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中國有色金屬有限公司*
China Nonferrous Metals Company Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 8306)

KEY FINDINGS OF THE FORENSIC INVESTIGATION

References are made to the announcements of the Company dated 22 January 2015 in relation to the unauthorized guarantees signed by Mei Ping on behalf of Jiashengpan and Ruirui resulting in Lawsuits and the Arbitration Cases filed against the Group, and dated 17 July 2015 in relation to the engagement of RSM as the forensic accountant to investigate the Guarantees.

The Board announces that RSM has submitted its final forensic investigation report to the Company on 23 November 2017. The Board hereby summarises the background and objective of the forensic investigation, the key investigation findings, the conclusions of the investigation and the limitations set forth in the forensic investigation report, as follows.

BACKGROUND AND OBJECTIVE OF THE FORENSIC INVESTIGATION

As disclosed in the announcement of the Company dated 22 January 2015, that the Board has been aware of three Writs of summons against First Create dated 24 September 2014, 3 November 2014 and 29 December 2014 for claims of repayment of loans of RMB156,617,000, RMB46,000,000 and RMB31,544,960 respectively. In addition, four Arbitration Cases in Shenzhen Arbitration Centre were brought against, among others, First Create together with Jiashengpan for claims totaling RMB525,000,000. Jiashengpan and Ruirui were named defendants in the respective Writs and Arbitration Cases due to the provision of the Guarantees to secure the debt of First Create.

Except for the Second Writ which has been withdrawn by the plaintiff, the respective courts of the Lawsuits and the Arbitration Cases have ordered that Jiashengpan and/or Ruirui, together with other respondents of the Lawsuits and the Arbitration Cases, be liable for the claimed amount, (i.e. outstanding principal, interest and fees of several short-term loans being drawn down by First Create).

Furthermore, the Group's former auditors, BDO issued a disclaimer of opinion in the 2014 Annual Report. BDO stated the following as their basis for the Disclaimer:

- (i) scope limitation and material uncertainty relating to the going concern basis of preparing the consolidated financial statements;
- (ii) completeness of the related party transactions;
- (iii) validity and legal enforceability of the alleged guarantee documents;
- (iv) recoverability of the Group's trade receivables, other receivables and deposits paid;
- (v) completeness of pending litigation, proceedings, hearings or claims; and
- (vi) completeness and accuracy of the information and documents provided by the Management.

The issues created by both the Lawsuits and the Arbitration Cases, which were further amplified by the Disclaimer, raised concern as to the integrity of the Company's records as well as the Management. The Company has engaged RSM, as independent forensic accountants to assist the Company to conduct forensic accounting review into the matters in relation to:

- (i) the Guarantees granted by Jiashengpan and Ruirui to other parties; and
- (ii) the circumstances leading to BDO issuing the Disclaimer in the 2014 Annual Report.

KEY FINDINGS OF THE FORENSIC INVESTIGATION

The Guarantees

In early 2015, the Group became aware of three civil actions and four arbitration cases being brought against two subsidiaries, namely Jiashengpan and Ruirui. Except for the Second Writ which has been withdrawn by the plaintiff, the respective courts of the Lawsuits and the Arbitration Cases have ordered that Jiashengpan and/or Ruirui, together with other respondents of the Lawsuits and the Arbitration Cases, be liable for the claimed amount (i.e. outstanding principal, interest and fees of several short-term loans being drawn down by First Create).

The Management explained that Mei Wei was under house arrest during the period from May to August 2014. During the said period, Jiashengpan and/or Ruirui, represented by Mei Ping might have entered into several back-dated letters of guarantee or guarantee contracts for the short-term loans being drawn down by First Create under duress. Mei Ping explained that he was not familiar with the disclosure requirements under the GEM Listing Rules in respect of corporate guarantees and hence he did not inform the other members of the Management about the execution of the Guarantees. The Company eventually discovered the Lawsuits and the Arbitration Cases (and hence the Guarantees) during a contemplated acquisition of the Bainaimiao Mine in early 2015 by the then financial controller of the Company.

Each of Jiashengpan and/or Ruirui has its respective policies and procedures in relation to corporate guarantees and the use of company chop, such as approval procedures and the recording of the usage of the company chop at the relevant time. Nevertheless, since the employee of Jiashengpan and/or Ruirui regarded Mei Ping as the owner of the Company and/or the Group, the relevant staff who was responsible for the custody of the company chops did not question Mei Ping in taking away and/or using the company chops of Jiashengpan and/or Ruirui. As a result, the Group had no record of the Guarantees purportedly being entered into and/or stamped by Mei Ping.

