 | - | 375,186.20 |
| He Hongfeng | - | 374,255.00 | 32,875.68 | - | 407,130.68 |
| Zhang Junjie | - | 374,255.00 | 32,875.68 | - | 407,130.68 |
| Qi Xinhui | - | 281,765.00 | 32,875.68 | - | 314,640.68 |
| Total | 329,678.08 | 2,650,053.00 | 212,440.28 | 368,948.68 | 3,561,120.04 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(I) Benefits and interests of directors (continued)

(i) Directors, supervisors and chief executive officer's emoluments (continued)

Directors, supervisors and chief executive officer's emoluments for the year ended 31 December 2017 were as follows:

| Name | Emoluments for providing services as directors | | | Emoluments for managing company or providing other services | Total |
|-------------------------------|--|----------------------|-------------------|---|---------------------|
| | Fee | Salary and allowance | Pension | | |
| Directors: | | | | | |
| Shi Wenfeng | - | - | - | - | - |
| Lu Xiaoping ⁹ | - | 160,112.50 | 24,627.00 | - | 184,739.50 |
| Guo Haitang ⁹ | - | - | - | - | - |
| Zhou Chuanyou | - | - | - | - | - |
| Hu Chengye | - | - | - | - | - |
| Guo Quan | - | 305,160.00 | 33,159.00 | - | 338,319.00 |
| Zhang Guohua ¹ | - | - | - | - | - |
| Liu Jun ¹ | - | 275,160.00 | 33,159.00 | - | 308,319.00 |
| Independent Directors: | | | | | |
| Li Wing Sum, Steven | 108,667.00 | - | - | - | 108,667.00 |
| Chen Jianguo ⁷ | 46,666.66 | - | - | - | 46,666.66 |
| Wang Lijin | 70,000.00 | - | - | - | 70,000.00 |
| Hu Benyuan ² | 17,500.00 | - | - | - | 17,500.00 |
| Supervisors: | | | | | |
| Wang Haibang ⁸ | - | 126,250.00 | 24,627.00 | - | 150,877.00 |
| Hu Zhijiang ⁶ | 6,666.64 | - | - | - | 6,666.64 |
| Yao Wenyong | 40,000.00 | - | - | - | 40,000.00 |
| Zhang Xuehe ⁵ | - | - | - | 95,975.00 | 95,975.00 |
| Chen Rong | - | - | - | - | - |
| Yu Wenjiang ³ | - | - | - | 63,992.00 | 63,992.00 |
| Li Jiangping ³ | - | 31,050.00 | 8,532.00 | - | 39,582.00 |
| Meng Guojing ³ | 10,000.00 | - | - | - | 10,000.00 |
| Senior management: | | | | | |
| Lam Cheuk Fai | - | 360,000.00 | 15,046.20 | - | 375,046.20 |
| He Hongfeng | - | 245,160.00 | 33,159.00 | - | 278,319.00 |
| Zhang Junjie | - | 245,160.00 | 33,159.00 | - | 278,319.00 |
| Qi Xinhui ⁴ | - | 31,460.00 | 8,532.00 | - | 39,992.00 |
| Sun Baohui ⁵ | - | - | - | 39,170.60 | 39,170.60 |
| Total | 299,500.30 | 1,779,512.50 | 214,000.20 | 199,137.60 | 2,492,150.60 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(I) Benefits and interests of directors

(i) *Directors, supervisors and chief executive officer's emoluments (continued)*

1. Appointed as director on 14 October 2017.
2. Appointed as Independent director on 14 October 2017
3. Appointed as Supervisors on 14 October 2017.
4. Appointed as senior management on 14 October 2017
5. Resigned as senior management on 1 April 2017.
6. Resigned as supervisor on 28 February 2017.
7. Resigned as supervisor on 30 August 2017.
8. Resigned as supervisor on 13 October 2017
9. Resigned as director on 13 October 2017.

(ii) *On 31 December 2018, there were no termination benefits for the directors (on 31 December 2017: Nil).*

(iii) *On 31 December 2018, there were no consideration provided to third parties for making available directors' services (on 31 December 2017: Nil).*

(iv) *On 31 December 2018, there were no loans, quasi-loans and other transactions in favour of directors, controlled body corporate of directors, and connected entities of directors, and no guarantee or security provided to directors, controlled body corporate of directors, and connected entities of directors (on 31 December 2017: Nil).*

(v) *No significant transactions, arrangements and contracts in related to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at end of 31 December 2018 (on 31 December 2017: Nil)*

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(5) Related party transactions (continued)

(m) The five highest paid individuals

The five individuals whose emoluments were the highest in the Group for ended 31 December 2018 included two directors (For ended 31 December 2017: two directors) whose emoluments were reflected in the analysis presented above. The emoluments payable to the remaining three (For ended 31 December 2017: three) individuals during the year were as follows:

| | 2018 | 2017 |
|--|------------------------------|--------------|
| Basic salaries, bonus, housing allowance, other allowances in kind | 1,108,510.00 | 927,915.86 |
| Pension | 80,937.56 | 79,323.60 |
| | 1,189,447.56 | 1,007,239.46 |
| | Number of individuals | |
| | 2018 | 2017 |
| Emolument bands: HKD0–1,000,000 (approximately RMB0–843,700) | 3 | 3 |

(6) Receivables from and payables to related parties

Receivables from related parties:

(a) Notes receivable & accounts receivable

| | 31 December 2018 | | 31 December 2017 | |
|---|----------------------|-------------------------|------------------|-------------------------|
| | Ending balance | Provision for bad debts | Ending balance | Provision for bad debts |
| Xinjiang Wuxin Copper Co., Ltd. | 26,743,879.56 | – | 41,291,782.13 | – |
| Fuyun Hengsheng Beryllium Industry Co., Ltd. | 1,309,990.10 | (1,155,416.10) | 2,112,738.98 | (1,155,416.10) |
| Hami Hexin Mining Co., Ltd. | 757,700.00 | – | 2,673,000.00 | – |
| Xinjiang Zhanxin Fire Isolation Materials Co., Ltd. | 680,192.40 | – | 197,502.80 | – |
| Xinjiang Haixin Lithia Developing Co., Ltd. | 301,201.70 | (301,201.70) | 301,201.70 | (301,201.70) |
| Xinjiang Dongsanhuan Trading Co., Ltd. | 216,898.47 | – | – | – |
| Xinjiang Non-ferrous Metal Industry Group Materials Co., Ltd. | – | – | 10,300,000.00 | – |
| Fukang Non-ferrous Development Co., Ltd. | – | – | 400,000.00 | – |
| | 30,009,862.23 | (1,456,617.80) | 57,276,225.61 | (1,456,617.80) |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties (continued)

Receivables from related parties (continued):

