CHINA METAL RESOURCES UTILIZATION LIMITED
中國金屬資源利用有限公司

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

(Stock Code: 1636)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue increased by 50.2% to RMB20,642.6 million, as compared to 2017.
- Gross loss margin amounted to 1.1%, as compared to a gross profit margin of 0.9% for last year.
- Profit attributable to the owners of the Company for the year amounted to RMB20.1 million, as compared to RMB184.6 million for last year.
- Adjusted EBITDA* for the year amounted to RMB172.0 million, as compared to RMB322.1 million for last year.
- Earnings per share for the year amounted to RMB0.01, as compared to RMB0.08 for last year.
- Current ratio of 1.3 as at 31 December 2018, as compared to 1.8 as at 31 December 2017.
- Debt to equity ratio of 60.2% as at 31 December 2018, as compared to 81.0% as at 31 December 2017.
- The Board does not recommend the declaration of any final dividend for the year ended 31 December 2018.

* Adjusted EBITDA is a non-IFRS financial measure calculated as earnings before deduction of finance expenses and income, income tax, depreciation and amortisation, impairment loss and write-offs and share-based payment expense. It excludes the Group's share of results of associates.

RESULTS

The board (the "Board") of directors (the "Directors") of China Metal Resources Utilization Limited (the "Company") is pleased to present the consolidated annual results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Notes	**2018** **RMB'000**	2017 RMB'000
REVENUE	*3*	**20,642,565**	13,741,862
Cost of sales		**(20,876,829)**	(13,618,255)
GROSS PROFIT/(LOSS)		**(234,264)**	123,607
Other income, gain/(loss), net	*5*	**491,410**	318,340
Selling and distribution expenses		**(23,844)**	(20,519)
Administrative expenses		**(111,078)**	(153,636)
Reversal of provision for doubtful debts, net		**69,605**	127,457
Finance costs	*7*	**(135,089)**	(143,220)
Share of profits of associates		**8,238**	4,375
PROFIT BEFORE TAX	*6*	**64,978**	256,404
Income tax expense	*8*	**(44,855)**	(71,821)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**20,123**	184,583
EARNINGS PER SHARE	*9*		
Basic (RMB)		**0.01**	0.08
Diluted (RMB)		**0.01**	0.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	2018	2017
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**20,123**	184,583
Other comprehensive income/(loss) for the year:		
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company and the foreign operations	**(51,254)**	3,897
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(31,131)**	188,480

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018
(Expressed in Renminbi)

	Notes	**2018** **RMB'000**	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**643,845**	568,460
Prepaid land lease payments		**120,317**	95,672
Interests in associates		**184,648**	166,810
Goodwill		**685,778**	23,227
Pledged deposits		**4,800**	4,800
Prepayments, other receivables and other assets		**29,946**	31,846
Deferred tax assets		**19,638**	20,039
		1,688,972	910,854
CURRENT ASSETS			
Inventories		**432,525**	453,169
Trade and bills receivables	*11*	**879,331**	1,091,198
Prepayments, other receivables and other assets		**1,537,701**	784,351
Amounts due from associates		**5,038**	6,221
Amounts due from related parties		**10**	10
Pledged deposits		**47,012**	43,437
Cash and cash equivalents		**112,935**	109,595
		3,014,552	2,487,981
CURRENT LIABILITIES			
Trade and bills payables	*12*	**543,355**	213,658
Note payable		**17,524**	–
Other payables and accruals		**539,649**	356,638
Finance leases payables		**714**	12,451
Interest-bearing bank and other borrowings		**532,408**	682,560
Amounts due to associates		**103,709**	4,638
Amounts due to a related party		**5**	–
Liability component of convertible bonds		**576,854**	95,171
Tax payable		**50,420**	36,481
		2,364,638	1,401,597
NET CURRENT ASSETS		**649,914**	1,086,384
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,338,886**	1,997,238

	Note	2018 RMB'000	2017 RMB'000
NON-CURRENT LIABILITIES			
Finance leases payables		**4,226**	691
Interest-bearing bank and other borrowings		**16,140**	531
Liability component of convertible bonds		**–**	453,436
Contingent consideration liabilities		**407,667**	–
Deferred government grants		**5,076**	6,204
		433,109	460,862
NET ASSETS		**1,905,777**	1,536,376
CAPITAL AND RESERVES			
Share capital	*13*	**210,244**	197,495
Reserves		**1,695,533**	1,338,881
TOTAL EQUITY		**1,905,777**	1,536,376

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 GENERAL INFORMATION

China Metal Resources Utilization Limited ("the Company") was incorporated in the Cayman Islands on 22 February 2013. The Company and its subsidiaries (together referred to as "the Group") are principally engaged in the manufacturing, sales and trading of copper and related products. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 21 February 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The annual results set out in the announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2018, but are extracted from the consolidated financial statements. The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange").

The IASB has issued certain new and revised IFRSs that have not been effective for the current accounting period. The Group has not applied these new or revised standards or interpretations that are not yet effective for the current accounting period.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments that are stated at their fair values.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

(c) Changes in accounting policies

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC Interpretation 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4, Amendments to IAS 40 and *Annual Improvements to IFRSs 2014–2016 Cycle*, which are not relevant to the preparation of the Group's consolidated financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts of financial assets and liabilities under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		**Re-**			**IFRS 9 measurement**	
		Category	**Amount**	**classification**	**ECL**	**Other**	**Amount**	**Category**
	Note		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	
Financial assets								
Trade and bills receivables	*(i)*	L&R[1]	1,091,198	–	(89,019)	–	1,002,179	AC[2]
Financial assets included in prepayments, other receivables and other assets	*(i)*	L&R[1]	639,207	–	–	–	639,207	AC[2]
Amounts due from associates		L&R[1]	6,221	–	–	–	6,221	AC[2]
Amounts due from related companies		L&R[1]	10	–	–	–	10	AC[2]
Pledged deposits		L&R[1]	48,237	–	–	–	48,237	AC[2]
Cash and cash equivalents		L&R[1]	109,595	–	–	–	109,395	AC[2]
			1,894,468	–	(89,019)	–	1,805,249	
Financial liabilities								
Trade and bills payables		AC[2]	213,658	–	–	–	213,658	AC[2]
Financial liabilities included in other payables and accruals		AC[2]	65,714	–	–	–	65,714	AC[2]
Finance leases payables		AC[2]	13,142	–	–	–	13,142	AC[2]
Interest-bearing bank and other borrowings		AC[2]	683,091	–	–	–	683,091	AC[2]
Amounts due to associates		AC[2]	4,638	–	–	–	4,638	AC[2]
Liability component of convertible bonds		AC[2]	548,607	–	–	–	548,607	AC[2]
			1,528,850	–	–	–	1,528,850	

1 L&R: Loans and receivables
2 AC: Financial assets or financial liabilities at amortised cost

Note:

(i) The gross carrying amounts of the trade and bills receivables and financial assets included in prepayments, other receivables and other assets under the column "IAS 39 measurement — Amount" represent the amounts before the measurement of ECLs.