Set out below is the summary of the documents of the Guarantees and the relevant loan documents:

Date of Guarantee	Type of Guarantee document	Guarantor	Date of corresponding loan agreements	Corresponding loan amounts (RMB)	Guarantor's company chop/ fingerprints	Borrower's signature	Guarantor's signature	Findings
13 May 2014	Letter of guarantee	Jiashengpan	15 April 2014 & 12 May 2014	156,617,000	Yes	N/A	Mei Ping	
13 May 2014	Letter of guarantee	Ruirui	15 April 2014 & 12 May 2014	156,617,000	Yes	N/A	Mei Ping	
23 May 2012	Contract of loan and guarantee	Jiashengpan	23 May 2012	50,000,000	Yes	Mei Wei	Mei Ping	Huaao issued a statement dated 18 March 2015 to confirm that the chop of Jiashengpan on the contract was affixed by Mei Ping in late June 2014.
24 August 2012	Contract of loan and guarantee	Jiashengpan	23 May 2012	20,000,000	Yes	No	No	
Estimated to be in May 2014	Contract of guarantee	Jiashengpan	16 May 2014	35,000,000	Yes	N/A	Mei Ping	
2 January 2014	Contract of loan and guarantee	Mei Wei First Create Mining SZ Gangrui Other Guarantor B	2 January 2014	200,000,000	Yes	Mei Wei	Mei Wei	

Date of Guarantee	Type of Guarantee document	Guarantor	Date of corresponding loan agreements	Corresponding loan amounts (RMB)	Guarantor's company chop/ fingerprints	Borrower's signature	Guarantor's signature	Findings
2 January 2014	Contract of guarantee	Bainaimiao Copper Jiashengpan Mei Ping	2 January 2014	200,000,000	Yes	Mei Wei	Mr. Han Mei Ping	It was asserted by Mei Ping that the document may be backdated and it is unclear and inconsistent that the document had the signatures of both Mei Ping and Mei Wei.
19 March 2014	Contract of loan and guarantee	Mei Wei First Create Mining SZ Gangrui Other Guarantor B First Create Development Gold Point China Copper Mining	19 March 2014	100,000,000	Yes	Mei Wei	Mei Wei	
19 March 2014	Contract of guarantee	Bainaimiao Copper Jiashengpan Mei Ping	19 March 2014	100,000,000	Yes	Mei Wei	Mr. Han Mei Ping	It was asserted by Mei Ping that the document may be backdated and it is unclear and inconsistent that the document had the signatures of both Mei Ping and Mei Wei.
15 April 2014	Contract of loan and guarantee	Mei Wei First Create Mining SZ Gangrui Other Guarantor B First Create Development Gold Point China Copper Mining	15 April 2014	145,000,000	Yes	Mei Wei	Mei Wei	
15 April 2014	Contract of guarantee	Bainaimiao Copper Jiashengpan Mei Ping	15 April 2014	145,000,000	Yes	Mei Wei	Mr. Han Mei Ping	It was asserted by Mei Ping that the document may be backdated and it is unclear and inconsistent that the document had the signatures of both Mei Ping and Mei Wei.
18 April 2014	Contract of loan and guarantee	Mei Wei First Create Mining SZ Gangrui Other Guarantor B First Create Development Gold Point China Copper Mining Bainaimiao Copper Jiashengpan Mei Ping Tan Other Guarantor D	18 April 2014	80,000,000	Yes	Mei Wei	Mr. Han Mei Ping Mei Wei and other guarantors	It was asserted by Mei Ping that the document may be backdated and it is unclear and inconsistent that the document had the signatures of both Mei Ping and Mei Wei.

Date of Guarantee	Type of Guarantee document	Guarantor	Date of corresponding loan agreements	Corresponding loan amounts (RMB)	Guarantor's company chop/ fingerprints	Borrower's signature	Guarantor's signature	Findings
18 April 2014	Contract of guarantee	Other Guarantor C	18 April 2014	80,000,000	Yes	N/A	Miss Xie	
18 April 2014	Contract of guarantee	Other Guarantor D	18 April 2014	80,000,000	Yes	N/A	Mr. Chen	

After the forensic review, RSM has not found any conclusive evidence which is contrary to the Management's explanation. However, it is noted that there were possibly certain inconsistencies to the Management's or Mei Ping's explanation. According to the Management's or Mei Ping's explanation, Mei Ping signed the Guarantees in or around May 2014 after Mei Wei was "out of contact" or under house arrest and at such time, Mei Ping and Mei Wei were not supposed to have their signatures on the same documents. Nonetheless, for the Guarantees listed above, there were the signatures of both Mei Wei, signed on behalf of First Create as borrower and Mei Ping, signed on behalf of Jiashengpan and Ruirui as guarantors.

It is further noted that some of the documents were dated 2 January 2014, 19 March 2014, 15 April 2014 and 18 April 2014 and purportedly signed by Mei Wei for and on behalf of the borrower and such loan documents mentioned that Jiashengpan and Ruirui would be the guarantors. If these documents were indeed signed by Mei Wei at the time of the date of the agreements, Mei Wei should know and should have prepared to cause the Company's subsidiaries to be the guarantors for these loans even if Mei Ping only signed these at a later stage, i.e. in or after May 2014. Thus, this raises the suspicion whether these loan agreements and/or the Guarantees were indeed signed in or after May 2014.

