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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)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

The business operations of China Metal Resources Utilization Limited (the “Company”) and its subsidiaries (collectively the “Group”) are carried out in the People’s Republic of China (the “PRC”) (including Sichuan Province, Hubei Province, Hunan Province, Fujian Province, Henan Province and Shanghai City). Since late January 2020, travel restrictions and other public health measures, including the extension of Chinese New Year holiday and quarantine requirements of travelers were imposed in various areas in the PRC in an attempt to contain the novel Coronavirus (“COVID-19”) epidemic, as a result of which some staff of the Group were restricted from travelling or returning to work after holiday. The prolonged effect of the epidemic and the public health measures affected not only the human resources of the Group, but also the general economic atmosphere.

The audited annual results announcement was originally scheduled to be published by the end of March 2020. However, due to the inability to conduct field works by the Group’s auditor in the PRC, and the financial staff of the major subsidiaries of the Group in the PRC, particularly in Hubei Province, was restricted from resuming work for smooth communication, the Company currently cannot complete some of the financial reporting and audit works. At present, the Company is still hopeful for the alleviation of the epidemic and other restrictions in the near future such that the Company can finish its financial reporting and audit works as soon as possible. Further announcement(s) will be made in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as and when appropriate.

In order to keep the Shareholders and the public informed of the Group’s business operations and financial positions, the board of directors (the “Board”) of the Company has decided to publish the unaudited annual results announcement of the Group for the year ended 31 December 2019 before the end of March 2020.

UNAUDITED FINANCIAL HIGHLIGHTS

- Revenue increased by 16.3% to RMB24,012.7 million, as compared to 2018.
- Gross loss margin amounted to 1.1%, as compared to a gross loss margin of 1.1% for last year.
- Profit attributable to the owners of the Company for the year amounted to RMB75.0 million, as compared to RMB20.1 million for last year.
- Earnings per share for the year amounted to RMB0.03, as compared to RMB0.01 for last year.
- Current ratio of 1.3 as at 31 December 2019, as compared to 1.3 as at 31 December 2018.
- Debt to equity ratio of 80.8% as at 31 December 2019, as compared to 60.2% as at 31 December 2018.
- The Board does not recommend the declaration of any final dividend for the year ended 31 December 2019.

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under “Review of Unaudited Annual Results”, the auditing process for the annual results of the Group has not been completed. In the meantime, the Board of the Company is pleased to announce the unaudited consolidated results of the Group for the year ended 31 December 2019, together with the comparative figures for the year ended 31 December 2018, as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the year ended 31 December 2019**(Expressed in Renminbi)*

		2019	2018
	<i>Notes</i>	(Unaudited)	(Audited)
		RMB'000	RMB'000
REVENUE	3	24,012,653	20,642,565
Cost of sales		(24,270,594)	(20,876,829)
GROSS LOSS		(257,941)	(234,264)
Other income/(expenses), gain/(loss), net	5	637,351	491,410
Selling and distribution expenses		(30,532)	(23,844)
Administrative expenses		(130,046)	(111,078)
Reversal of provision for doubtful debts, net		45,115	69,605
Finance costs	7	(147,893)	(135,089)
Share of profits of associates		511	8,238
PROFIT BEFORE TAX	6	116,565	64,978
Income tax expense	8	(41,560)	(44,855)
PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		75,005	20,123
EARNINGS PER SHARE	9		
Basic (RMB)		0.03	0.01
Diluted (RMB)		0.03	0.01

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Expressed in Renminbi)

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
PROFIT FOR THE YEAR	75,005	20,123
<i>Other comprehensive income for the year:</i>		
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company and the foreign operations	(15,335)	(51,254)
Equity investment designated of fair value through other comprehensive income:		
Changes in fair value	<u>(9,600)</u>	<u>–</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u>50,070</u>	<u>(31,131)</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Expressed in Renminbi)