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowances under IAS 39 at 31 December 2017 *RMB'000*	Re-measurement *RMB'000*	ECL allowances under IFRS 9 at 1 January 2018 *RMB'000*
Trade and bills receivables	109,927	89,019	198,946
Financial assets included in prepayments, other receivables and other assets	–	–	–

Impacts on interests in associates, revaluation reserve and accumulated losses

The impacts of transition to IFRS 9 on interests in associates, revaluation reserve and accumulated losses are as follows:

	Interests in associates, revaluation reserve and accumulated losses *RMB'000*
Interests in associates	
Balance as at 31 December 2017 under IAS 39	166,810
Remeasurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	9,600
Balance as at 1 January 2018 under IFRS 9	176,410
Revaluation reserve	
Balance as at 31 December 2017 under IAS 39	–
Remeasurement of equity investment designated at fair value through other comprehensive income previously measured at cost under IAS 39 included in interests in associates	9,600
Balance as at 1 January 2018 under IFRS 9	9,600
Accumulated losses	
Balance as at 31 December 2017 under IAS 39	68,017
Recognition of expected credit losses for trade and bills receivables under IFRS 9	89,019
Deferred tax for expected credit losses for trade and bills receivables under IFRS 9	(5,736)
Balance as at 1 January 2018 under IFRS 9	151,300

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15, if any, was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Note	**Increase/ (decrease)** *RMB'000*
Liabilities		
Receipts in advance*	*(i)*	(3,780)
Contract liabilities*	*(i)*	3,780
Total liabilities		–

* The balances are included in other payables and accruals, on the face of the consolidated statement of financial position.

Note:

(i) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as receipt in advance included in other payables. Under IFRS 15, the amount is classified as contract liabilities included in other payables.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB3,780,000 from receipts in advance to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, RMB30,578,000 classified as "receipt in advance" under IAS 18 was reclassified as "contract liabilities" due to adoption of IFRS 15.

(d) IFRIC Interpretation 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

3 REVENUE

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

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

	2018	2017
	RMB'000	*RMB'000*
Revenue from trading of electrolytic copper *(Note)*	**13,519,429**	10,152,885
Sales of recycled copper products	**6,790,364**	3,532,396
Sales of power transmission and distribution cables	**27,315**	13,489
Sales of communication cables	**40,935**	34,460
Sales of scrap materials	**81,807**	5,948
Revenue from trading of electrolytic nickel	**173,627**	–
Others	**9,088**	2,684
	20,642,565	13,741,862

Note: The Group has entered into trading activities of electrolytic copper since 2015 whereas the Group is considered as the principal of the transactions as it controls the electrolytic copper before they are sold to the customers. The gross inflows of the trading activities are therefore recognised as revenue.

4 SEGMENT REPORTING

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

(i) Recycled copper products segment: use of scrap copper and electrolytic copper for the manufacturing and trading of recycled copper products, and trading of electrolytic copper and nickel products;

(ii) Power transmission and distribution cables segment: manufacturing sales of power transmission and distribution cables;

(iii) Communication cables segment: manufacturing and sales of communication cables; and

(iv) Aluminium products segment: sales of aluminium products.

(a) Segment results

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

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

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

	2018			
	Recycled copper products	Power transmission and distribution cables	Communication cables	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sales to external customers	**20,574,315**	**27,315**	**40,935**	**20,642,565**
Intersegment sales	**367,579**	**515**	**10,864**	**378,958**
	20,941,894	**27,830**	**51,799**	**21,021,523**
Reconciliation:				
Elimination of intersegment sales				**(378,958)**
Revenue				**20,642,565**
Segment results	**280,500**	**5,546**	**10,106**	**296,152**
Interest income	**123**	**15**	**228**	**366**
Corporate and other unallocated expenses				**(204,625)**
Finance costs	**(27,684)**	**(2,264)**	**(5,205)**	**(35,153)**
Share of profits of associates				**8,238**
Profit before tax				**64,978**
Other segment information				
Depreciation and amortisation	**31,366**	**8,321**	**3,058**	**42,745**
VAT refunds, government grants and subsidies	**468,302**	**12,835**	**12,471**	**493,608**
Reversal of provision for doubtful debts, net	**(64,054)**	**(4,099)**	**(1,452)**	**(69,605)**

	2017				
	Recycled copper products *RMB'000*	Power transmission and distribution cables *RMB'000*	Communication cables *RMB'000*	Aluminium products *RMB'000*	Total *RMB'000*
Sales to external customers	13,693,913	13,489	34,460	–	13,741,862
Intersegment sales	269,565	260	930	–	270,755
	13,963,478	13,749	35,390	–	14,012,617
Reconciliation:					
Elimination of intersegment sales					(270,755)
Revenue					13,741,862
Segment results	408,045	47,508	1,109	–	456,662
Interest income	17,319	25	241	–	17,585
Corporate and other unallocated expenses					(153,398)
Finance costs	(66,845)	(707)	(1,268)	–	(68,820)
Share of profits of associates					4,375
Profit before tax					256,404
Other segment information					
Depreciation and amortisation	26,074	8,306	3,504	86	37,970
VAT refunds, government grants and subsidies	279,064	17,490	6,940	–	303,494
Reversal of provision for doubtful debts, net	(83,390)	(44,418)	351	–	(127,457)

(b) Geographic information

The Group carried out its business operations in the PRC, thus no separate geographical segment analysis based on the location of assets and the revenue and profit or loss are presented.