In addition, notwithstanding that Mei Ping asserted that he had signed some documents, but he has been unable to provide any details as to what documents he had signed or stamped. Based on the available information, it is unable for RSM to conclude whether Mei Ping had signed and/or stamped on the Guarantees.

However, in any event, given that Mei Ping did not deny that he may have signed the Guarantees and it was obvious that he did not inform the Board and other Management immediately after the purported events, Mei Ping had apparently been in breach of, or alternatively, had overridden the relevant internal policies and procedures of Jiashengpan and Ruirui in relation to the entering into contracts and agreements and the affixture of company chops and/or at least failed to inform the Company that the company chop had been used or agreements had been entered into so that the Company would at least perform remedial procedures. The custodians of the company chops of Jiashengpan and Ruirui may also have failed to observe the internal control procedures in relation to the granting of access of the company chop to Mei Ping. Management override of controls caused the Group to become liable for in the Guarantees and the contingent liability which could be too significant for the Group to bear.

The Disclaimer

In the 2014 Annual Report, BDO issued the Disclaimer owing to insufficient appropriate audit evidence being provided. In particular, RSM has reviewed the nature of the Receivables and Deposits which formed part of the basis for BDO to issue the Disclaimer, given that the Receivables and Deposits and the Outstanding Balances respectively had not been settled as at the date of the 2014 Annual Report, i.e. as at 31 March 2015. BDO was unable to obtain sufficient evidence from the Company to satisfy themselves as to the recoverability of the Outstanding Balances and hence, BDO was unable to determine whether the Outstanding Balances and the respective impairment losses are properly stated in the Company's consolidated accounts as at 31 December 2014 and for the year ended 31 December 2014. Based on the books and records provided by the Management, the Outstanding Balances were due from the Debtors, namely Customer A, Customer B, Customer C, Supplier A, Supplier B and Supplier C. Set out below is the breakdown of the Receivables and Deposits.

(in HK\$ millions')

Name of Debtor	Trade receivables	Other receivables	Deposits and prepayments	Total
Customer A	107.76		31.30	139.06
Customer B	31.09			31.09
Customer C			133.21	133.21
Supplier A			188.34	188.34
Supplier B		39.43		39.43
Supplier C		74.33		74.33
Total	<u>138.85</u>	<u>113.76</u>	<u>352.85</u>	<u>605.46</u>

The amount due from the Debtors could be divided into three main categories, namely trade receivables, other receivables and deposits and prepayment. The Company's subsidiary, CNMML, purportedly entered into certain indent sales or "back to back" transactions with Customer A and Customer B which the Management considered as low risk and low margin transactions. In addition, CNMML further entered into a procurement contract with Customer A whereby over HK\$31 million had been paid to Customer A. However, after certain repayments and settlements were made by Customer A and Customer B, HK\$139.06 million and HK\$31.09 million turned out to be overdue by Customer A and Customer B respectively and the Company may not be able to recover these sums.

CNMML further entered into silver ingots purchases agreement with Supplier A whereby over HK\$319 million had been paid to Supplier A. The purchase agreement was subsequently cancelled and CNMML was only able to obtain partial refund from Supplier A and HK\$188.34 remained outstanding as at 31 December 2014. CNMML's demand for repayment yielded no result.

The Company's subsidiary, Sky King, purportedly opened and maintained a commodities trading account with Customer C, an unknown company incorporated in the British Virgin Islands, to trade gold, copper and other commodities on paper basis. Sky King had paid over HK\$145 million deposits to Customer C for trading futures contracts. Subsequently, after netting off several settlements and the gains and loss of the futures contracts, Customer C was indebted to Sky King in the sum of HK\$133.21 million and this sum is again outstanding as at the date of the forensic investigation report.

Jiashengpan also paid RMB31 million and approximately RMB59 million to Supplier B and Supplier C being purported prepayment for chemicals and machinery and equipment purchases respectively. These prepayments were again overdue as of 31 December 2014. Certain repayments and settlements were made by Supplier B in 2015, whereby the amount due from Supplier B decreased to RMB1.3 million as of 31 March 2016, but this sum is again outstanding as at the date of the forensic report.

Notwithstanding that the debts due from the Debtors were under different nature and were paid by the Company and/or its subsidiaries to these parties for different reasons, there is a similarity or pattern in those transactions where the Company and its subsidiaries did not obtain any guarantee and/or security from these parties on one hand and on the other hand, the Group had performed limited or very limited background search on these parties prior to commencing trades or transactions with these parties. In addition, it may be even more unusual that the Group continued to transact or supply to these parties after these parties failed to pay on time. The Management explained that most of the Debtors were introduced by Mei Wei or First Create and the Group was mainly booking these transactions, inter alia, they did not have the detail about the Debtors and these transactions.

Hence, it seems unclear and/or not entirely justified how the Management had obtained the necessary comfort to extend credit or pay deposit/prepayment to these parties; notwithstanding that it is noted some of their purported considerations at the material time including but not limited to the background of the registered owners of the Debtors and the guarantees provided by Mei Wei. Without proper and explicit justification, the extension of such considerable amount of credit may raise suspicion as to the management's relationship, especially Mei Wei, with these parties as well as the transactions themselves.