(b) Other receivables (note 4(5))

| | 31 December 2018 | | 31 December 2017 | |
|--|----------------------|-------------------------|----------------------|-------------------------|
| | Ending balance | Provision for bad debts | Ending balance | Provision for bad debts |
| Hami Jinhui Real Estate Development Co., Ltd. | 30,000,000.00 | – | 30,000,000.00 | – |
| Hexin Mining | 2,755,234.41 | – | 67,468,175.47 | – |
| Xinjiang Non-ferrous Metal Industry (Group) Quanzin Construction Co., Ltd. | 2,741,330.40 | – | – | – |
| Fuyun Hengsheng Beryllium Industry Co., Ltd. | 848,127.73 | – | 553,703.17 | – |
| Beijing Baodi Xindi Kemao Co., Ltd. | 194,517.90 | – | – | – |
| Xinjiang Qianxin Mining Co., Ltd. | 117,360.88 | – | 107,602.30 | – |
| | 36,656,571.32 | – | 98,129,480.94 | – |

(c) Advances to suppliers

| | 31 December 2018 | | 31 December 2017 | |
|---|----------------------|-------------------------|---------------------|-------------------------|
| | Ending balance | Provision for bad debts | Ending balance | Provision for bad debts |
| Hexin Mining | 26,252,860.08 | – | 2,546,985.56 | – |
| Xinjiang Non-ferrous Metal Industrial Group Materials Co., Ltd. | 454,057.57 | – | – | – |
| Fukang Non-ferrous Development Co., Ltd. | – | – | 78,608.00 | – |
| | 26,706,917.65 | – | 2,625,593.56 | – |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties (continued)

Payables to related parties:

(d) Notes payable & Accounts payable

| | 31 December 2018 | 31 December 2017 |
|--|----------------------|---------------------|
| Xinjiang Non-ferrous Metal Industrial Group Materials Co., Ltd. | 7,390,679.96 | 28,464,737.52 |
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | 2,625,165.94 | 2,708,605.29 |
| Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd. | 2,345,590.46 | 3,551,197.50 |
| Fukang Non-ferrous Development Co., Ltd. | 2,268,257.69 | 2,922,454.15 |
| Xinjiang Dongsanhuan Trading Co., Ltd. | 1,521,524.03 | 2,128,819.20 |
| China Non-ferrous Metal Import and Export Xinjiang Co., Ltd. | 1,149,805.70 | 1,282,753.90 |
| Fukang Juxin Industrial and Trade Co., Ltd. | 177,585.80 | 259,764.96 |
| Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd. | 71,682.25 | 71,682.25 |
| The Western Gold Hami Gold Mine Co., Ltd. | 52,918.15 | 132,620.02 |
| Fukang Non-ferrous Property Management Co., Ltd. | 31,055.68 | 31,055.68 |
| Hexin Mining | - | 339,985.98 |
| | 17,634,265.66 | 41,893,676.45 |

(e) Other payables (note 4(19))

| | 31 December 2018 | 31 December 2017 |
|--|----------------------|---------------------|
| Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. | 38,276,344.52 | 56,906,623.81 |
| China Non-ferrous Metal Import and Export Xinjiang Co., Ltd. | 1,165,013.00 | 1,476,948.00 |
| Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd. | 82,168.40 | 282,168.40 |
| Fukang Non-ferrous Development Co., Ltd. | 50,000.00 | 50,000.00 |
| Xinjiang Wuxin Copper Co., Ltd. | 44,489.83 | 44,129.61 |
| | 39,618,015.75 | 58,759,869.82 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

8 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

(6) Receivables from and payables to related parties (continued)

Payables to related parties (continued):

(f) Advances from customers

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| Xinjiang Non-ferrous Metal Industrial Group Materials Co., Ltd. | – | 20,215,446.29 |
| Fuyun Hengsheng Beryllium Industry Co., Ltd. | – | 15,305.99 |
| Xinjiang Dongsanhuan Trading Co., Ltd. | – | 13,201.80 |
| | – | 20,243,954.08 |

(g) Contract liabilities

| | 31 December 2018 | 31 December 2017 |
|--|---------------------|---------------------|
| Xinjiang Wuxin Copper Co., Ltd. | 15,720,679.20 | – |
| Fuyun Hengsheng Beryllium Industry Co., Ltd. | 937,743.80 | – |
| | 16,658,423.00 | – |

(7) Commitments in relation to related parties

The commitments in relation to related parties contracted for but not yet necessary to be recognised on the balance sheet by the Group as at the balance sheet dates were as follows:

| | | 31 December 2018 | 31 December 2017 |
|-------------|--|---------------------|---------------------|
| – As lessee | Xinjiang Non-ferrous Group | 2,453,895.00 | 817,965.00 |
| – As lessor | Xinjiang Zhanxin Fire Isolation Materials Co., Ltd. | 129,060.00 | 43,020.00 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

9 COMMITMENTS

(1) Capital commitments

As at 31 December 2018 and 31 December 2017, the Group had no capital expenditures contracted for but not yet necessary to be recognised on the balance sheet.

(2) Operating lease commitments

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

| | 31 December 2018 | 31 December 2017 |
|---------------|---------------------|---------------------|
| Within 1 year | 817,965.00 | 817,965.00 |
| 1–2 years | 817,965.00 | – |
| 2–3 years | 817,965.00 | – |
| | 2,453,895.00 | 817,965.00 |

10 EVENTS AFTER THE BALANCE SHEET DATE

As stated in Note 4(21) to the consolidated financial statements – Provision, Shaanxi Xinxin received four court judgements and had one legal proceeding which judgement was not handed down on the first hearing dated 15 March 2019. Based on the reliable estimate made of the amount of the obligation in respect of the guarantees, the Group has made a provision in the amount of approximately RMB161.6 million in the consolidated financial statements for the year ended 31 December 2018.

Save as abovementioned, the Group has no other events after the balance sheet date which need to be disclosed or adjusted.

11 LEASES

The Group didn't own fixed assets under finance leases.

12 FINANCIAL INSTRUMENT AND RISK

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

The Board is responsible for planning and establishing the group's risk management framework, formulating the group's risk management policies and related guidelines and supervising the implementation of the risk management measures. The group has developed risk management policies to identify and analyze the risks facing the group, which the risk management policy has specified the specific risks, covering the market risk, credit risk and liquidity risk management, and many other parties Surface. The group regularly evaluates the market environment and changes in the group's operating activities to determine whether the risk management policies and systems are more New. The risk management of the group is carried out by the Risk Management Committee in accordance with the policy approved by the Board. The Risk management Committee adopted the Work closely with other business units to identify, evaluate and evade risks. The Group's internal audit department controls the risk management System and procedures for periodic review, and the audit results reported to the group's audit committee.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(1) Market risk

(a) Interest rate risk

The Group's interest rate risk mainly arises from bank loans and interest-bearing long-term borrowings. Bank deposits and loans at variable rate expose the Group to cash flow interest rate risk. The Group adjusts the relative proportion of contracts at fixed rate and contracts at floating rate based on market situation. As at 31 December 2018, the Group's interest bearing debts were mainly floating rate borrowings, fixed rate borrowings and interest bearing bond payable denominated in RMB, which totalled RMB2,475,209,380.00 (31 December 2017: RMB2,331,264,884.34), of which floating rate borrowings are RMB1,132,500,000.00, fixed rate borrowings are RMB1,342,709,380.00 and interest-bearing bond payable are RMB0, respectively (31 December 2017: RMB1,159,960,324.34, RMB1,091,304,560.00, RMB80,000,000.00). (note 4(20), (22), (27).