(c) Information about major customers

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

	2018 *RMB'000*	2017 *RMB'000*
Recycled copper product segment		
Customer A	**7,464,523**	4,613,764
Customer B	**3,559,391**	1,842,181
	11,023,914	6,455,945

5 OTHER INCOME, GAIN/(LOSS), NET

	Notes	**2018** ***RMB'000***	2017 *RMB'000*
VAT refunds			
— Comprehensive utilisation of resources	*(i)*	**234,823**	130,442
— Others		**4,283**	2,740
Government grants	*(ii)*	**122,330**	83,012
Government subsidies	*(iii)*	**132,172**	87,300
Interest income		**487**	1,538
Net gain/(loss) on copper futures contracts upon settlement		**(1,729)**	1,334
Foreign exchange differences, net		**(1,733)**	13,139
Loss on disposal of property, plant and equipment		**(186)**	(32)
Changes in fair value of derivative component of convertible bonds		**–**	2,233
Changes in fair value of contingent considerations liabilities		**1,696**	–
Others		**(733)**	(3,366)
		491,410	318,340

Notes:

(i) The Group is entitled to government grants for refunds of 30% for the year ended 31 December 2018 (2017: 30%) of the net VAT paid/payable.

The Ministry of Finance and the State Administration of Taxation jointly issued a notice concerning the "Catalogue on Products and Labour Services relating to Comprehensive Utilisation of Resources Eligible for Concessions of Value-added Tax" (Cai Shui [2015] (No. 78)) (the "New VAT Policy") on 12 June 2015, which replaced, amongst others, Cai Shui [2011] No. 115 (the "Former VAT Policy")). Under the Former VAT Policy, certain subsidiaries of the Group are entitled to government grants for refunds of 50% of the net VAT paid/payable. The New VAT Policy took effect on 1 July 2015. According to the New VAT Policy, the applicable VAT refund for such subsidiaries are reduced from 50% to 30%.

(ii) The amounts represent local government grants received by operating subsidiaries of the Group in the PRC for the purpose of providing immediate financial support to those subsidiaries for general operating use with no future related costs. No specific conditions are required to meet in connection with these grants.

(iii) In 2018, the Group was granted unconditional government subsidies of RMB132,172,000 (2017: RMB87,300,000) from Youxian District Finance Bureau, Mianyang City, Sichuan Province. The subsidies were received through Sichuan Baohe Fushan Resources Recycling Development Co., Ltd. ("Baohe Fushan"), an associate of the Group. Baohe Fushan is principally engaged in the operation and the development of an industrial park in Mianyang City, Sichuan Province, where most of the Group's subsidiaries are located.

6 PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2018	2017
	RMB'000	*RMB'000*
Cost of sales *(Note)*	**20,876,829**	13,618,255
Depreciation	**40,194**	35,848
Loss on disposal of property, plant and equipment	**186**	32
Recognition of prepaid land lease payments	**2,551**	2,122
Minimum lease payments under operating leases	**3,863**	1.733
Auditor's remuneration	**4,637**	3,586
Professional fees	**13,924**	24,421
Research and development costs	**2,202**	1,414
Reversal of provision for doubtful debts, net	**(69,605)**	(127,457)
Reversal of provision for inventory	**–**	(5,288)
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	**43,638**	29,354
Pension scheme contributions	**4,003**	2,270
Equity-settled share option expense	**7,563**	23,210
	55,204	54,834

Note: Cost of sales includes RMB20,832,000 (2017: RMB16,693,000) relating to staff cost, depreciation and amortisation, which amount is also included in the respective total amounts.

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans and other borrowings	**52,589**	68,885
Interest on obligation under finance lease	**1,654**	1,396
Interest on convertible bonds	**80,760**	67,137
Guarantee fees and other charges	**86**	5,802
	135,089	143,220

8 INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision has been made for Hong Kong profits tax as the Group did not earn any assessable profit subject to Hong Kong profits tax during the years ended 31 December 2018 and 2017.

The Company's subsidiaries in Mainland China are subject to income tax at the rate of 25% (2017: 25%). In year 2018, 4 subsidiaries (2017: 3) were given the New/High Tech Enterprise Award. This award brought these subsidiaries a tax concession of a lower income tax rate (i.e. 15%) for the year ended 31 December 2017 and 2018 and the year ending 31 December 2019. In year 2018, 6 subsidiaries (2017: 6) were in the western region that engage in the industries encouraged by the government. This brought these subsidiaries a tax concession of a lower income tax rate (i.e. 15%) for the year ended 31 December 2017 and 2018 and the year ending 31 December 2019.

	2018	2017
	RMB'000	*RMB'000*
Current — People's Republic of China (the "PRC")		
Charge for the year	**38,794**	32,809
Overprovision in prior years	**(76)**	(2,587)
	38,718	30,222
Deferred	**6,137**	41,599
	44,855	71,821

9 EARNINGS PER SHARE

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares of 2,541,850,770 (2017: 2,410,753,862) in issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to owners of the Company, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Profit attributable to owners of the Company	**20,123**	184,583
Interest on convertible bonds	**80,760**	67,157
Profit attributable to owners of the Company before interest on convertible bonds	**100,883**	251,740

	Number of shares	
	2018	2017
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,541,850,770**	2,410,753,862
Effect of dilution — weighted average number of ordinary shares:		
Warrants	**11,189,109**	15,484,436
Share options	**81,218,978**	63,773,095
Contingent consideration shares	**16,609,419**	–
Convertible bonds*	**230,595,837**	148,276,252
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**2,881,464,113**	2,638,287,645

* Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amounts are based on the profit for the year of RMB20,123,000 and the weighted average number of ordinary shares of 2,650,868,276 in issue during the year.