Certain evidence which RSM reviewed during its forensic review further suggested that the Debtors of the Receivables and Deposits and a supplier were closely affiliated with Mei Wei at the relevant time. Most of the Debtors were introduced by Mei Wei to the Group and the management and/or shareholders of the Debtors were in some extent directly or indirectly connected with Mei Wei and/or Mei Wei's other groups of companies. Besides that, Mei Wei acted as the bank signatory for at least two of the Debtors, namely Customer A and Customer B. Mei Wei also showed his support for the Debtors by offering personal guarantee to the debts owed by the Debtors to the Group, albeit that this may be for the purpose of the audit of the Company. In particular, the

Companies' Info Sheet as at 20 May 2014 was found in Miss Chen's computer and there were certain remarks in the spreadsheet which indicated that the shares of three of the Debtors were held by the named shareholders on trust for Mei Wei. Certain unexecuted declaration of trust documents were found in relation to the shares of the Debtors which Mei Wei was named as beneficial shareholders. The Management suggested that the remarks in the Companies' Info Sheet were errors. Set out below is a summary of Debtors and certain potential relationship with Mei Wei and First Create Group:

Company name	Shareholder(s)	Findings
Customer A	Miss Wang Mr. Jia (former) Mei Wei (former)	<ul style="list-style-type: none"> <li data-bbox="751 583 1406 651">• Mei Wei was the former sole director and shareholder of Customer A. <li data-bbox="751 693 1406 991">• According to an email dated 19 March 2010, in order to avoid related party transaction, it would be necessary to change the shareholder and director to Miss Wang. Subsequent to the said email, both the shareholder and director of Customer A were changed from Mei Wei to Miss Wang on 7 April 2010. <li data-bbox="751 1034 1406 1140">• According to the Companies' Info Sheet, Miss Wang held the shares on trust for Mei Wei. <li data-bbox="751 1183 1406 1374">• An email which was found in Miss Chen's computer attached an unexecuted share transfer agreement of Customer A that Miss Wang was the seller while Hitek Global and Macgrowth were the buyers. <li data-bbox="751 1417 1406 1481">• The management stated that Mei Wei was the bank signatory.

Company name	Shareholder(s)	Findings
Customer B	Mr. Chen Mr. Qian	<ul style="list-style-type: none"> <li data-bbox="748 272 1410 417">• An email attached an undated and non-executed trust agreement which stated that Mr. Chen held Yinchi’s shares on trust for Mei Wei. <li data-bbox="748 459 1410 719">• According to “深圳市安瑞科技有限公司人員崗位一覽表.doc” and “深圳市安瑞科技有限公司員工工資的.doc” found in Miss Chen’s computer suggested that Mr. Chen worked under marketing department of Company B with a basic salary of RMB2,000. <li data-bbox="748 761 1410 981">• An email which was found in Miss Chen’s computer, Miss Chen instructed Miss Chau to change the shareholders and directors of Customer B to Mr. Chen and Mr. Qian and reminded Miss Chau to prepare a trust deed of Mr. Chen as well. <li data-bbox="748 1023 1410 1242">• We confirmed with the management that Mr. Qian was an employee of First Create between 3 April 2006 and 16 January 2015. Mr. Qian was an associate general manager of the finance centre department before he resigned due to personal reason. <li data-bbox="748 1285 1410 1391">• According to the Companies’ Info Sheet, Mr. Qian held the shares on trust for Mei Wei. <li data-bbox="748 1434 1410 1502">• The management stated that Mei Wei was one of the bank signatories.

Company name	Shareholder(s)	Findings
Customer C	Mr. Jia	<ul style="list-style-type: none"> • According to the Companies' Info Sheet, Mr. Jia held the shares on trust for Mei Wei. • Mr. Jia was a former shareholder of Customer A. • According to a MS Excel file, namely “社保.xlsx” found in Miss Chen's computer suggested that Mr. Jia was an employee of First Create Group with a basic salary of RMB3,000.
Supplier A	Mr. Su	<ul style="list-style-type: none"> • According to a MS Excel file, namely “社保.xlsx” found in Miss Chen's computer suggested that Mr. Su was an employee of First Create Group.
Supplier B	Company A Mr. Shen	<ul style="list-style-type: none"> • Mr. Han owned 51% shares of Company A and Mr. Han might have held 70% shareholdings of Supplier B on behalf of First Create.
Supplier C	Company B Mr. Bao	<ul style="list-style-type: none"> • Mr. Zheng had 94.5% shares of Company B. According to “冠欣桌面服務工程考核-20130610.xls”, the performing of Mr. Zheng had been evaluated the said evaluation form and Mr. Zheng appears to be an employee of First Create. • Draft Supplier C trusts (a non-executed version) was found in Miss Chen's computer, it was stated in the Draft Supplier C trust that First Create was beneficial owner of 70% Supplier C and First Create entrusted Mr. Han to hold 70% shareholding of Supplier C on behalf of First Create. • According to “Marvel企業人員匯編b.xls” found in Miss Chen's computer that Mr. Bao and Mr. Han were both assistant engineer of First Create.