As at 31 December 2018, if annual interest rates had been 10% lower/higher with all other variables held constant, net loss would have decreased/increased by RMB2,295,460.93 (31 December 2017: net profit decreased/increased RMB1,431,725.22).

(b) Concentration risk

Revenues are principally derived from sales of nickel cathode and copper cathode. Approximately 60.00% of the total sales for the ended 31 December 2018 (for the ended 31 December 2017: 60%) were contributed by the top three customers for which the Group has not entered into any long-term sales contracts with them. In the event that these major customers terminate the business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

(2) Credit risk

The group's credit risk mainly arises from cash, notes receivable and accounts receivable, other receivable, contract assets, creditor's investment, other creditor's investment, financial guarantee contract, the debt instruments investment and financial derivative that do not account in impairment evaluation but account in current losses as fair value, and etc. On reporting date, the book value of balance sheet representative the group largest risk exposure. The largest risk exposure that out of balance sheet is that the largest payment RMB85,700,549.60 that carry out financial guarantee.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(2) Credit risk (Continued)

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group 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 Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

On 31 December 2018, the group do not have significantly increasing of credit risk and guaranties that mortgage by debtor.

(3) Liquidity risk

Cash flow forecasting was performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group 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 Group at the balance sheet date were analysed by their maturity date below at their undiscounted contractual cash flows:

| | 31 December 2018 | | | | Total |
|--|------------------|----------------|----------------|--------------|------------------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | |
| Financial liabilities at fair value through profit or loss | 509,522,951.08 | - | - | - | 509,522,951.08 |
| Note payable & Accounts payable | 549,907,312.43 | - | - | - | 549,907,312.43 |
| Short-term borrowings | 1,261,311,416.67 | - | - | - | 1,261,311,416.67 |
| Long-term borrowings | 113,294,318.75 | 481,435,040.97 | 195,513,554.17 | - | 790,242,913.89 |
| Other payables | 198,440,835.24 | - | - | - | 198,440,835.24 |
| | 2,632,476,834.17 | 481,435,040.97 | 195,513,554.17 | - | 3,309,425,429.31 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

12 FINANCIAL INSTRUMENT AND RISK (CONTINUED)

(3) Liquidity risk (continued)

| | 31 December 2017 | | | | Total |
|-------------------------------------|------------------|----------------|--------------|--------------|------------------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | |
| Financial liabilities at fair value | | | | | |
| through profit or loss | 209,204,783.34 | 509,522,951.08 | - | - | 718,727,734.42 |
| Notes payable & Accounts payable | 550,149,952.15 | - | - | - | 550,149,952.15 |
| Short-term borrowings | 779,916,791.67 | - | - | - | 779,916,791.67 |
| Long-term borrowings | 42,726,850.00 | 35,524,790.00 | - | - | 78,251,640.00 |
| Bond payable | 845,788,888.89 | - | - | - | 845,788,888.89 |
| Other payables | 222,472,575.65 | - | - | - | 222,472,575.65 |
| | 2,650,259,841.70 | 545,047,741.08 | - | - | 3,195,307,582.78 |

As at the balance sheet date, the Group's financial guarantees provided to external parties are analysed below based on the maximum amounts and the earliest periods in which the guarantees could be called:

| | 31 December 2018 | | | | Total |
|----------------------|------------------|--------------|--------------|--------------|---------------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | |
| Financial Guarantees | 85,700,549.60 | - | - | - | 85,700,549.60 |

| | 31 December 2017 | | | | Total |
|----------------------|------------------|--------------|--------------|--------------|----------------|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | |
| Financial Guarantees | 104,500,000.00 | - | - | - | 104,500,000.00 |

Bank and other borrowings which the Group provided guarantees were analysed by repayment terms as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---------------|------------------|-----------------------|------------------|-----------------|
| | Bank borrowing | Bank acceptance notes | Bank borrowings | Other borrowing |
| Within 1 year | 79,500,000.00 | 6,200,549.60 | 104,500,000.00 | - |
| 1 to 2 years | - | - | - | - |
| 2 to 5 years | - | - | - | - |
| | 79,500,000.00 | 6,200,549.60 | 104,500,000.00 | - |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

13 FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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) Financial instruments continuingly and subsequently measured at fair value

As at 31 December 2018, assets and liabilities continuingly measured at fair value based on the above three levels were listed as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|------------------|---------|----------------|------------------|
| Financial assets – | | | | |
| Available-for-sale financial assets | | | | |
| – financial products | – | – | 186,500,000.00 | 186,500,000.00 |
| Financial liabilities – | | | | |
| Gold leasing and corresponding | | | | |
| future contracts | (502,709,380.00) | – | – | (502,709,380.00) |
| | (502,709,380.00) | – | 186,500,000.00 | (316,209,380.00) |

As at 31 December 2017, assets and liabilities continuingly measured at fair value based on the above three levels were listed as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------------------|------------------|---------|----------------|------------------|
| Financial assets – | | | | |
| Available-for-sale financial assets | | | | |
| – financial products | – | – | 105,620,000.00 | 105,620,000.00 |
| Financial liabilities – | | | | |
| Gold leasing and corresponding | | | | |
| future contracts | (686,264,884.34) | – | – | (686,264,884.34) |
| | (686,264,884.34) | – | 105,620,000.00 | (580,644,884.34) |

The Group confirms its converting point based on the date of occurrence of the leading matters. No conversion exists between first level and second level.

Where there is no active market for a financial instrument, the Company adopts value appraisal techniques to determine its fair value. The appraisal technique is the bank market quotation.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

13 FAIR VALUE ESTIMATION (CONTINUED)

(1) Financial instruments continuingly and subsequently measured at fair value (continued)

The movement of above financial assets in level 3 was listed as follows

| | Available-for-sale financial assets |
|--|--|
| 1 January 2018 | 105,620,000.00 |
| Purchase | 5,217,280,000.00 |
| Sale | (5,155,103,164.13) |
| Total gains or losses during current period | 18,703,164.13 |
| Gains or losses included in the income statements | 18,703,164.13 |
| Gains or losses included in other comprehensive income | - |
| 31 December 2018 | 186,500,000.00 |
| | Available-for-sale financial assets |
| 1 January 2017 | 565,037,000.00 |
| Purchase | 903,620,000.00 |
| Sale | (1,377,338,032.64) |
| Total gains or losses during current period | 14,301,032.64 |
| Gains or losses included in the income statements | 14,301,032.64 |
| Gains or losses included in other comprehensive income | - |
| 31 December 2017 | 105,620,000.00 |

Gains or losses included in the income statements were included in gains or losses on the changes in fair value, investment income and asset impairment losses etc.

The fair value of level 3 is determined through the fair value provided by the authorised investment institutions.