10 DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

11 TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,008,234**	1,061,125
Less: allowance for impairment loss	**(129,341)**	(109,927)
	878,893	951,198
Bills receivables	**438**	140,000
	879,331	1,091,198

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 3 months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**426,325**	615,758
31 to 60 days	**208,843**	318,384
61 to 180 days	**150,201**	109,630
Over 180 days	**93,962**	47,426
	879,331	1,091,198

12 TRADE AND BILLS PAYABLES

	2018	2017
	RMB'000	*RMB'000*
Trade payables	**517,555**	187,858
Bills payables	**25,800**	25,800
	543,355	213,658

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

	2018	2017
	RMB'000	*RMB'000*
Within 30 days	**155,146**	179,469
31 to 60 days	**32,121**	3,301
61 to 180 days	**111,767**	5,366
Over 180 days	**244,321**	25,522
	543,355	213,658

The trade payables are non-interest-bearing and are normally settled on 30 day terms.

13 SHARE CAPITAL

Authorised and Issued Share Capital

	2018	2017
	RMB'000	*RMB'000*
Authorised:		
100,000,000,000 ordinary shares at HK$0.1 each	**8,071,000**	8,071,000
Issued and fully paid:		
2,614,994,419 (2017: 2,466,900,969) ordinary shares	**210,244**	197,495

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital *RMB'000*
At 1 January 2017	2,297,445,600	182,579
Exercise of share options (i)	4,500,000	398
Conversion of the 2015 CB to equity (ii)	90,881,295	8,063
Issuance of ordinary shares (iii)	74,074,074	6,455
At 31 December 2017 and 1 January 2018	2,466,900,969	197,495
Exercise of shape options (iv)	17,282,000	1,394
Issuance of ordinary shares (v)	75,980,000	6,687
Exercise of warrants (vi)	18,101,372	1,462
Issuance of consideration shares (vii)	36,730,078	3,206
At 31 December 2018	2,614,994,419	210,244

Notes:

(i) The subscription right attaching to 4,500,000 share options were exercised at the subscription price of HK$2.16 per share resulting in the issue of 4,500,000 shares for a total cash consideration, before expenses, of RMB8,592,000. An amount of RMB841,000 was transferred from the share-based payment reserve to share premium upon the exercise of the share options.

(ii) On 18 April 2017, conversion rights of the 2015 CBs were exercised to convert the 2015 CBs in the principal amount of USD16,300,000 (equivalent to RMB112,071,000) at the adjusted conversion price of HK$1.39 to subscribe 90,881,295 ordinary shares of the Company. RMB8,063,000 and RMB241,075,000 were credited to share capital and share premium respectively.

(iii) On 12 June 2017, 74,074,074 ordinary shares were issued at HK$2.70 each to an independent third party, Prosper Rich Investments Limited, which resulted in proceeds of HK$194,000,000 (equivalent to RMB168,978,000).

(iv) The subscription rights attaching to 17,282,000 share options were exercised at the subscription price of HK$1.13 per share, resulting in the issue of 17,282,000 shares for a total cash consideration, before expenses, of HK$19,528,000 (equivalent to RMB15,750,000). An amount of RMB5,374,000 was transferred from the share-based payment reserve to share premium upon the exercise of the share options.

(v) On 4 October 2018, 75,980,000 ordinary shares were issued at HK$4.80 each to an independent third party Hongkong Fule International Investment Limited ("Hongkong Fule"), which resulted in proceeds of HK$364,704,000 (equivalent to RMB320,922,000).

(vi) 18,101,372 shares were issued for cash at a weighted average subscription price of HK$1.39 per share pursuant to the exercise of the Company's warrants for a total cash considerations, before expenses, of HK$25,197,000 (equivalent to RMB20,355,000).

(vii) On 17 September 2018, the Company issued 36,730,078 ordinary shares to the suppliers pursuant to an agreement as disclosed in the announcement dated 15 August 2017. RMB3,206,000 and RMB90,813,000 had been transferred from consideration share reserve to share capital and share premium respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

In 2018, the stable economic growth in China has resulted in an increase in the demand for copper products across the country. As a result, the Group recorded an increase in sales volume of copper products in 2018 as compared with 2017, which translated into an increase in turnover by 50.2% as compared with last year. Such increase in sales was contributed not only by the increase in the Group's trading volume of electrolytic copper but also by the increase in production volume of its recycled copper products. Along with the increase in production and sales volume of recycled copper products, VAT refunds under the Comprehensive Utilisation of Resources Policy also recorded a corresponding increase during 2018. Furthermore, the significant improvement in the liquidity of our customers has resulted in the recovery of several long overdue trade receivable balances. Notwithstanding the increase in revenue, the Group recorded a considerable gross loss in the year caused by the significant fluctuation of metal prices in the second half of the year under the uncertain macroeconomic environment.

We see headwinds as well as opportunities amid the trade conflict between China and the USA. In order to increase our financial strength to be well prepared for the future, the Group has agreed with the bondholder to extend the maturity date of a tranche of convertible bonds with a principal amount of HK$80.0 million in April 2018 and completed the issuance of 75,980,000 new shares to a state-owned enterprise for raising approximately HK$364.7 million in October 2018. In order to grasp the favorable opportunities to expand our scale, the Group has also completed the acquisitions of certain target groups which have production facilities in Sichuan, Hubei and Henan respectively.

Future Prospects/Outlook

Recently, the upward trend of global interest rates has ceased and appeared to have reversed. Furthermore, there are continued signs that the trade conflict between China and the USA may be resolved in the second quarter of 2019. As a result, the global macroeconomic environment has turned to be positive in the first quarter of 2019. Meanwhile, China's economy remained stable and is targeted to grow between 6% and 6.5% this year. Moreover, copper prices have increased by approximately 3.8% in the first two months of 2019, signalling market expectation of continued strong economic growth in China. In order to further support the economic growth, the Chinese government plans to encourage banks to enlarge lending to non-state-owned enterprises, launch new tax cuts and speed up infrastructure investments in near future. At this juncture, we have become more optimistic and will be looking to increase our financial strength so that we can take full advantage of future opportunities as well as being able to cope with possible headwinds. At the same time, we shall also continue to seek suitable acquisition opportunities to help grow our business and enhance our shareholder value.

Financial Review

Revenue

Our revenue represents the amounts accepted to be entitled for sales of goods and services in the ordinary course of business. Revenue recognised is net of VAT and other taxes, returns and discounts after eliminating sales within our Group.