The above listed relationships or possible relationships, which were identified during the forensic review, raised the concern as to whether the Debtors were truly Independent Third Parties or related and/or controlled by Mei Wei. Notwithstanding that Mei Wei had subsequently provided a written guarantee(s) (which was purportedly given in verbal in the first place) for the amount due from the Debtors to the Group, it is highly unclear whether Mei Wei can honour his guarantee. The suspected relationship between Mei Wei and the Debtors, as discussed above, raised further concern whether these transactions were related parties transactions as well as their genuineness.

CONCLUSIONS OF THE FORENSIC INVESTIGATION

Mei Ping alleged that the Guarantees were entered into by him in or around May 2014 under duress. In addition to Mei Ping's own allegation, it also noted that the relevant guarantee contracts might not have been executed together with the loan contract owing to the use of signatures and signets. There is no conclusive evidence that showed otherwise.

However, it is noted that there were possibly certain inconsistencies to the Management's or Mei Ping's explanation. According to the Management's or Mei Ping's explanation, Mei Ping signed the Guarantees in or around May 2014 after Mei Wei was "out of contact" or under house arrest and at such time, Mei Ping and Mei Wei were not supposed to have their signatures on the same documents. However, for the Guarantees listed above, there were the signatures of both Mei Wei, signed on behalf of First Create as borrower and Mei Ping, signed on behalf of Jiashengpan and Ruirui as guarantors.

It is further noted that some of these documents were dated 2 January 2014, 19 March 2014, 15 April 2014 and 18 April 2014 and purportedly signed by Mei Wei for the borrower and these loan documents mentioned that Jiashengpan and Ruirui would be the guarantors. If these documents were indeed signed by Mei Wei at the time of the date of the agreements, Mei Wei should know and should have prepared to cause the Company's subsidiaries to be the guarantors for these loans even if Mei Ping only signed these at a later stage, i.e. in or after May 2014. Thus, this raises the suspicion whether these loan agreements and/or the Guarantees were indeed signed in or after May 2014.

Mei Ping was apparently in breach of the relevant internal policies and procedures of Jiashengpan and Ruirui in relation to the entering into contracts and agreements and the affixture of company chops. Jiashengpan has strict requirements for entering into guarantee contracts and/or agreements and the use of company chops has to be approved by the relevant management. Whereas for Ruirui, there are also approval procedures to be followed for entering into contracts and/or agreements in general and also the use of company chops. In his act of taking the company chops away and affixing the company chops onto various guarantee contracts without any prior and proper approval, Mei Ping had apparently overridden the internal control procedures set out by the respective companies. Even if Mei Ping had signed the guarantees under duress, he may still be considered to be in breach of the internal policy/his Director's duties to inform the Board about such incident promptly.

Miss Chen and Miss Zhang, being the custodians of Ruirui's company chop, failed to observe Ruirui's internal control procedures. As the gatekeeper, they were the last persons having control over the access of Ruirui's company chop. Nevertheless, they granted Mei Ping access to the company chop without proper approvals as required by the internal control procedures. Besides that, they also failed to record in the chop usage register the incidents that Mei Ping took away the company chop.

Mr. Zhou, being the custodians of Jiashengpan's company chops, also failed to observe Jiashengpan's internal control procedures. As the gatekeeper, he was the last person having control over the access of Jiashengpan's company chops. In spite of having maintaining the record of the incident that Mei Ping took away the company chop, he granted Mei Ping access to the company chop without proper approvals as required by the internal control procedures.

The above may also suggest that there has been management override of controls and this could result in serious consequence and hence it is a significant risk to a company.

It is also worth mentioning that all but one of the short-term loans from which the Guarantees arose were drawn down during the 4-month period from February to May 2014. Without the opportunity to meet with Mei Wei, there casts uncertainty why Mei Wei and/or First Create would need almost RMB720 million in such a short period of time. Coincidentally, much of the Receivables and Deposits outstanding also occurred in the first half of 2014. This may be an indication that there were certain correlations between these two incidents and it may be that Mei Wei required substantial liquidity for unknown reason and therefore attempted to drain the liquidity of the Group and also First Create Group.

RSM has also performed forensic review into the various issues raised in the Disclaimer, in particular, the recoverability of the Receivables and Deposits. The forensic accounting review did not identify any justified and/or sound reason to extend substantial credit to the Debtors, individually or as a whole. The Company did not perform reasonable or extensive background check against the Debtors and mainly relied on the introduction of Mei Wei or the trading division of First Create to discharge their credit or background check requirements. The Management also explained that they relied on the guarantee provided by Mei Wei; albeit such guarantee(s) were only verbal at the time the transactions were entered. Therefore, no sufficient or satisfactory evidence was identified to demonstrate or justify as to why the Management agreed to extend such substantial credit to the Debtors during the forensic review.