(2) The Group does not have assets measured at fair value on a non-recurring basis.

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

The financial assets and liabilities measured at amortised cost mainly include: receivables, short-term borrowings, payables, long-term borrowings, bond payable and long-term payables.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

14 CAPITAL MANAGEMENT

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including short-term, borrowings long-term borrowing, bond payable and long-term payables) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

On 31 December 2018, the Group's strategy is that keep debt asset ratio between 20% and 60%, which is same as 2017. At 31 December 2018 and 31 December 2017, the Group's debt asset ratio shows below:

| | 31 December 2018 | 31 December 2017 |
|--|-------------------------|---------------------|
| Total borrowings | | |
| Short-term borrowings | 1,240,000,000.00 | 770,000,000.00 |
| Long-term borrowings | 655,000,000.00 | 35,000,000.00 |
| Current portion of non-current liabilities | 580,209,380.00 | 840,000,000.00 |
| Financial liabilities measured at fair value through profit and loss | - | 686,264,884.34 |
| | 2,475,209,380.00 | 2,331,264,884.34 |
| Less: cash and cash equivalents | (489,204,494.36) | (346,307,415.13) |
| Net debt (a) | 1,986,004,885.64 | 1,984,957,469.21 |
| Total equity (b) | 4,228,153,769.79 | 4,362,518,769.50 |
| Total capital (c) = (a) + (b) | 6,214,158,655.43 | 6,347,476,238.71 |
| Gearing ratio (a)/(c) | 31.96% | 31.27% |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS

(1) Cash at bank and on hand

| | 31 December 2018 | 31 December 2017 |
|------------------------------|-----------------------|---------------------|
| Cash on hand | 4,491.47 | 10,088.79 |
| Cash at bank | 256,600,586.89 | 255,169,175.78 |
| Restricted cash at banks (a) | 69,795,884.80 | 59,415,173.25 |
| | 326,400,963.16 | 314,594,437.82 |

(a) Restricted cash at bank are shown as follows:

| | 31 December 2018 | 31 December 2017 |
|---|----------------------|---------------------|
| Deposits for issue of bank acceptance notes | 69,097,336.89 | 58,718,639.68 |
| Deposits for Exploration right | 698,547.91 | 696,533.57 |
| | 69,795,884.80 | 59,415,173.25 |

(2) Financial assets held for trading

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Financial assets measured at fair value through profit and loss | 176,500,000.00 | - |

(3) Notes receivable & Accounts receivable

| | 31 December 2018 | 31 December 2017 |
|-------------------------|-----------------------|---------------------|
| Notes receivable (a) | 17,699,505.98 | 78,976,383.38 |
| Accounts receivable (b) | 220,088,875.32 | 81,512,144.85 |
| | 237,788,381.30 | 160,488,528.23 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (continued)

(a) Notes receivable

| | 31 December 2018 | 31 December 2017 |
|-----------------------|----------------------|---------------------|
| Bank acceptance notes | 17,699,505.98 | 78,976,383.38 |

(i) On 31 December 2018, the Group do not have pledged notes receivable.

(b) Accounts receivable

| | 31 December 2018 | 31 December 2017 |
|-------------------------------|-----------------------|---------------------|
| Accounts receivable | 223,982,718.72 | 85,282,939.83 |
| Less: provision for bad debts | (3,893,843.40) | (3,770,794.98) |
| | 220,088,875.32 | 81,512,144.85 |

The majority of the Company's sales are on cash payment and prepayment or bank acceptance notes. The remaining amounts are with credit terms not exceeding 180 days.

(i) *Accounts receivable aging analysis based on date recorded shows following:*

| | 31 December 2018 | 31 December 2017 |
|---------------|-----------------------|---------------------|
| Within 1 year | 202,800,434.94 | 64,872,224.60 |
| 1–2 years | 2,271,568.55 | 9,263,023.37 |
| 2–3 years | 9,263,023.37 | 2,646,407.66 |
| 3–4 years | 2,646,407.66 | 4,737,764.82 |
| 4–5 years | 3,237,764.82 | 74,400.20 |
| Over 5 years | 3,763,519.38 | 3,689,119.18 |
| | 223,982,718.72 | 85,282,939.83 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (continued)

(b) Accounts receivable (continued)

(ii) As at 31 December 2018 the top five accounts receivable were analysed as follows:

| | Ending Balance | Provision for bad debts | % of total balance |
|--|----------------|-------------------------|--------------------|
| Total amount of the top five accounts receivable | 220,326,769.58 | (1,155,416.10) | 98.37% |

(iii) No accounts receivable terminated due to transfer of financial assets during the period.

(c) Provision for bad debts

| | 31 December 2018 | 31 December 2017 |
|--|-----------------------|------------------|
| Provision for bad debts of Notes Receivable | – | – |
| Provision for bad debts of Accounts Receivable | (3,893,843.40) | (3,770,794.98) |
| | (3,893,843.40) | (3,770,794.98) |

The company's notes receivable and accounts receivable are always measured loss provisions by expected credit losses whether it has significantly financing activities. As at 31 December 2018, the impact of the expected credit loss rate for accounts receivable is assessed to be insignificant.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (continued)

(c) Provision for bad debts (continued)

(i) On 31 December 2018, the related provision of bad debts receivable notes and Accounts receivable analysis as follows:

Group-Related parties :

| | Ending Balance | 31 December 2018 | |
|-----------------------------|----------------------|---|-----------------------|
| | Amount | Provision for bad debts Expected credit loss rate throughout the duration | Amount |
| Not overdue | 990,242.52 | | – |
| 1–6 months overdue | – | | – |
| 7–18 months overdue | 2,271,568.55 | | – |
| More than 18 months overdue | 16,386,606.95 | 8.89% | (1,456,617.80) |
| | 19,648,418.02 | | (1,456,617.80) |

Group-Non-related parties :

| | Ending Balance | 31 December 2018 | |
|-----------------------------|-----------------------|---|-----------------------|
| | Amount | Provision for bad debts Expected credit loss rate throughout the duration | Amount |
| Not overdue | 201,810,192.42 | | – |
| 1–6 months overdue | – | | – |
| 7–18 months overdue | – | | – |
| More than 18 months overdue | 2,524,108.28 | 96.56% | (2,437,225.60) |
| | 204,334,300.70 | | (2,437,225.60) |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(3) Notes receivable & Accounts receivable (continued)

- (d) This period the amount of provision for bad debts is RMB123,048.42, did not occur to recover or revert to the provision of bad debts.
- (e) No write-off of accounts receivable occurred during this period.
- (f) No accounts receivable were derecognised due to transfer of financial assets.
- (g) As at 31 December 2017 and 31 December 2018, there is no accounts receivable pledged as collaterals to bank for borrowings.