	2018	2017
	RMB'000	*RMB'000*
Revenue from trading of electrolytic copper *(Note)*	**13,519,429**	10,152,885
Sale of recycled copper products	**6,790,364**	3,532,396
Sale of power transmission and distribution cables	**27,315**	13,489
Sale of communication cables	**40,935**	34,460
Sale of scrap materials	**81,807**	5,948
Revenue from trading of electrolytic nickel	**173,627**	–
Others	**9,088**	2,684
	20,642,565	13,741,862

Note: The Group has entered into trading activities of electrolytic copper since 2015 whereas the Group is considered the principal of the transactions as it controls the electrolytic copper before they are sold to the customers. The gross inflows of the trading activities are therefore recognised as revenue.

Revenue for the year ended 31 December 2018 amounted to RMB20,642.6 million, representing an increase of 50.2% from RMB13,741.9 million for the year ended 31 December 2017. The increase in sales volume was principally from the increase in trading of electrolytic copper and sales of recycled copper products, which are contributed from the commencement of new operations in Liangshanzhou and contribution from the newly acquired subsidiaries.

Revenue from trading of electrolytic copper amounted to RMB13,519.4 million for the year ended 31 December 2018, representing an increase of 33.2% from RMB10,152.9 million for the year ended 31 December 2017. It was mainly an increase of 30.0% in the sales volume of electrolytic copper from 237,190.5 metric tons for the year ended 31 December 2017 to 308,241.9 metric tons for the year ended 31 December 2018, with an increase of 2.5% in average selling price from RMB42,805 per ton for the year ended 31 December 2017 to RMB43,860 per ton for the year ended 31 December 2018.

Revenue from recycled copper products amounted to RMB6,790.4 million for the year ended 31 December 2018, representing an increase of 92.2% from RMB3,532.4 million for the year ended 31 December 2017. It was mainly an increase of 89.0% in the sales volume of recycled copper products from 82,866 metric tons for the year ended 31 December 2017 to 156,589 metric tons for the year ended 31 December 2018, with an increase of 1.7% in average selling price from RMB42,628 per ton for the year ended 31 December 2017 to RMB43,364 per ton for the year ended 31 December 2018.

Revenue from sales of power transmission and distribution cables amounted to RMB27.3 million for the year ended 31 December 2018, mainly representing an increase of 102.2% from RMB13.5 million for the year ended 31 December 2017.

Cost of sales

Cost of sales for the year ended 31 December 2018 totaled RMB20,876.8 million, representing an increase of 53.3% from RMB13,618.3 million for the year ended 31 December 2017.

Gross profit/(loss)

Our gross loss was RMB234.3 million for the year ended 31 December 2018, as compared to the gross profit of RMB123.6 million for the year ended 31 December 2017. Our gross loss margin for the year ended 31 December 2018 was 1.13%, as compared to a gross profit margin of 0.9% for the year ended 31 December 2017. The deterioration of gross profit margin was mainly due to the significant fluctuation in copper price in the second half of 2018, causing losses in trading business.

Other income, gain/(loss), net

Our other income and gain for the year ended 31 December 2018 were RMB491.4 million as compared to RMB318.3 million for the year ended 31 December 2017. The increase in 2018 were primarily attributable to the increases in government subsidies and grants and VAT refunds under Comprehensive Utilisation of Resources Policy.

Selling and distribution expenses

Our selling and distribution expenses for the year ended 31 December 2018 was RMB23.8 million, representing an increase of 16.2% from RMB20.5 million for the year ended 31 December 2017. The increase was mainly due to the commencement of operation in Liangshanzhou and contribution from the newly acquired subsidiaries.

Administrative expenses

Our administrative expenses for the year ended 31 December 2018 were RMB111.1 million, representing a decrease of 27.7% from RMB153.6 million for the year ended 31 December 2017. The decrease was primarily due to the decrease in professional fee by RMB10.5 million and the decrease in share-based compensation expense by RMB14.8 million, following the end of vesting period of share options granted on 2 July 2014 and 7 May 2015.

Finance costs

Our finance costs for the year ended 31 December 2018 were RMB135.1 million, representing a decrease of 5.7% from RMB143.2 million for the year ended 31 December 2017. The decrease was primarily due to the decrease in the overall balance of interest-bearing borrowings. The balance of interest-bearing bank and other borrowings as at 31 December 2018 amounted to RMB548.5 million, representing a decrease of RMB134.6 million from RMB683.1 million as at 31 December 2017.

Adjusted EBITDA

This MD&A makes reference to the term "adjusted EBITDA" which is not a recognized measure under IFRS, and do not have a standardized meaning prescribed by IFRS. Accordingly, the Company's use of this term may not be comparable to similarly defined measures presented by other companies. Management uses adjusted EBITDA to measure the Company's efficiency and its ability to generate the cash necessary to fund a portion of its future growth expenditures or to repay debt. Investors are cautioned that the non-IFRS measures should not be construed as an alternative to net income determined in accordance with IFRS as an indication of the Company's performance. The following table set forth the calculation of adjusted EBITDA.

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation	**64,978**	256,404
Finance costs	**135,089**	143,220
Share-based payment expenses	**7,563**	23,210
Depreciation	**40,194**	35,848
Amortisation of lease prepayments	**2,551**	2,122
Interest income	**(487)**	(1,538)
Shares of profits of associates	**(8,238)**	(4,375)
Reversal of provision for doubtful debts, net	**(69,605)**	(127,457)
Reversal of provision for inventory	**–**	(5,288)
	172,045	322,146

The decrease in adjusted EBITDA for the year was mainly due to the decrease in gross profit.

Adjusted EBITDA is a non-IFRS financial measure calculated as earnings before deduction of finance expenses and income, income tax, depreciation and amortisation, impairment loss and write-offs and share-based payment expense. It excludes the Group's share of results of associates.

Profit for the year

Our profit for the year ended 31 December 2018 was RMB20.1 million as compared to RMB184.6 million for the year ended 31 December 2017. The decrease was mainly due to the deterioration in gross profit and the decrease in the reversal of impairment loss of trade and other receivables.

Capital structure

As at 31 December 2018, the capital structure of the Group mainly consisted of shareholders' equity, notes payable, interest-bearing bank and other borrowings, finance leases payables and liability component of convertible bonds. There is no material seasonality of borrowing requirements for the Group.