		2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		599,234	643,845
Right-of-use assets		122,779	–
Prepaid land lease payments		–	120,317
Interests in associates		175,559	184,648
Goodwill		570,236	685,778
Pledged deposits		–	4,800
Prepayments, other receivables and other assets		24,441	29,946
Deferred tax assets		16,605	19,638
		<u>1,508,854</u>	<u>1,688,972</u>
CURRENT ASSETS			
Inventories		563,799	432,525
Trade and bills receivables	11	1,189,037	879,331
Prepayments, other receivables and other assets		2,108,337	1,537,701
Amounts due from associates		15,261	5,038
Amounts due from related parties		10	10
Pledged deposits		42,982	47,012
Cash and cash equivalents		64,703	112,935
		<u>3,984,129</u>	<u>3,014,552</u>
CURRENT LIABILITIES			
Trade and bills payables	12	559,892	543,355
Note payables		30,457	17,524
Other payables and accruals		873,433	539,649
Finance leases payables		–	714
Interest-bearing bank and other borrowings		889,691	532,408
Lease liabilities		3,174	–
Amounts due to associates		32,801	103,709
Amounts due to a related party		5,613	5
Liability component of convertible bonds		636,524	576,854
Tax payable		63,780	50,420
		<u>3,095,365</u>	<u>2,364,638</u>
NET CURRENT ASSETS		<u>888,764</u>	<u>649,914</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,397,618</u>	<u>2,338,886</u>

		2019	2018
		(Unaudited)	(Audited)
	<i>Note</i>	RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Finance leases payables		–	4,226
Interest-bearing bank and other borrowings		135,420	16,140
Lease liabilities		3,361	–
Contingent consideration liabilities		151,305	407,667
Deferred government grants		4,007	5,076
Deferred tax liabilities		1,097	–
		<u>295,190</u>	<u>433,109</u>
NET ASSETS		<u>2,102,428</u>	<u>1,905,777</u>
EQUITY			
Share capital	<i>13</i>	211,741	210,244
Reserves		<u>1,890,687</u>	<u>1,695,533</u>
TOTAL EQUITY		<u>2,102,428</u>	<u>1,905,777</u>

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

These unaudited 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 unaudited consolidated financial statements for the year ended 31 December 2019 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 unaudited 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 unaudited financial statements.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to IFRSs 2015–2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9 and IAS 19, and *Annual Improvements to IFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

- (a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

IFRS 16 did not have any significant impact on leases where the Group is the lessor.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under IAS 17 and related interpretations.

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less (“short-term leases”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB4,603,000 that were reclassified from property, plant and equipment.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

As a lessee — Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under IAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of IFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	129,939
Decrease in property, plant and equipment	(4,603)
Decrease in prepaid land lease payments	<u>(120,317)</u>
Increase in total assets	<u><u>5,019</u></u>
Liabilities	
Increase in lease liabilities	10,048
Decrease in finance leases payables	<u>(4,940)</u>
Increase in total liabilities	<u><u>5,108</u></u>
Increase in accumulated losses	<u><u>(89)</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>RMB'000</i>
Operating lease commitments as at 31 December 2018	5,426
Weighted average incremental borrowing rate as at 1 January 2019	<u>3.25%</u>
Discounted operating lease commitments as at 1 January 2019	5,108
Add: Finance lease liabilities recognised as at 31 December 2018	<u>4,940</u>
Lease liabilities as at 1 January 2019	<u><u>10,048</u></u>

- (b) Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with IFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

- (c) IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as “uncertain tax positions”). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group’s tax compliance and transfer pricing study, the Group determine that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the financial position or performance of the Group.