In addition, during the forensic review, certain evidence was identified and revealed which may suggest that the Debtors may be closely affiliated with and/or in control by Mei Wei in the following ways:

- (i) *Customer A*: Customer A was introduced to the Group by Mei Wei. Customer A's debts were to be undertaken or guaranteed by Mei Wei. The trades between the Group and Customer A were handled by Mei Wei and First Create. Customer A was owned by Mei Wei previously. The Companies' Info Sheet and various emails suggested that the current shareholder of Customer A appears to hold Customer A on trust on behalf of Mei Wei. Customer A appointed Mei Wei as the bank signatory. Customer A's administrative and accounting work was handled by the staff of First Create and/or Miss Chau;
- (ii) *Customer B*: Customer B was introduced by Mei Wei. Customer B's debts were to be undertaken or guaranteed by Mei Wei. The trades between the Group and Customer B were handled by Mei Wei and First Create. Customer B is owned by former employee of First Create and former consultant of the Group. The Companies' Info Sheet and various emails may suggest that the current shareholders of Customer B appear to hold Customer B on trust on behalf of Mei Wei. Customer B appointed Mei Wei and Miss Chau as the bank signatories. Customer B's administrative and accounting work was handled by the staff of First Create and/or Miss Chau;
- (iii) *Customer C*: Customer C was introduced by Mei Wei. Customer C's debts were to be undertaken or guaranteed by Mei Wei. Customer C is owned by the former executive director and former shareholder of SZ Gangrui, one of the subsidiaries of Gold Point. The Companies' Info Sheet suggested that the current shareholders of Customer C appear to hold Customer C on trust on behalf of Mei Wei. Customer C appointed the former shareholder of a subsidiary of Gold Point as the bank signatory;
- (iv) *Supplier A*: Supplier A's debts were to be undertaken or guaranteed by Mei Wei. Supplier A is owned by an employee of First Create, who is also the former shareholder of SZ Gangrui, one of the subsidiaries of Gold Point (which is another Group of companies owned by Mei Wei);
- (v) *Supplier B*: Supplier B was introduced by Mei Wei. Supplier B's debts were to be undertaken or guaranteed by Mei Wei. The legal representative of Bainaimiao Copper, one of the subsidiaries of Gold Point, was an indirect non-controlling shareholder of Supplier B at the relevant time; and
- (vi) *Supplier C*: Supplier C was introduced by Mei Wei. Supplier C's debts were to be undertaken or guaranteed by Mei Wei. Supplier C was formerly owned by the legal representative of Bainaimiao Copper, one of the subsidiaries of Gold Point at the relevant time.

Besides that, Supplier D, the Group's supplier, may also be considered closely affiliated with the Group. Miss Zhang is the shareholder and director of Supplier D. Mei Wei, Miss Chau and Miss Zhang are the bank signatories of Supplier D. Supplier D's administrative and accounting work was handled by the staff of First Create and/or Miss Chau. In other words, the Management, the operation and the custodian of assets rested in the hands of Mei Wei and his staff. Although the Management claimed that Supplier D is beneficially owned by Mr. Liu, the above relationship does not support such allegation.

In the case that if Mei Wei indeed has control over the Debtors and Supplier D, the outflowing funds from the Group to these companies, especially those made in the name of purchases or prepayments during the period from late 2013 to mid 2014, would be highly suspicious in the following ways:

- (i) *Customer A, Customer B and Supplier D*: other than the fact that the trading profit margin of these transactions was thin, the Group made substantial, if not full, payments to its supplier (Supplier D) but the buyers (Customers A and Customer B) only made marginal partial payments in such back-to-back transactions. The trading transactions could have legitimatised the out-flowing funds from the Group to the Debtors but without funds inflow from the Debtors (which may be affiliated or controlled by Mei Wei). In other words, these trading transactions drained certain liquidity of the Group;
- (ii) *Customer A*: the Group made a prepayment to Customer A pursuant to the CV Procurement Contract; the terms of which was vague and there was not any transaction made out of the contract. Hence, the Customer A Procurement Contract could have been again used as a disguise to rationalize certain out-flowing funds from the Group to the Debtors which may be affiliated or controlled by Mei Wei;
- (iii) *Supplier A*: the Group made prepayments to Supplier A pursuant to a trade agreement and supplementary agreements for purchase of silver ingots in 2014; some of the terms among these trade agreements were not consistent and there was not any transaction made out of these agreements until November 2014. Hence, these trade agreements could have used as a disguise to rationalise certain out-flowing funds from the Group to the Debtors which may be affiliated or controlled by Mei Wei;
- (vi) *Supplier B*: the Group made prepayments to Supplier B pursuant to the Supplier B Agreement for the purchase of supplies for a one-year period. The Supplier B Agreement was terminated prematurely; the exact transactions made out of Supplier B Agreement were unknown to us. Hence, these trade agreements could have been used as a disguise to rationalise certain out-flowing funds from the Group to the Debtors which may be affiliated or controlled by Mei Wei.