(4) Advances to suppliers

The ageing of advances to suppliers was analysed as follows:

| | 31 December 2018 | | 31 December 2017 | |
|---------------|-----------------------|--------------------|------------------|--------------------|
| | Amount | % of total balance | Amount | % of total balance |
| Within 1 year | 426,372,094.41 | 99.55% | 811,590,198.69 | 99.76% |
| 1 to 2 years | 209,887.40 | 0.05% | 200,660.90 | 0.02% |
| 2 to 3 years | 6,063.10 | 0.01% | 238,771.32 | 0.03% |
| Over 3 years | 1,690,566.99 | 0.39% | 1,507,446.27 | 0.19% |
| | 428,278,611.90 | 100.00% | 813,537,077.18 | 100.00% |

(5) Other receivables

| | 31 December 2018 | 31 December 2017 |
|-------------------------------------|-----------------------|------------------|
| Amount due from subsidiaries (Note) | 767,504,725.36 | 1,052,498,476.23 |
| Amount due from a joint-venture | 2,755,234.41 | 67,468,175.47 |
| Cash advance | 114,661.03 | 117,737.56 |
| Others | 705,043.57 | 641,429.83 |
| | 771,079,664.37 | 1,120,725,819.09 |
| Less: provision for bad debts | (6,361,356.06) | (6,275.21) |
| | 764,718,308.31 | 1,120,719,543.88 |

Note: The amount due from Xinjiang Yakesi was RMB661,462,250.00. The amount due from Shaanxi Xinxin was RMB6,355,080.85. The amount due from Zhongxin Mining was RMB54,386,250.00. The amount due from Kalatongke Mining was RMB31,446,855.93. The amount due from Beijing Xinding was RMB13,854,288.58.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(5) Other receivables (continued)

(a) The movement of ending balance and provision for bad debts

(i) On 31 December 2018, the analysis of Provision for bad debts of other receivables in the first phase was as follows:

| | Ending Balance | Expected credit losses in the next 12 months | Provision for bad debts | reasons |
|-------------------------|-----------------------|--|-------------------------|---------------------------|
| On the grouping basis: | | | | |
| Related party Customers | 717,923,437.01 | | | |
| Staff Reserve | 114,661.03 | | | |
| Others | 587,204.23 | 1.07% | (6,275.21) | Overdue but not withdrawn |
| | <u>718,625,302.27</u> | | <u>(6,275.21)</u> | |

(ii) On 31 December 2018, the analysis of bad debts for other receivables in second stage was as follow:

| | Ending Balance | Expected credit losses in whole period | Provisions for bad debts | Reason |
|---------------------------------|---------------------|--|--------------------------|--------|
| On the individual basis: | | | | |
| Receivables from Shaanxi Xinxin | 6,355,080.85 | 100.00% | (6,355,080.85) | i) |
| | <u>6,355,080.85</u> | | <u>(6,355,080.85)</u> | |

i) On 31 December 2018, the amount of other receivables from Shaanxi Xinxin was RMB6,355,080.85.

(iii) On 31 December 2018, there were no other receivables in and third stage of the company.

(iv) No recovery or reversal of the preparation of bad debts has occurred during the period.

(b) No write-off occurred during the period.

(c) As at 31 December 2018, the top five other receivables were analysed as follows:

| | Nature | Amount | Ageing | % of total balance | Provision for bad debts |
|-----------------|-------------------------------|-----------------------|-----------------------------|--------------------|-------------------------|
| Xinjiang Yakesi | Loans and accounts receivable | 661,462,250.00 | Within 1 year. 1-2 years | 85.78% | - |
| Zhongxin Mining | Loans and accounts receivable | 54,386,250.00 | Within 1 year | 7.05% | - |
| Kalatongke | Loans and accounts receivable | 31,446,855.93 | Within 1 year | 1.80% | - |
| Beijing Xinding | Loans and accounts receivable | 13,854,288.58 | Within in 1 year, 1-2 years | 4.08% | - |
| Shaanxi Xinxin | Loans and accounts receivable | 6,355,080.85 | Within in 1 year, 1-2 years | 0.82% | (6,355,080.85) |
| | | <u>767,504,725.36</u> | | <u>99.54%</u> | <u>(6,355,080.85)</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(6) Inventories

| | 31 December 2018 | | | 31 December 2017 | | |
|---------------------|-----------------------|--|-----------------------|------------------|--|-----------------|
| | Ending balance | Provision for declines in value of inventories | Carrying amount | Ending balance | Provision for declines in value of inventories | Carrying amount |
| Raw materials | 53,821,903.74 | (4,336,822.90) | 49,485,080.85 | 54,255,953.15 | (4,336,822.90) | 49,919,130.25 |
| Work in progress | 117,031,452.29 | - | 117,031,452.29 | 173,943,613.38 | - | 173,943,613.38 |
| Semi-finished goods | 433,162,475.90 | - | 433,162,475.90 | 315,645,547.69 | - | 315,645,547.69 |
| Finished goods | 319,675,654.80 | (3,010,345.02) | 316,665,309.78 | 462,080,652.24 | (3,010,345.02) | 459,070,307.22 |
| | 923,691,486.73 | (7,347,167.92) | 916,344,318.81 | 1,005,925,766.46 | (7,347,167.92) | 998,578,598.54 |

(7) Other current assets

| | 31 December 2018 | 31 December 2017 |
|-------------------------------------|----------------------|------------------|
| To be deducted VAT | 14,585,316.40 | 11,540,065.99 |
| Advance payment of income tax | 10,332,126.30 | 10,868,762.83 |
| Available-for-sale financial assets | - | 95,962,000.00 |
| | 24,917,442.70 | 118,368,828.82 |

(8) Long-term receivable

| | 31 December 2018 | 31 December 2017 |
|----------------------|------------------|------------------|
| Long-term receivable | 401,000,000.00 | 135,000,000.00 |

In 2018, the Company provided 3-year long-term loan of RMB70,000,000.00 to Subsidiary Corporation Xinjiang Yakes, with an annual rate of 5.23%; 3-year long-term loan of RMB196,000,000.00 to Subsidiary Corporation Kalatongke Mining, with an annual rate of 5.00%; in 2017, the Company provided 5-year long-term loan of RMB135,000,000.00 to subsidiary corporation Beijing Xingding with annual rate of 6.00%.