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:

	2019 (Unaudited) RMB’000	2018 (Audited) RMB’000
Revenue from trading of electrolytic copper (<i>Note</i>)	16,715,910	13,519,429
Sales of recycled copper products	7,183,657	6,790,364
Sales of power transmission and distribution cables	32,022	27,315
Sales of communication cables	28,033	40,935
Sales of scrap materials	48,596	81,807
Revenue from trading of electrolytic nickel	–	173,627
Others	4,435	9,088
	<u>24,012,653</u>	<u>20,642,565</u>

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.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2019 (Unaudited) RMB’000	2018 (Audited) RMB’000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	<u>30,578</u>	<u>3,780</u>

Disaggregated revenue information

	2019			
	Recycled copper products (Unaudited) RMB'000	Power transmission and distribution cables (Unaudited) RMB'000	Communication cables (Unaudited) RMB'000	Total (Unaudited) RMB'000
Revenue from trading of electrolytic copper	16,715,910	–	–	16,715,910
Sales of recycled copper products	7,183,657	–	–	7,183,657
Sales of power transmission and distribution cables	–	32,022	–	32,022
Sales of communication cables	–	–	28,033	28,033
Sales of scrap materials	48,535	46	15	48,596
Others	4,435	–	–	4,435
	<u>23,952,537</u>	<u>32,068</u>	<u>28,048</u>	<u>24,012,653</u>
	2018			
	Recycled copper products (Audited) RMB'000	Power transmission and distribution cables (Audited) RMB'000	Communication cables (Audited) RMB'000	Total (Audited) RMB'000
Revenue from trading of electrolytic copper	13,519,429	–	–	13,519,429
Sales of recycled copper products	6,790,364	–	–	6,790,364
Sales of power transmission and distribution cables	–	27,315	–	27,315
Sales of communication cables	–	–	40,935	40,935
Sales of scrap materials	81,807	–	–	81,807
Revenue from trading of electrolytic nickel	173,627	–	–	173,627
Others	9,088	–	–	9,088
	<u>20,574,315</u>	<u>27,315</u>	<u>40,935</u>	<u>20,642,565</u>

Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 3 months from delivery, except for new customers, where payment in advance is normally required.

4 SEGMENT REPORTING

For management purposes, the Group is organised into business units based on their products and services and has three 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; and
- (iii) Communication cables segment: manufacturing and sales of communication cables.

(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.

	2019			
	Recycled copper products (Unaudited) RMB'000	Power transmission and distribution cables (Unaudited) RMB'000	Communication cables (Unaudited) RMB'000	Total (Unaudited) RMB'000
Segment revenue				
Sales to external customers	23,952,537	32,068	28,048	24,012,653
Intersegment sales	446,844	269	10,060	457,173
	<u>24,399,381</u>	<u>32,337</u>	<u>38,108</u>	<u>24,469,826</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(457,173)</u>
Revenue				<u><u>24,012,653</u></u>
Segment results	195,287	3,744	18,448	217,479
<i>Reconciliation:</i>				
Interest income	157	5	173	335
Corporate and other unallocated expenses				(37,588)
Finance costs	(60,281)	(2,676)	(1,215)	(64,172)
Share of profits of associates				<u>511</u>
Profit before tax				<u><u>116,565</u></u>
Other segment information				
Depreciation and amortisation	(42,992)	(7,766)	(2,857)	(53,615)
VAT refunds, government grants and subsidies	481,970	17,192	13,037	512,199
Reversal of provision for doubtful debts, net	<u>28,811</u>	<u>1,316</u>	<u>14,988</u>	<u>45,115</u>

	2018			
	Recycled copper products (Audited) <i>RMB'000</i>	Power transmission and distribution cables (Audited) <i>RMB'000</i>	Communication cables (Audited) <i>RMB'000</i>	Total (Audited) <i>RMB'000</i>
Segment revenue				
Sales to external customers	20,574,315	27,315	40,935	20,642,565
Intersegment sales	367,579	515	10,864	378,958
	<u>20,941,894</u>	<u>27,830</u>	<u>51,799</u>	<u>21,021,523</u>
<i>Reconciliation:</i>				
Elimination of intersegment sales				<u>(378,958)</u>
Revenue				<u><u>20,642,565</u></u>
Segment results	280,500	5,546	10,106	296,152
<i>Reconciliation:</i>				
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				<u>8,238</u>
Profit before tax				<u><u>64,978</u></u>
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	<u>64,054</u>	<u>4,099</u>	<u>1,452</u>	<u>69,605</u>