The following table details the interest rate profile of the Group's total interest-bearing borrowings at the end of reporting periods:

	As at 31 December 2018		As at 31 December 2017	
	Weighted average effective interest rate	**Amount**	Weighted average effective interest rate	Amount
	%	***RMB'000***	%	*RMB'000*
Fixed rate borrowings:				
Notes payable	**12.00**	**17,524**	–	–
Interest-bearing bank and other borrowings	**8.69**	**548,548**	10.98	683,091
Finance lease payables	**27.79**	**4,940**	5.56	13,142
Liability component of convertible bonds	**15.07**	**576,854**	15.25	548,607
Total fixed rate borrowings		**1,147,866**		1,244,840

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

	As at 31 December 2018				
	Notes payable	**Interest-bearing bank and other borrowings**	**Finance lease payables**	**Liability component of convertible bonds**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Within one year or repayable on demand	**17,524**	**532,408**	**714**	**576,854**	**1,127,500**
After one year but less than two years	**–**	**16,140**	**866**	**–**	**17,006**
After two years but less than five years	**–**	**–**	**3,360**	**–**	**3,360**
	17,524	**548,548**	**4,940**	**576,854**	**1,147,866**

	As at 31 December 2017			
	Interest-bearing bank and other borrowings *RMB'000*	Finance lease payables *RMB'000*	Liability component of convertible bonds *RMB'000*	Total *RMB'000*
Within one year or repayable on demand	682,560	12,451	95,171	790,182
After one year but less than two years	391	360	453,436	454,187
After two years but less than five years	140	331	–	471
	683,091	13,142	548,607	1,244,840

Extension of term of convertible bonds

In respect of the convertible bonds in the aggregate principal amount of HK$115,000,000 issued by the Company under the subscription agreement signed on 9 April 2017 ("Tranche II Convertible Bonds"), the Tranche II Convertible Bonds with the principal amount of HK$35,000,000, together with the interest accrued thereon, has been repaid by the Company on 12 April 2018. In addition, the Company was notified by Leading Sky Holdings Limited on 11 April 2018 that Leading Sky Holdings Limited has transferred the Tranche II Convertible Bonds with the principal amount of HK$80,000,000 (the "Remaining Tranche II Convertible Bonds") to Peaceful Wealth International Limited (the "Transferee") and the Transferee has exercised its right to extend the maturity date of the Remaining Tranche II Convertible Bonds for one (1) year in accordance with the Tranche II Convertible Bonds terms and conditions. The Remaining Tranche II Convertible Bonds shall continue to be governed by the Tranche II Convertible Bonds terms and conditions. For details, please refer to the announcement of the Company dated 12 April 2018.

Issuance of new ordinary shares

On 26 April 2018, share options were exercised to subscribe for 17,282,000 ordinary shares in the Company at a total consideration of HK$19,528,000 (equivalent to RMB15,750,000), of which HK$1,728,000 (equivalent to RMB1,394,000) and HK$17,800,000 (equivalent to RMB14,356,000) were credited to share capital and share premium respectively. RMB5,374,000 was transferred from share-based compensation reserve to share premium account.

The Company received an exercise notice from the warrant holders on 25 April 2018, warrants were exercised to subscribe for 18,101,372 ordinary shares in the Company at a total consideration of HK$25,197,000 (equivalent to RMB20,355,000), of which HK$1,810,000 (equivalent to RMB1,462,000) and HK$23,387,000 (equivalent to RMB18,893,000) were credited to share capital and share premium respectively. RMB8,519,000 was transferred from warrant reserve to share premium account.

On 17 September 2018, the Company issued 36,730,078 ordinary shares to the suppliers pursuant to an agreement as disclosed in the announcement dated 15 August 2017. RMB3,206,000 and RMB90,813,000 had been transferred from consideration share reserve to share capital and share premium respectively.

On 4 October 2018, the Company issued 75,980,000 ordinary shares of HK$0.1 at the price of HK$4.80 per share to an independent third party, Hongkong Fule International Investment Limited ("Hongkong Fule"). The net proceeds from the issue of these shares amounted to HK$364,704,000 (equivalent to RMB320,922,000). An amount of HK$7,598,000 (equivalent to RMB6,687,000), representing the par value of the shares issued, was credited to the Company's share capital. The remaining amount of HK$357,106,000 (equivalent to RMB314,235,000) was credited to share premium.

Liquidity and financial resources

As at 31 December 2018, the Group's cash and cash equivalents (excluding pledged deposits of RMB51.8 million) amounted to RMB112.9 million (as at 31 December 2017: RMB109.6 million).

The Group's inventories decreased by RMB20.6 million to RMB432.5 million (as at 31 December 2017: RMB453.2 million). During the year ended 31 December 2018, the overall inventory turnover days were 7.7 days as compared with 8.9 days for the year ended 31 December 2017. The decrease in inventory turnover days was mainly due to the increase in sales from trading of electrolytic copper and the turnover days of such sales were shorter.

Trade and bills receivable decreased by RMB211.9 million to RMB879.3 million as at 31 December 2018 (as at 31 December 2017: RMB1,091.2 million). Trade and bills receivable turnover day in 2018 of 17.4 days remains consistent compared to 18.0 days in 2017.

Trade and bills payable increased by RMB329.7 million to RMB543.4 million as at 31 December 2018 (as at 31 December 2017: RMB213.7 million), the payable turnover days were 6.6 days, compared to 4.1 days in 2017. Payable turnover days for the year was relatively stable as compared with last year. Furthermore, we endeavor to keep our trade and bills payable turnover days relatively low mainly because our prompt payment pattern enhances our suppliers' willingness to supply raw materials to us and therefore helps us secure raw materials.

The Group's total interest-bearing borrowings decreased by RMB96.9 million to RMB1,147.9 million as at 31 December 2018 (as at 31 December 2017: RMB1,244.8 million). The overall decrease was mainly due to the decrease in bank loans from RMB683.1 million as at 31 December 2017 to RMB548.5 million as at 31 December 2018 and the repayment of convertible bonds of HK$35.0 million on 12 April 2018. Interest-bearing bank loans and other borrowings included three entrusted loans of RMB100.0 million each (in total: RMB300.0 million) from Mianyang Science Technology City Development Investment (Group) Co., Ltd. (綿陽科技城發展投資(集團)有限公司) ("Mianyang Development Group"). Pursuant to the entrusted loan agreement signed among Tongxin, a wholly-owned subsidiary of the Company, Mianyang Development Group and the entrusted bank, the entrusted loans expired on 27

August 2016, 23 September 2016 and 18 November 2016 respectively. Mianyang Development Group, the entrusted bank and Tongxin have agreed that, the entrusted loan would not be repayable until further agreed otherwise. As at 31 December 2018 and up to the date of this report, the negotiation was still on going.