As at 31 December 2018, the balance of long-term receivable was RMB401,000,000.00 (31 December 2017: RMB135,000,000.00).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(9) Long-term equity investment

| | 31 December 2018 | 31 December 2017 |
|--|-------------------------|---------------------|
| Subsidiaries (a) | 2,465,131,420.87 | 2,350,131,420.87 |
| Joint venture (b) | 154,334,604.13 | 149,177,257.93 |
| | 2,619,466,025.00 | 2,499,308,678.80 |
| Less: provision of long-term equity investments (note 15(13)) | (80,000,000.00) | - |
| | 2,539,466,025.00 | 2,499,308,678.80 |

(a) Subsidiaries

| | Accounting treatment | Initial investment cost | 31 December 2017 | Current year changes | 31 December 2018 | Equity interest held | Voting rights held |
|-------------------|-------------------------|----------------------------|---------------------|-------------------------|-------------------------|-------------------------|-----------------------|
| Mengxi Mining | Cost method | 10,200,000.00 | 10,200,000.00 | - | 10,200,000.00 | 51.00% | 51.00% |
| Xinjiang Yakesi | Cost method | 467,844,415.12 | 720,171,915.12 | - | 720,171,915.12 | 99.51% | 99.51% |
| Hami Jubao | Cost method | 75,000,000.00 | 91,100,349.00 | 115,000,000.00 | 206,100,349.00 | 98.96% | 98.96% |
| Zhongxin Mining | Cost method | 56,659,156.75 | 118,659,156.75 | - | 118,659,156.75 | 97.58% | 97.58% |
| Kalatongke Mining | Cost method | 10,000,000.00 | 1,230,000,000.00 | - | 1,230,000,000.00 | 100.00% | 100.00% |
| Beijing Xinding | Cost method | 100,000,000.00 | 100,000,000.00 | - | 100,000,000.00 | 100.00% | 100.00% |
| Shaanxi Xinxin | Cost method | 80,000,000.00 | 80,000,000.00 | - | 80,000,000.00 | 51.00% | 51.00% |
| | | | 2,350,131,420.87 | 115,000,000.00 | 2,465,131,420.87 | | |

(b) Joint-venture

| | 31 December 2017 | Increase in investment | Current year movement | | | | Other | 31 December 2018 | Provision for impairment |
|--------------|---------------------|---------------------------|--|--|-------------------------------|---------------------------------------|-----------------------|---------------------|-----------------------------|
| | | | Share of net profit using the equity method | Other comprehensive income adjustment | Other changes in equity | Cash divided declared or profit | | | |
| Hexin Mining | 149,177,257.93 | - | 5,157,346.20 | - | - | - | 154,334,604.13 | - | |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(10) Fixed assets

| | 31 December 2018 | 31 December 2017 |
|------------------|-----------------------------|---------------------|
| Fixed assets (a) | 475,488,807.98 | 515,999,232.73 |

(a) Fixed assets

| | Building | Machinery and equipment | Motor vehicles | Electronic equipment office equipment | Total |
|---------------------------------------|-----------------------|----------------------------|----------------------|---|-----------------------|
| Cost | | | | | |
| 31 December 2017 | 469,668,223.39 | 447,268,169.93 | 16,514,256.80 | 21,053,674.46 | 954,504,324.58 |
| Additions | | | | | |
| Purchase | - | 7,151,239.59 | 6,512.82 | 983,650.92 | 8,141,403.33 |
| Transfer from construction in process | - | 969,647.55 | - | - | 969,647.55 |
| Disposal & Scrap | - | (589,214.05) | (450,000.00) | (269,615.26) | (1,308,829.31) |
| 31 December 2018 | 469,668,223.39 | 454,799,843.02 | 16,070,769.62 | 21,767,710.12 | 962,306,546.15 |
| Accumulated depreciation | | | | | |
| 31 December 2017 | 155,897,496.23 | 255,351,469.53 | 12,620,098.57 | 14,636,027.52 | 438,505,091.85 |
| Accrument | 17,452,306.96 | 28,682,167.92 | 937,529.35 | 2,448,212.10 | 49,520,216.33 |
| Disposal | - | (509,565.00) | (436,500.00) | (261,505.01) | (1,207,570.01) |
| 31 December 2018 | 173,349,803.19 | 283,524,072.45 | 13,121,127.92 | 16,822,734.61 | 486,817,738.17 |
| Net book value | | | | | |
| 31 December 2018 | 296,318,420.20 | 171,275,770.57 | 2,949,641.70 | 4,944,975.51 | 475,488,807.98 |
| 31 December 2017 | 313,770,727.16 | 191,916,700.40 | 3,894,158.23 | 6,417,646.94 | 515,999,232.73 |

On 31 December 2018, depreciation of fixed assets amounted to RMB49,520,216.33 in total (2017: RMB49,386,711.57), of which RMB46,890,473.93 were charged to operating cost, RMB2,491,982.85 to general and administrative expense, and RMB137,759.55 to selling expense (On 31 December 2017 is RMB46,915,974.08, RMB2,306,580.47 and RMB164,157.02, respectively).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(11) Intangible assets

| | Land use right | Other | Total |
|---------------------------------|----------------------|-------------------|----------------------|
| Cost | | | |
| 31 December 2017 | 55,768,857.90 | 694,384.72 | 56,463,242.62 |
| Additions Purchase | – | 5,000.00 | 5,000.00 |
| 31 December 2018 | 55,768,857.90 | 699,384.72 | 56,468,242.62 |
| Accumulated depreciation | | | |
| 31 December 2017 | 10,001,882.56 | 331,628.03 | 10,333,510.59 |
| Additions Provision | 1,133,348.16 | 115,955.61 | 1,249,303.77 |
| 31 December 2018 | 11,135,230.72 | 447,583.64 | 11,582,814.36 |
| Net book value | | | |
| 31 December 2018 | 44,633,627.18 | 251,801.08 | 44,885,428.26 |
| 31 December 2017 | 45,766,975.34 | 362,756.69 | 46,129,732.03 |

On 31 December 2018, amortisation expense of intangible assets amounted to RMB1,249,303.77 (2017: RMB1,229,219.91).

(12) Deferred tax assets

| | 31 December 2018 | | 31 December 2017 | |
|---|---|----------------------|---|---------------------|
| | Deductible Temporary differences and deductible losses | Deferred tax assets | Deductible Temporary differences and deductible losses | Deferred tax assets |
| Assets impairment | 97,602,367.38 | 14,640,355.11 | 11,124,238.11 | 1,668,635.72 |
| Deductible losses | 488,781,589.67 | 73,317,238.45 | 562,275,922.39 | 84,341,388.36 |
| Government grants | 1,603,118.00 | 240,467.70 | 1,664,450.00 | 249,667.50 |
| | 587,987,075.05 | 88,198,061.26 | 575,064,610.50 | 86,259,691.58 |
| Including | | | | |
| Deferred tax asset to be recovered within 1 year (including 1 year) | | 9,981,530.58 | | 19,590,170.98 |
| Deferred tax asset to be recovered after 1 year | | 78,216,530.68 | | 66,669,520.60 |
| | | 88,198,061.26 | | 86,259,691.58 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(13) Provision for asset impairment

| | 31 December 2017 | Current year additions | Current year reductions | | | 31 December 2018 |
|---|---------------------|---------------------------|-------------------------|------|-------|---------------------|
| | | | Reversal | Sold | Other | |
| Provision for bad debts | 3,777,070.19 | 6,478,129.27 | - | - | - | 10,225,199.46 |
| Including: Accounts receivable | 3,770,794.98 | 123,048.42 | - | - | - | 3,893,843.40 |
| Other receivables | 6,275.21 | 6,355,080.85 | - | - | - | 6,361,356.06 |
| Provision for decline in value of inventories | 7,347,167.92 | - | - | - | - | 7,347,167.92 |
| Provision for decline in long-term equity investment (note 15(9)) | - | 80,000,000.00 | - | - | - | 80,000,000.00 |
| | 11,124,238.11 | 86,478,129.27 | - | - | - | 97,602,367.38 |