(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:

	2019 (Unaudited) <i>RMB'000</i>	2018 (Audited) <i>RMB'000</i>
Recycled copper products segment		
Customer A	4,185,714	3,559,391
Customer B	2,988,479	7,464,523
Customer C	2,701,202	589,985
	<u><u>9,875,395</u></u>	<u><u>11,613,899</u></u>

5 OTHER INCOME/(EXPENSES), GAIN/(LOSS), NET

		2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
VAT refunds			
— Comprehensive utilisation of resources	(i)	210,162	234,823
— Others		2,354	4,283
Government grants	(ii)	149,427	122,330
Government subsidies	(iii)	150,256	132,172
Interest income		436	487
Net loss on copper futures contracts upon settlement		(92)	(1,729)
Foreign exchange differences, net		(876)	(1,733)
Loss on disposal of items of property, plant and equipment		(285)	(186)
Impairment loss of goodwill		(115,542)	–
Changes in fair value of contingent consideration liabilities		240,395	1,696
Others		1,116	(733)
		<u>637,351</u>	<u>491,410</u>

Notes:

- (i) The Group is entitled to government grants for refunds of 30% for the year ended 31 December 2019 (2018: 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 2019, the Group was granted unconditional government subsidies of RMB150,256,000 (2018: RMB132,172,000) 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):

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Cost of sales (<i>Note</i>)	24,270,594	20,876,829
Depreciation of property, plant and equipment	45,857	40,194
Depreciation of right-of-use assets (2018: amortisation of land lease payments)	7,758	2,551
Loss on disposal of items of property, plant and equipment [#]	285	186
Minimum lease payments under operating leases	–	3,863
Auditor's remuneration	6,372	4,637
Professional fees	30,112	13,924
Research and development costs	3,377	2,202
Reversal of provision for doubtful debts, net	(45,115)	(69,605)
Provision for inventories [*]	3,059	–
Changes in fair value of contingent consideration liabilities [#]	(240,395)	(1,696)
Impairment of goodwill [#]	115,542	–
Foreign exchange differences, net [#]	876	1,733
Employee benefit expense (including directors' and chief executive's remuneration):		
Wages and salaries	45,665	43,638
Pension scheme contributions	6,119	4,003
Equity-settled share option expense	873	7,563
	52,657	55,204

* The provision for inventories for the year is included in "Cost of sales" in the consolidated statement of profit or loss.

These balances for the year are included in "Other income/(expenses), gain/(loss), net" in the consolidated statement of profit or loss.

Note: Cost of sales includes RMB55,998,000 (2018: RMB20,832,000) 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:

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Interest on bank loans and other borrowings	74,013	52,589
Interest on lease liabilities	1,942	–
Interest on obligation under finance lease	–	1,654
Interest on convertible bonds	71,881	80,760
Guarantee fees and other charges	57	86
	147,893	135,089

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 for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2018: Nil).

The subsidiaries of the Group in the PRC are subject to income tax at the rate of 25% (2018: 25%). In year 2019, 3 subsidiaries (2018: 4) were given the New/High Tech Enterprise Award and 1 subsidiary (2018: 6) was in the western region that engage in the industries encouraged by the government. These subsidiaries were entitled to a tax concession of a lower income tax rate (i.e. 15%) for the year ended 31 December 2019 and 2018.