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

	As at 31 December	
	2018	2017
Current ratio	**1.3**	1.8
Quick ratio	**1.1**	1.5
Debt to equity ratio*	**60.2%**	81.0%
Net debt to equity ratio#	**54.3%**	73.9%

* Total interest-bearing debts/Total equity

\# (Total interest-bearing debts less cash and cash equivalents)/Total equity

The deterioration of current ratio and quick ratio as at 31 December 2018 compared with those as at 31 December 2017 were primarily attributable to increase in trade and bills payable amounted by RMB329.7 million and the reclassification of liability component of convertible bonds from non-current liabilities to current liabilities.

The decrease in debt to equity ratio and net debt to equity ratio as at 31 December 2018 compared with those as at 31 December 2017 was mainly because of (i) the issuance of 75,980,000 new ordinary shares for HK$364.7 million on 4 October 2018; (ii) repayment of convertible bonds of HK$35.0 million on 12 April 2018; (iii) the decrease in bank loans by RMB134.5 million; and (iv) the net profit for the year ended 31 December 2018.

Charge on assets

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**200,649**	214,419
Lease prepayments	**86,840**	91,853
Inventories	**10,000**	30,550
Deposits with guarantee companies	**4,375**	1,500
Deposits with banks	**12,900**	12,900
Deposits with lessors of finance leases	**4,800**	4,800
Deposit with other companies	**29,737**	29,037
	349,301	385,059

Commodity risk

The major raw materials used in the production of our recycled copper products are scrap copper. We are exposed to fluctuations in the prices of raw materials as well as finished goods which are influenced by global as well as regional supply and demand conditions. Fluctuations in the copper prices could adversely affect our financial performance. The Group entered copper futures contracts to mitigate part of its exposure against price fluctuations of copper. The market value of futures contracts are based on the quoted market price as at the date of consolidated statement of financial position. The Group did not have outstanding copper futures contracts as at 31 December 2018 (as at 31 December 2017: Nil). Net loss of RMB1.7 million was recognized for the year ended 31 December 2018 (2017: net gain of RMB1.3 million).

Foreign currency risk

The functional currency of a majority of the entities within our Group is RMB and most of the transactions are settled in RMB. However, we are exposed to currency risk primarily related to the cash and cash equivalents, the convertible bonds and contingent consideration liabilities, all of which are mainly denominated in HKD. The balance of cash and cash equivalents as at 31 December 2018 including HK$9.41 million and USD9,201 (in total equivalent to approximately RMB8.03 million) were held in banks in Hong Kong.

As at 31 December 2018, the Group's interest-bearing bank and other borrowings and finance lease payables were denominated in RMB but the convertible bonds were denominated in HKD, with an aggregate principal amount of HK$680.0 million. During the year ended 31 December 2018, the Group has completed the acquisitions of certain target groups, the considerations are subject to adjustment pursuant to earn-out arrangements and will be settled partly by cash considerations in HKD and partly by allotment and issue of Consideration Shares which are denominated in HKD. The Group did not commit to any financial instruments to hedge its foreign exchange exposure during the year ended 31 December 2018. During the year ended 31 December 2018, the Company incurred an exchange difference on translation of financial statements of entities outside of mainland China equivalent to RMB51.3 million, part of which was resulted from translating the convertible bonds and contingent consideration liabilities from HKD to RMB.

Significant investments held

Except for investments in subsidiaries and associates, the Group did not hold any significant investment in equity interest in any other companies during the year ended 31 December 2018.

Material acquisitions and disposals of subsidiaries and affiliated companies

On 15 December 2017, the Company entered into the Sale and Purchase Agreement with Yuanxin Ventures Limited ("Yuanxin"), pursuant to which the Company agreed to purchase, and Yuanxin agreed to sell, 100% of the issued share capital in Silver Eminent Group Limited ("Silver Eminent") for an aggregate maximum consideration of HK$317,647,000, of which HK$158,823,500 shall be settled in cash and HK$158,823,500 shall be settled by way of allotment and issue of consideration shares. The consideration is subject to adjustment pursuant to the earn-out arrangement. Assuming the maximum number of consideration shares is being allotted and issued to Yuanxin, 41,796,000 shares will be issued under the Sale and Purchase Agreement. Silver Eminent owns 100% equity interests in Mianyang Zhaofeng Copper Co., Ltd. ("Zhaofeng") The transaction has been completed in March 2018. Please refer to the announcement of the Company dated 15 December 2017 and 29 December 2017 for further details.

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

On 7 February 2018, the Company entered into a sale and purchase agreement with Sure Victor Global Limited ("Sure Victor"), pursuant to which the Company agreed to purchase, and Sure Victor agreed to sell, 100% of the issued share capital in Value Link Developments Limited ("Value Link") for an aggregate maximum consideration of HK$741,175,000, of which HK$287,647,000 shall be settled in cash and HK$453,528,000 shall be settled by way of allotment and issue of consideration shares. The consideration is subject to adjustment pursuant to an earn-out arrangement. Assuming the maximum number of consideration shares is being allotted and issued to Sure Victor, 94,485,000 shares will be issued under the Sale and Purchase Agreement. Value Link owns 100% equity interests in Hubei Rongsheng Copper Co., Ltd. ("Rongsheng") The transaction has been completed in April 2018. Please refer to the announcement of the Company dated 7 February 2018 for further details.