- (v) *Supplier C*: the Group made prepayments to Supplier C pursuant to the Supplier C Agreement for the purchase in relation to a plant expansion project during 2014. Such project was put on hold in April 2014 and Supplier C claimed that the prepaid amount would not be refundable. Hence, the Supplier C Agreement could have been used as a disguise to rationalise certain out-flowing funds from the Group to the Debtors which may be affiliated or controlled by Mei Wei; and

The suspected relationship between Mei Wei and the Debtors, as discussed above, together with the possible scenario as discussed above raised further concerns whether these transactions were related parties transactions as well as their genuineness.

In view of the above findings, RSM suggests that the Company should form an independent committee to consider and seek legal advice as to what actions should be taken against the Debtors, the guarantor(s) of these transactions as well as the current and former management of the Company and its subsidiaries who had been involved and had approved these transactions.

LIMITATIONS OF RSM'S INVESTIGATION

The Company cannot provide some of the documents and/or information requested by RSM of which were unavailable as at the date of the report.

In the forensic accounting review, certain difficulties and limitations were encountered including but not limited to as follows:

- (i) Mei Wei, who appeared to be a key person involved in the incidents in respect of the Guarantees, the Lawsuits, the Arbitrations and the Disclaimer, was arrested in September 2015 and has not been contactable to date. As such, RSM has not been able to conduct an interview with Mei Wei or obtain any information or explanation from him;
- (ii) Certain books and records in relation to the Guarantees and the Disclaimer were kept by staff of First Create. However, according to the Management, most of the staff of First Create who may have knowledge about the Guarantees and the Disclaimer have already left First Create and are no longer contactable. In the circumstances, there were difficulties in gathering certain information and documents in relation to the Guarantees and the Disclaimer required for forensic review;
- (iii) Meeting with BDO, the former auditors of the Group, could not be arranged. Without the assistance of BDO, RSM was unable to understand BDO's basis of the Disclaimer of opinion and the documents reviewed by them during the audits;

- (iv) In addition, the quality of certain supporting documents for the Guarantees, the Lawsuits, the Arbitration and the Disclaimer provided for review was not satisfactory that certain information and details on these documents could not be seen clearly; and
- (v) Also, the metal trading transactions of the Group were arranged by the trading department of First Create and the Group was purely or mainly involved in the execution of the agreements, inter alia, the Group have not had the detail transaction documents and the full knowledge of those transactions and has been unable to make available those relevant documents and information for review since the trading department of First Create has dissolved and the relevant staffs at First Create have left First Create and are no longer contactable.

In addition, the forensic accounting review had been slowed down since July 2016 and completely suspended during the period from December 2016 to July 2017, due to the fact that RSM's professional fees have been outstanding. Due to the suspension, certain information and documents which could possibly be available are no longer available for review. For example, certain staff of the Group or First Create Group had left and were no longer contactable.

SUSPENSION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2015 and will continue to be suspended until further notice.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“2014 Annual Report”	the independent auditors' report for the consolidated financial statements of the Group for the year ended 31 December 2014
“Arbitration Cases”	four arbitration cases brought by Fang against First Create and Jiashengpan in the Shenzhen Arbitration Centre
“Bainaimiao Copper”	Ulanqab Bainaimiao Copper Company Limited (烏蘭察布市白乃廟銅業有限責任公司#), a subsidiary of Gold Point, indirectly wholly owned by Mei Wei
“Bainaimiao Mine”	Bainaimiao Copper Mine (白乃廟銅礦#), which is owned by Bainaimiao Copper
“BDO”	BDO Limited, the former auditors of the Company

“Board”	the board of directors of the Company
“China Copper Mining”	China Copper Mining Limited (中國鑫銅礦業有限公司#), a subsidiary of Gold Point, indirectly wholly owned by Mei Wei
“CNMML”	China Nonferrous Metals Management Limited, an indirect wholly-owned subsidiary of the Company
“Companies’ Info Sheet”	an attachment of Microsoft Excel file, namely “工商統計更新到2014年5月20日.xlsx” found in the computer of Miss Chen
“Company”	China Nonferrous Metals Company Limited, a company incorporated in the Bermuda with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 8306)
“Company A”	an individual who is a shareholder of Supplier B
“Company B”	a PRC company which is a shareholder of Company B
“Customer A”	a customer of metal trading of the Company
“Customer A Procurement Contract”	a procurement agreement between CNMML and Customer A dated 1 January 2014
“Customer B”	a customer of metal trading of the Company
“Customer C”	a customer of metal trading of the Company
“Debtors”	collectively, Customer A, Customer B, Customer C, Supplier A, Supplier B and Supplier C
“Directors”	the directors of the Company
“Disclaimer”	an auditors’ report with a disclaimer of opinion issued by BDO 2014 Annual Report
“Fang”	Fang Xiaomin (房曉敏), the applicants of the Arbitration Cases