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Current — the PRC		
Charge for the year	36,369	38,610
Underprovision in prior years	1,061	108
	37,430	38,718
Deferred	4,130	6,137
	41,560	44,855

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 2,643,658,030 (2018: 2,541,850,770) 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:

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Earnings		
Profit attributable to owners of the Company	75,005	20,123
Interest on convertible bonds	71,881	80,760
Profit attributable to owners of the Company before interest on convertible bonds	146,886	100,883

	Number of shares	
	2019	2018
	(Unaudited)	(Audited)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,643,658,030	2,541,850,770
Effect of dilution — weighted average number of ordinary shares:		
Warrants	6,274,247	11,189,109
Share options	57,985,023	81,218,978
Contingent consideration shares	–	16,609,419
Convertible bonds*	227,335,563	230,595,837
	<u>2,935,252,863</u>	<u>2,881,464,113</u>
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	<u>2,935,252,863</u>	<u>2,881,464,113</u>

* 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 RMB75,005,000 and the weighted average number of ordinary shares of 2,707,917,300 in issue during the year.

10 DIVIDEND

The Board does not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

11 TRADE AND BILLS RECEIVABLES

	2019	2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Trade receivables	1,272,188	1,008,234
Impairment	(84,226)	(129,341)
	<u>1,187,962</u>	878,893
Bills receivables	1,075	438
	<u>1,189,037</u>	<u>879,331</u>

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.

As part of its normal business, the Group entered into a trade receivable factoring arrangement (the "Arrangement") and transferred certain trade receivables to a financial institute. Under the Arrangement, the Group is required to reimburse the bank for any loss, including the loss arising in default of the trade debtors. Subsequent to the transfer, the Group has retained the substantial risks and rewards of the trade receivables and accordingly, it continued to recognise the full carrying amounts of the trade receivables. Loan from factorer is recognised for any consideration received for the Arrangement. The carrying amount of the assets that the Group continued to recognise as at 31 December 2019 was RMB332,023,000 (2018: Nil) and that of the associated liabilities as at 31 December 2019 was RMB261,100,000 (2018: Nil).

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:

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Within 30 days	690,556	426,325
31 to 60 days	120,325	208,843
61 to 180 days	109,719	150,201
Over 180 days	268,437	93,962
	<u>1,189,037</u>	<u>879,331</u>

12 TRADE AND BILLS PAYABLES

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Trade payables	534,092	517,555
Bills payables	25,800	25,800
	<u>559,892</u>	<u>543,355</u>

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:

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Within 30 days	27,428	155,146
31 to 60 days	166,016	32,121
61 to 180 days	9,154	111,767
Over 180 days	357,294	244,321
	<u>559,892</u>	<u>543,355</u>

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

13 SHARE CAPITAL

Authorised and Issued Share Capital

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Authorised:		
100,000,000,000 ordinary shares at HK\$0.1 each	8,071,000	8,071,000
Issued and fully paid:		
2,631,603,838 (2018: 2,614,994,419) ordinary shares	<u>211,741</u>	<u>210,244</u>

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 2018	2,466,900,969	197,495
Exercise of share options (i)	17,282,000	1,394
Issuance of ordinary shares (ii)	75,980,000	6,687
Exercise of warrants (iii)	18,101,372	1,462
Issuance of consideration shares (iv)	36,730,078	3,206
At 31 December 2018 and 1 January 2019	2,614,994,419	210,244
Issuance of ordinary shares (v)	16,609,419	1,497
At 31 December 2019	<u>2,631,603,838</u>	<u>211,741</u>

Notes:

- (i) 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.
- (ii) 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).
- (iii) 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).
- (iv) 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.
- (v) On 9 October 2019, the Company issued 16,609,419 ordinary shares at HK\$4.80 each to Sure Victor Global Limited ("Sure Victor") pursuant to an agreement as disclosed in the announcement dated 7 February 2018. RMB1,498,000 and RMB70,390,000 had been transferred from contingent consideration liabilities to share capital and share premium respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, the PRC's GDP grew at 6.1% including 6.0% for Q4 2019, such growth rates, though slowing, were still within a reasonable range. The PRC still recorded an increase in the demand for copper products across the country. As a result, the Group recorded an increase in sales of copper products in 2019 as compared with 2018, which translated into an increase in turnover by 16.3% as compared with the same period 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 2019. Furthermore, the improvement in the liquidity of our customers has resulted in an overall improvement in our trade receivable ageing and consequently the provision for bad debts ratio was adjusted downwards accordingly.