(14) Accounts payable & Notes payable

| | 31 December 2018 | 31 December 2017 |
|----------------------|---------------------|---------------------|
| Notes payable | 316,611,800.00 | 278,400,000.00 |
| Accounts payable (a) | 67,238,331.57 | 65,903,125.71 |
| | 383,850,131.57 | 344,303,125.71 |

(a) Accounts payable

| | 31 December 2018 | 31 December 2017 |
|-----------------------------------|---------------------|---------------------|
| Payable for purchase of materials | 64,636,680.63 | 63,005,652.09 |
| Transportation fee payable | 2,137,111.85 | 2,108,965.90 |
| Other | 464,539.09 | 788,507.72 |
| | 67,238,331.57 | 65,903,125.71 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(15) Contracts liabilities

| | 31 December 2018 | 31 December 2017 |
|-----------------------------|---------------------|---------------------|
| Advances for sales of goods | 3,758,619.42 | – |

As at 1 January 2018, the amount of contracts liabilities is RMB4,042,956.06, during this year is RMB3,573,207.07 transfer to revenue.

(16) Employee benefits payable

| | 31 December 2018 | 31 December 2017 |
|--|----------------------|---------------------|
| Short-term employee benefits payable (a) | 25,721,109.27 | 24,667,088.01 |
| Defined contribution plans payable (b) | 7,359.43 | 7,299.00 |
| | 25,728,468.70 | 24,674,387.01 |

(a) Short-term employee benefits payable

| | 31 December 2017 | Current year additions | Current year reductions | 31 December 2018 |
|--|---------------------|---------------------------|----------------------------|----------------------|
| Salaries, bonuses, allowances and subsidies | 20,555,372.50 | 70,695,547.24 | (70,316,437.82) | 20,934,481.92 |
| Staff welfare | – | 3,302,218.21 | (3,302,218.21) | – |
| Social insurances | 7,748.69 | 6,361,718.10 | (6,367,289.88) | 2,176.91 |
| Including: Medical insurance | 2,176.91 | 5,375,297.72 | (5,375,297.72) | 2,176.91 |
| Work injury insurance | 5,571.78 | 666,049.05 | (671,620.83) | – |
| Maternity insurance | – | 289,619.32 | (289,619.32) | – |
| Illness insurance | – | 30,752.01 | (30,752.01) | – |
| Housing funds | 451,247.00 | 6,217,381.00 | (6,180,550.00) | 488,078.00 |
| Labor union fund and employee education fund | 3,651,699.82 | 2,330,683.55 | (1,687,030.93) | 4,295,352.44 |
| Others | 1,020.00 | – | – | 1,020.00 |
| | 24,667,088.01 | 88,907,548.10 | (87,853,526.84) | 25,721,109.27 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(16) Employee benefits payable (continued)

(b) Defined contribution plans payable

| | 31 December 2017 | Current year additions | Current year reductions | 31 December 2018 |
|------------------------|---------------------|---------------------------|----------------------------|---------------------|
| Pension insurance | 1,253.87 | 9,961,356.18 | (9,961,295.75) | 1,314.30 |
| Unemployment insurance | 6,045.13 | 272,544.10 | (272,544.10) | 6,045.13 |
| | 7,299.00 | 10,233,900.28 | (10,233,839.85) | 7,359.43 |

(17) Taxes payable

| | 31 December 2018 | 31 December 2017 |
|---|---------------------|---------------------|
| Value added tax payable | 659,762.05 | 1,304,768.69 |
| Individual income tax | 105,216.49 | 82,312.68 |
| Environmental tariff | 85,438.62 | – |
| Stamp duty | 66,874.41 | 437,289.90 |
| City maintenance and construction tax payable | 53,040.83 | 85,969.58 |
| Educational surcharge payable | 37,886.30 | 61,212.78 |
| Total | 1,008,218.70 | 1,971,553.63 |

(18) Other payables

| | 31 December 2018 | 31 December 2017 |
|--------------------------------------|----------------------|---------------------|
| Payable to subsidiaries | 26,563,524.04 | 36,540,988.80 |
| Payables for purchases of equipments | 2,730,629.54 | 4,870,231.16 |
| Payables for construction projects | 2,533,997.59 | 4,209,764.07 |
| Payable for professional service | 2,075,900.00 | 1,977,673.57 |
| Interest payable | 1,690,042.84 | 6,788,888.89 |
| Others | 5,191,665.15 | 3,002,153.65 |
| Total | 40,785,759.16 | 57,389,700.14 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(19) Revenue and cost of sales

| | 2018 | 2017 |
|------------------------------------|-------------------------|------------------|
| Revenue from main operation | 1,630,137,179.00 | 1,275,872,344.60 |
| Revenue from other operation | 7,016,836.35 | 2,864,603.82 |
| | 1,637,154,015.35 | 1,278,736,948.42 |
| | | |
| | 2018 | 2017 |
| Cost of sales from main operation | 1,465,440,478.50 | 1,085,566,766.38 |
| Cost of sales from other operation | 8,322,836.14 | 1,652,609.68 |
| | 1,473,763,314.64 | 1,087,219,376.06 |

(a) Revenue and cost of sales from main operation

| | 2018 | | 2017 | |
|----------------|--------------------------------|-----------------------------------|--------------------------------|-----------------------------------|
| | Revenue from main operation | Cost sales from main operation | Revenue from main operation | Cost sales from main operation |
| Nickel cathode | 1,179,393,621.45 | 1,031,797,545.12 | 768,722,054.10 | 743,423,550.62 |
| Copper cathode | 414,908,842.51 | 415,504,686.32 | 305,697,628.85 | 213,755,048.28 |
| Others | 35,834,715.04 | 18,138,247.06 | 201,452,661.65 | 128,388,167.48 |
| | 1,630,137,179.00 | 1,465,440,478.50 | 1,275,872,344.60 | 1,085,566,766.38 |

(b) Revenue and cost of sales from other operation

| | 2018 | | 2017 | |
|----------------------|---------------------------------|---------------------------------------|---------------------------------|------------------------------------|
| | Revenue from other operation | Cost of sales from other operation | Revenue from other operation | Cost sales from other operation |
| Scrap sales | 5,954,046.61 | 7,955,043.78 | 153,408.12 | - |
| Sales of electricity | 746,380.52 | 367,377.80 | 297,175.28 | 226,333.65 |
| Supply of heating | - | - | 2,046,458.15 | 1,425,868.90 |
| Others | 316,409.22 | 414.56 | 367,562.27 | 407.13 |
| | 7,016,836.35 | 8,322,836.14 | 2,864,603.82 | 1,652,609.68 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(20) Financial expenses – net

| | 2018 | 2017 |
|--|-----------------------|---------------|
| Interest expense | 102,223,415.58 | 90,257,167.37 |
| Less: Capitalised interest | – | – |
| Interest expense | 102,223,415.58 | 90,257,167.37 |
| Less: Interest income on bank deposits | (4,192,419.32) | (982,922.35) |
| Bank charges | 4,172,265.13 | 4,878,236.27 |
| | 102,203,261.39 | 94,152,481.29 |