“First Create”	Shenzhen City First Create Investment Limited (深圳市冠欣投資有限公司#), a company incorporated in the PRC and majority owned by Mei Wei, the existing controlling shareholder of the Company
“First Create Development”	First Create Development (Hong Kong) Limited (冠欣發展(香港)有限公司#), a company controlled by Mei Wei
“First Create Group”	First Create Holdings, First Create Mining and their subsidiaries
“First Create Holdings”	Shenzhen First Create Holdings Group Limited (深圳冠欣控股集團有限公司#), a company controlled by Mei Wei
“First Create Mining”	Shenzhen City First Create Mining Group Limited (深圳冠欣礦業集團有限公司#), a company controlled by Mei Wei
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“Gold Point”	Gold Point Development Limited, a company wholly-owned by Mei Wei
“Group”	the Company and its subsidiaries
“Guarantees”	the suspected unauthorised and unrecorded corporate guarantees granted by Jiashengpan and Ruirui to other parties to guarantee the debt due by Mei Wei and his associates
“Independent Third Party”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any of the directors, chief executives or substantial shareholders of our Company or subsidiaries of our Company or any of their respective associates
“Jiashengpan”	Bameng Wuzhong Qi Jiashengpan Zinc, Lead, and Pyrite Resources Exploitation Company Limited (巴盟烏中旗甲勝盤鉛鋅硫鐵礦業開發有限責任公司#), a wholly-owned subsidiary of the Company incorporated in the PRC

“Lawsuits”	the lawsuits under three writs of civil summons dated 24 September 2014, 3 November 2014 and 29 December 2014
“Management”	the management of the Company
“Mei Ping”	a former executive Director and ex-chairman of the Board, the director and legal representative of Jiashengpan and Ruirui, the elder brother of Mei Wei
“Mei Wei”	the sole owner of Ruffy Investment Limited, the controlling shareholder of Company, who is effectively holding 1,044,301,706 Shares, representing 59.63% of the issued share capital of the Company and the controlling shareholder of First Create
“Miss Chau”	staff of private company owned by Mei Wei
“Miss Chen”	a director of Ruirui
“Miss Zhang”	the supervisor of Ruirui
“Mr. Bao”	a shareholder of Supplier C
“Mr. Chen”	director and shareholder of Customer B
“Mr. Han”	the legal representative of Bainaimiao Copper
“Mr. Jia”	a shareholder of Company A
“Mr. Qian”	a director and a shareholder of Customer B
“Mr. Shen”	a shareholder of Supplier B
“Mr. Su”	a shareholder of Supplier A
“Miss Wang”	a shareholder of Customer A
“Mr. Zheng”	a shareholder of Company B
“Mr. Zhou”	the then financial controller of Jiashengpan who resigned from his position in late 2015

“Other Guarantor A”	one of the other guarantors of the Loans
“Other Guarantor B”	one of the other guarantors of the Loans
“Other Guarantor C”	one of the other guarantors of the Loans
“Other Guarantor D”	one of the other guarantors of the Loans
“Outstanding Balances”	the outstanding trade receivables, other receivables and deposits and prepayments made by the Group as at 31 December 2014 in the sums of RMB109,875,000, RMB90,019,000 and RMB279,208,000 respectively
“PRC”	the People’s Republic of China and for the sole purpose of this announcement shall exclude Hong Kong, Macau Special Administrative Region and Taiwan
“Receivables and Deposits”	the trade receivables, other receivables and deposits and prepayments made by the Group as at 31 December 2014
“RSM”	RSM Corporate Advisory (Hong Kong) Limited (formerly known RSM Nelson Wheeler Corporate Advisory Limited), the independent forensic accountant
“Ruirui”	Shenzhen City Ruirui Industrial Company Limited (深圳市睿納實業有限公司#), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Second Writ”	writs of civil summons dated 3 November 2014
“Sky King”	Sky King Development Limited, an indirect wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplier A”	a supplier of CNMML
“Supplier B”	a supplier of Jiashengpan
“Supplier B Agreement”	an agreement dated 1 November 2013 was entered into between Jiashengpan and Supplier B
“Supplier C”	a supplier of Jiashengpan

“Supplier C Agreement”	the undated purchase agreement of Jiashengpan with Supplier C
“Supplier D”	a supplier of CNMML
“SZ Gangrui”	Shenzhen Gangrui Investment Limited (深圳市港瑞投資有限公司#), a subsidiary of Gold Point, indirectly wholly owned by Mei Wei
“Writs”	three writs of summons against First Create dated 24 September 2014, 3 November 2014 and 29 December 2014
“Yinchi”	Shenzhen Yinchi Technology Limited (深圳市銀池科技有限公司#)

By Order of the Board
China Nonferrous Metals Company Limited
Liu Yaling
Executive Director

Hong Kong, 9 February 2018

The English translation of Chinese names or words in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English translation of such Chinese names and words.

* *For identification purposes only*

As at the date of this announcement, the executive Directors are Ms. Liu Yaling and Mr. Chan Hoi Tung, the non-executive Director is Mr. Chan Wai Cheung, Admiral and the independent non-executive Directors are Mr. Cheng Feng, Mr. Ng Man Kwan, Lawrence and Mr. Siu Kai Chun.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will be published on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcement” page for at least 7 days from the date of publication and on the Company’s website <http://www.cnm.com.hk>.