FUTURE PROSPECTS/OUTLOOK

On 15 January 2020, the PRC and the United States of America signed phase one of the trade agreement, easing a trade war which has rattled the global economy for the most of 2019. However, from January 2020, the COVID-19 outbreak began in the PRC. The Chinese government implement various stringent measures to fight against the spread of the virus. As a result, the PRC's manufacturing and services sector plunged to record lows in February and the PRC's exports fell 17.2 percent in January and February. It is widely expected that there will be a drop in the PRC's first quarter GDP, the first contraction since the PRC began reporting quarterly data in 1992. Although the COVID-19 outbreak appears to have slowed down in the PRC and its impacts have gone global beginning in March 2020.

Furthermore, the COVID-19 outbreak has brought about additional uncertainties in the Group's operating environment in the PRC. As far as the Group's businesses are concerned, the outbreak has so far caused operational delays. The Group has put in place contingency measures to reduce the impact from this outbreak. However, the situation remains fluid at this stage.

As a result, we expect our operating environment to be challenging in the coming year. In order to further support the economic growth, the Chinese government encouraged banks to lend more to non-state-owned enterprises, launched new tax cuts and accelerated infrastructure investments. At this juncture, we are still uncertain about the extent of the fall out resulting from the COVID-19 outbreak. We will be looking to conserve our financial strength so that we will be able to cope with possible headwinds as well as being able to take advantage of future opportunities if and when they arise.

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.

	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Revenue from trading of electrolytic copper (<i>Note</i>)	16,715,910	13,519,429
Sales of recycled copper products	7,183,657	6,790,364
Sales of power transmission and distribution cables	32,022	27,315
Sales of communication cables	28,033	40,935
Sales of scrap materials	48,596	81,807
Revenue from trading of electrolytic nickel	–	173,627
Others	4,435	9,088
	<u>24,012,653</u>	<u>20,642,565</u>

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 2019 amounted to RMB24,012.7 million, representing an increase of 16.3% from RMB20,642.6 million for the year ended 31 December 2018. The increase in sales volume was principally from the increase in trading of electrolytic copper and sales of recycled copper products, which are mainly contributed from the commencement of operations of subsidiary in Henan Kaifeng and expansion of operations in 2019.

Revenue from trading of electrolytic copper amounted to RMB16,715.9 million for the year ended 31 December 2019, representing an increase of 23.6% from RMB13,519.4 million for the year ended 31 December 2018. It was mainly an increase of 28.9% in the sales volume of electrolytic copper from 308,242 metric tons for the year ended 31 December 2018 to 397,327 metric tons for the year ended 31 December 2019, with a decrease of 4.1% in average selling price from RMB43,860 per ton for the year ended 31 December 2018 to RMB42,071 per ton for the year ended 31 December 2019.

Revenue from recycled copper products amounted to RMB7,183.7 million for the year ended 31 December 2019, representing an increase of 5.8% from RMB6,790.4 million for the year ended 31 December 2018. It was mainly an increase of 9.3% in the sales volume of recycled copper products from 156,589 metric tons for the year ended 31 December 2018 to 171,228 metric tons for the year ended 31 December 2019, with a decrease of 3.3% in average selling price from RMB43,364 per ton for the year ended 31 December 2018 to RMB41,954 per ton for the year ended 31 December 2019.

Cost of sales

Cost of sales for the year ended 31 December 2019 totaled RMB24,270.6 million, representing an increase of 16.3% from RMB20,876.8 million for the year ended 31 December 2018.