(21) Expenses by nature

Cost of sales, selling and distribution expense, general and administrative expenses in Income Statements by nature were shown as follows:

| | 2018 | 2017 |
|---|-------------------------|------------------|
| Raw materials and consumables used | 1,184,368,330.13 | 893,709,679.41 |
| Changes in inventories of work in progress, semi-finished goods and finished goods (note 15(6)) | 81,800,230.32 | 16,607,406.20 |
| Employee benefits | 99,141,448.38 | 91,184,272.00 |
| Depreciation (note 15(10)) | 49,520,216.33 | 49,386,711.57 |
| Electricity costs | 39,141,695.58 | 31,776,913.89 |
| Other production expenses | 36,701,648.76 | 25,815,563.44 |
| Safety fund | 6,659,880.45 | 7,471,187.88 |
| Transportation fee | 6,047,732.13 | 8,306,828.96 |
| Office expenses | 1,876,447.06 | 1,657,806.60 |
| Amortisation of intangible assets (note 15(11)) | 1,249,303.77 | 1,229,219.91 |
| Operating leases expenses | 780,714.28 | 796,157.16 |
| Sewage charge | – | 678,111.00 |
| Reversal of inventory provision due to sales (note 15(13)) | – | (6,158,970.16) |
| Audit expenses | 1,499,000.00 | 1,499,000.00 |
| – Audit service | 1,499,000.00 | 1,499,000.00 |
| – Non-audit service | – | – |
| Others | 9,848,819.04 | 8,466,618.27 |
| | 1,518,635,466.23 | 1,132,426,506.13 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

15 NOTES TO THE COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(22) Investment Income/(loss)

| | 2018 | 2017 |
|--|----------------------|----------------|
| Net profit/(loss) from a joint-venture under equity method <i>(note 4(8)(a))</i> | 5,157,346.20 | (2,657,835.14) |
| Investment Income from disposal of financial assets | 17,978,822.87 | 11,319,520.50 |
| Interest income from holding bonds | 50,526,006.49 | 59,789,302.98 |
| | 73,662,175.56 | 68,450,988.34 |

(23) Income tax expenses

| | 2018 | 2017 |
|---------------------|-----------------------|---------------|
| Current income tax | 536,636.53 | – |
| Deferred income tax | (1,938,369.68) | 17,369,329.60 |
| | (1,401,733.15) | 17,369,329.60 |

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the Company's income statements to the income tax expenses were listed as follows:

| | 2018 | 2017 |
|--|-----------------------|-----------------|
| Total (loss)/profit | (8,260,014.64) | 112,776,044.68 |
| Income tax expenses calculated at applicable tax rate of 25% | (2,065,003.66) | 28,194,011.17 |
| Effect of tax deductions | 826,001.46 | (11,277,604.47) |
| Income not subject to tax | (773,601.93) | – |
| Expenses not deductible for tax purposes | 74,234.45 | 452,714.51 |
| Clearance differences in respect of prior years | 536,636.53 | 208.39 |
| | (1,401,733.15) | 17,369,329.60 |

NOTES TO FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

16 NET CURRENT ASSETS/(LIABILITIES)

| | The Group | |
|---------------------------|---------------------------|---------------------|
| | 31 December 2018 | 31 December 2017 |
| Current assets | 2,686,578,628.28 | 2,318,921,359.95 |
| Less: current liabilities | (2,823,373,003.02) | (2,676,467,047.12) |
| Net current liabilities | (136,794,374.74) | (357,545,687.17) |

| | The Company | |
|---------------------------|---------------------------|--------------------|
| | 31 December 2018 | 31 December 2017 |
| Current assets | 2,874,948,026.18 | 3,526,287,014.47 |
| Less: current liabilities | (1,347,631,197.55) | (1,812,381,722.55) |
| Net current assets | 1,527,316,828.63 | 1,713,905,291.92 |

17 TOTAL ASSETS LESS CURRENT LIABILITIES

| | The Group | |
|---------------------------------------|---------------------------|---------------------|
| | 31 December 2018 | 31 December 2017 |
| Total assets | 7,902,018,561.35 | 7,779,915,657.12 |
| Less: current liabilities | (2,823,373,003.02) | (2,676,467,047.12) |
| Total assets less current liabilities | 5,078,645,558.33 | 5,103,448,610.00 |

| | The Company | |
|---------------------------------------|---------------------------|---------------------|
| | 31 December 2018 | 31 December 2017 |
| Total assets | 6,500,415,533.57 | 6,867,085,672.06 |
| Less: current liabilities | (1,347,631,197.55) | (1,812,381,722.55) |
| Total assets less current liabilities | 5,152,784,336.02 | 5,054,703,949.51 |

SUPPLEMENTAL INFORMATION FOR FINANCIAL STATEMENTS

31 December 2018

(All amounts in RMB Yuan unless otherwise stated)

1 TOTAL ASSETS LESS CURRENT LIABILITIES

| | 2018 | 2017 |
|---|-------------------------|----------------|
| Changes in fair value losses on disposal of financial liabilities at fair value through profit or loss and investment income from disposal of available-for-sale financial assets – net value | 17,808,028.47 | 11,404,878.86 |
| Government grants through profit or loss | 5,232,447.59 | 5,463,900.97 |
| Gains/(losses) on disposal of non-current assets | (91,472.89) | (1,957,447.56) |
| Other none-operating revenues and expenses | (149,511,897.69) | (2,294,369.07) |
| | (126,562,894.52) | 12,616,963.20 |
| Income tax | (3,307,261.13) | (1,700,719.77) |
| Non-controlling interest impact (after tax) | (79,332,016.52) | (480,254.01) |
| | (50,538,139.13) | 10,435,989.41 |

Basis of preparation of extraordinary gains or losses

According to the “Explanatory Notice for Information Disclosure by Companies Offering Securities to the Public No. 1 – Extraordinary Gains or Losses [2008]” set by China Securities Regulatory Commission, extraordinary gains or losses refer to gains or losses that are not directly related to the company’s normal business, and that are related to normal business but impact financial statements users to make correct judgment of the transactions and events on the Company’s operating performance and profitability because of their extraordinary and sporadic nature.

2 LOSS ON NET ASSETS AND LOSS PER SHARE

| | Weighted average loss on net assets (%) | | Loss per share | | | |
|--|---|---------|----------------|---------|------------------------|---------|
| | 2018 | 2017 | loss per share | | Diluted loss per share | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net loss attributable to ordinary shareholders | (1.26%) | (1.88%) | (0.025) | (0.037) | (0.025) | (0.037) |
| Net loss attributable to ordinary shareholders excluding extraordinary items | (0.09%) | (1.92%) | (0.002) | (0.040) | (0.002) | (0.040) |



Xinjiang Xinxin Mining Industry Co., Ltd.*
新疆新鑫礦業股份有限公司