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

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

A	=	actual net profits of the target for the first year
B	=	performance target for the first year, i.e. RMB 45,000,000
C	=	cash consideration, i.e. HK$287,647,000
D	=	the maximum number of consideration shares to be issued for the first year, i.e. 23,621,000 Shares

On 19 October 2018, the Company entered into the Sale and Purchase Agreement with Advance Splendid Limited ("Advance Splendid"), pursuant to which the Company agreed to purchase, and Advance Splendid agreed to sell, 100% of the issued share capital in the Sky Harvest Global Limited ("Sky Harvest") for an aggregate maximum consideration of HK$509,164,969, of which HK$180,000,000 shall be settled in cash and HK$329,164,969 shall be settled by way of allotment and issue of Consideration Shares. The consideration is subject to adjustment pursuant to an earn-out arrangement. Assuming the maximum number of consideration shares is being allotted and issued to Advance Splendid, 65,833,000 shares will be issued under the Sale and Purchase Agreement. Sky Harvest owns 100% equity interests in Chengxin Copper Copper Co., Ltd. ("Chengxin") The transaction has been completed in November 2018. Please refer to the announcement of the Company dated 19 October 2018, 31 October 2018 and 16 November 2018 for further details.

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

During the year ended 31 December 2018, save as disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Capital expenditures

For the year ended 31 December 2018, the Group's capital expenditures payments represent additions to property, plant and equipment (including construction in progress) and land use rights of approximately RMB68.3 million (2017: RMB28.7 million). The capital expenditures were mainly financed from internal resources.

Capital commitments

As at 31 December 2018, the capital commitments in respect of the acquisition of property, plant and equipment and lease prepayments on lands contracted for but not provided in the consolidated financial statements amounted to RMB31.4 million (as at 31 December 2017: RMB76.9 million).

Contingent liabilities

Other than the contingent considerations of three acquisitions as mentioned above, the Group had no material contingent liabilities as at 31 December 2018.

Events after the Reporting Period

There is no material subsequent event undertaken by the Company or by the Group after 31 December 2018 and up to the date of release of this announcement.

Human resources

As at 31 December 2018, the Group had a total of 864 employees (2017: 521). The Group's staff costs for the year ended 31 December 2018 were approximately RMB55.2 million (2017: RMB54.8 million). The Group offers its staff competitive remuneration packages. In addition, discretionary bonuses and share options may also be granted to eligible staff based on individual and Group's performance. The Group is committed to nurturing a learning and sharing culture in the organization. Heavy emphasis is placed on the training and development of individual staff and team building, as the Group's success is dependent on the contribution of all functional divisions comprising skilled and motivated professionals. The Group is also committed to social responsibility as seen in its employment of disabled staff and providing appropriate working conditions and protection to them.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. To the best knowledge of the Directors, the Group has complied with all the relevant laws and regulations that have a significant impact on the Group in relation to its business including health and safety, workplace conditions, employment and the environment. The Group understands that a better future depends on everyone's participation and contribution. It has encouraged all employees to participate in environmental and social activities which benefit the community as a whole.

The Group itself is operating in the environmental protection industry by virtue of recycling scrap metal materials in the society. Contributing to resolve a significant part of pollution problem in the vicinity of our plants, the Group was highly praised and encouraged by the local governments. The Group is also committed to social responsibility as seen in its employment of disabled staff and providing appropriate working conditions and protection to them. The Group also advocated conservation of resources in office and encouraged employees to develop good habits, conserve resources and energy to build a green and comfortable office environment.

For a more comprehensive review, please refer to the 2018 Environmental, Social and Governance Report of the Company that will be dispatched to the shareholders of the Company and available on the website of the Company and the Stock Exchange in due course.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier: 25% of cost of sales

— five largest suppliers combined: 44% of cost of sales

Sales

— the largest customer: 36% of revenue

— five largest customers combined: 62% of revenue

The scrap copper that we process comes from a variety of sources, including used household appliances, electrical equipment and transportation equipment, used cables and wires and scrap materials from certain industrial manufacturing processes. We purchase our scrap copper mainly from domestic suppliers located near our production facilities and elsewhere in other provinces of China. We conduct rigorous quality control tests at different stages of our production processes, including rigorous quality tests of our raw materials. Before entering into a business relationship with a new supplier, we conducted due diligence on the supplier's background and reputation in the market to assess its suitability. In addition, we physically inspect each delivery of raw materials to ensure its compliance with contract specifications, including purity and copper content.

Maintaining strong relationships with our customers is important to us and we believe that our customers' willingness to work with us reflects, among others, our record of producing high quality products that meet industry standards and customer requirements.

None of the Directors of the Company or any of their associates or any shareholders (which to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and five largest suppliers.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 1 June 2019 to 6 June 2019, both days inclusive, during which no transfer of shares can be registered. To qualify for the attendance and voting at the AGM, shareholders must ensure that all transfer documents accompanied by the relevant share certificates be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 31 May 2019.

SCOPE OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary results announcement have been compared by the Group's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary results announcement.

REVIEW OF ANNUAL RESULTS

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

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

The Audit Committee has also reviewed the consolidated financial statements of the Group for the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company from the Listing Date up to 31 December 2018.

CORPORATE GOVERNANCE

Since the Listing Date, the Company has applied the principles of and is in compliance with all code provisions of the Corporate Governance Code as set forth in Appendix 14 of the Listing Rules save as disclosed below.

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

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

Due to other business engagements, two executive Directors and an independent non-executive Director were not able to attend the annual general meeting of the Company held on 6 June 2018.

In the future, the Company has arranged and will continue to arrange to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the schedule in such a cautious way that all Directors can attend the general meetings.

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

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

ANNUAL GENERAL MEETING

Notice of annual general meeting of the Company will be published and dispatched to the Company's shareholders in the manner required by the Listing Rules in due course.

PUBLICATIONS OF RESULTS ANNOUNCEMENT

This results announcement is published on the websites of the Company (www.cmru.com.cn) and the Stock Exchange (www.hkex.com.hk). The annual report for the year ended 31 December 2018 containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and available on the websites of the Company and the Stock Exchange in due course.

ACKNOWLEDGEMENT

The Directors would like to take this opportunity to express our sincere thanks to all the shareholders and business associates for their continuous support and the entire staff for their dedication and contribution to the Group during the year.

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

Hong Kong, 28 March 2019

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Yu Jianqiu (Chairman), Mr. Kwong Wai Sun Wilson, Mr. Huang Weiping and Ms. Zhu Yufen; and three independent non-executive directors, namely, Mr. Lee Ting Bun Denny, Mr. Pan Liansheng and Ms. Ren Ruxian.