Gross loss

Our gross loss was RMB257.9 million for the year ended 31 December 2019, as compared to the gross loss of RMB234.3 million for the year ended 31 December 2018. Our gross loss margin for the year ended 31 December 2019 was 1.1%, as compared to a gross loss margin of 1.1% for the year ended 31 December 2018.

Other income/(expenses), gain/(loss), net

Our other income and gain for the year ended 31 December 2019 were RMB637.4 million as compared to RMB491.4 million for the year ended 31 December 2018. The increase in 2019 were primarily attributable to the increases in government subsidies and grants and VAT refunds under Comprehensive Utilisation of Resources Policy, and increase in changes in fair value of contingent consideration liabilities.

Selling and distribution expenses

Our selling and distribution expenses for the year ended 31 December 2019 were RMB30.5 million, representing an increase of 28.0% from RMB23.8 million for the year ended 31 December 2018. The increase was mainly due to the expansion of operations in 2019.

Administrative expenses

Our administrative expenses for the year ended 31 December 2019 were RMB130.0 million, representing an increase of 17.1% from RMB111.1 million for the year ended 31 December 2018. The increase was primarily due to the increase in professional fees by RMB16.2 million.

Finance costs

Our finance costs for the year ended 31 December 2019 were RMB147.9 million, representing an increase of 9.5% from RMB135.1 million for the year ended 31 December 2018. The increase was primarily due to the increase in the overall balance of interest-bearing borrowings. The balance of interest-bearing borrowings as at 31 December 2019 amounted to RMB1,698.6 million, representing an increase of RMB550.7 million from RMB1,147.9 million as at 31 December 2018.

Profit for the year

Our profit for the year ended 31 December 2019 was RMB75.0 million as compared to RMB20.1 million for the year ended 31 December 2018. The increase was mainly due to the increase in government grants and subsidies and VAT refunds under Comprehensive Utilisation of Resources Policy, and increase in changes in fair value of contingent consideration liabilities.

Capital structure

As at 31 December 2019, the capital structure of the Group mainly consisted of shareholders' equity, note payables, interest-bearing bank and other borrowings, finance leases payables, lease liabilities 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 2019		As at 31 December 2018	
	Weighted average effective interest rate	Amount (Unaudited) RMB'000	Weighted average effective interest rate	Amount (Audited) RMB'000
	%		%	
Fixed rate borrowings:				
Note payables	13.00	30,457	12.00	17,524
Interest-bearing bank and other borrowings	7.19	1,025,111	8.69	548,548
Finance leases payables	–	–	27.79	4,940
Lease liabilities	38.81	6,535	–	–
Liability component of convertible bonds	24.00	636,524	15.07	576,854
Total fixed rate borrowings		<u>1,698,627</u>		<u>1,147,866</u>

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

As at 31 December 2019					
	Note payables (Unaudited) RMB'000	Interest- bearing bank and other borrowings (Unaudited) RMB'000	Lease liabilities (Unaudited) RMB'000	Liability component of convertible bonds (Unaudited) RMB'000	Total (Unaudited) RMB'000
Within one year or repayable on demand	30,457	889,691	3,175	636,524	1,559,847
After one year but less than two years	–	52,220	811	–	53,031
After two years but less than five years	–	83,200	2,549	–	85,749
	<u>30,457</u>	<u>1,025,111</u>	<u>6,535</u>	<u>636,524</u>	<u>1,698,627</u>
As at 31 December 2018					
	Note payables (Audited) RMB'000	Interest- bearing bank and other borrowings (Audited) RMB'000	Finance leases payables (Audited) RMB'000	Liability component of convertible bonds (Audited) RMB'000	Total (Audited) 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
	<u>17,524</u>	<u>548,548</u>	<u>4,940</u>	<u>576,854</u>	<u>1,147,866</u>

Extension of term of convertible bonds

Reference is made to the convertible bonds in the aggregate principal amount of HK\$600,000,000 issued to China Huarong International Holdings Limited (“Huarong”) and Prosper Rich Investments Limited (“Prosper Rich”) by the Company on 11 August 2017 (the “Convertible Bonds”). The convertibles bonds issued on 11 August 2017 have matured on 12 August 2019. As at the date of this report, the Company and Huarong and Prosper Rich are still in negotiation in connection with the proposed extension of the instruments.

Issuance of new ordinary shares

Pursuant to the announcements dated 7 February 2018 and 27 September 2019 in relation to the Sale and Purchase Agreement, pursuant to which the Company agreed to purchase, and Sure Victor agreed to sell, 100 shares in the Target for an aggregate 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 pursuant to the Earn-out Arrangement.

On 9 October 2019, the Company issued 16,609,419 ordinary shares to Sure Victor pursuant to an agreement as disclosed in the announcement dated 9 October 2019. RMB1,498,000 and RMB70,390,000 had been transferred from contingent consideration liabilities to share capital and share premium respectively.

Liquidity and financial resources

As at 31 December 2019, the Group’s cash and cash equivalents (excluding pledged deposits of RMB43.0 million) amounted to RMB64.7 million (as at 31 December 2018: RMB112.9 million).

The Group’s inventories increased by RMB131.3 million to RMB563.8 million (as at 31 December 2018: RMB432.5 million). During the year ended 31 December 2019, the overall inventory turnover days of 7.5 days remains consistent compared to 7.7 days for the year ended 31 December 2018.

Trade and bills receivables increased by RMB309.7 million to RMB1,189.0 million as at 31 December 2019 (as at 31 December 2018: RMB879.3 million). Trade and bills receivables turnover days in 2019 of 15.7 days remains consistent compared to 17.4 days in 2018.

Trade and bills payables increased by RMB16.5 million to RMB559.9 million as at 31 December 2019 (as at 31 December 2018: RMB543.4 million), the payable turnover days were 8.3 days, compared to 6.6 days in 2018. Payable turnover days for the year was relatively stable as compared with last year. Furthermore, we endeavor to keep our trade and bills payables 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 increased by RMB550.7 million to RMB1,698.6 million as at 31 December 2019 (as at 31 December 2018: RMB1,147.9 million). The overall increase was mainly due to the increase in bank loans from RMB548.5 million as at 31 December 2018 to RMB1,025.1 million as at 31 December 2019.

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 2019 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	
	2019	2018
Current ratio	1.3	1.3
Quick ratio	1.1	1.1
Debt to equity ratio*	80.8%	60.2%
Net debt to equity ratio [#]	77.7%	54.3%

* Total interest-bearing debts/Total equity

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

The current ratio and quick ratio as at 31 December 2019 were consistent with those as at 31 December 2018 .

The increase in debt to equity ratio and net debt to equity ratio as at 31 December 2019 compared with those as at 31 December 2018 was mainly because of (i) the increase in interest-bearing borrowings amounted to RMB550.7 million; (ii) repayment of convertible bonds of HK\$10.0 million on 12 September 2019; and (iii) the net profit for the year ended 31 December 2019.

Charge on assets

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

	As at 31 December	
	2019 (Unaudited) RMB'000	2018 (Audited) RMB'000
Property, plant and equipment	424,508	200,649
Right-of-use assets (2018: Prepaid land lease payments)	91,429	86,840
Inventories	163,566	10,000
Trade receivables	332,023	–
Deposits with guarantee companies	1,575	4,375
Deposits with banks	12,900	12,900
Deposits with lessors of finance leases	–	4,800
Deposits with other companies	28,507	29,737
	<u>1,054,508</u>	<u>349,301</u>

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, 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 2019 (as at 31 December 2018: Nil). Net loss of RMB92,000 was recognized for the year ended 31 December 2019 (2018: RMB1,729,000).

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 2019 including HK\$3.1 million and USD9,215 (in total equivalent to approximately RMB2.8 million) were held in banks in Hong Kong.

As at 31 December 2019, the Group's interest-bearing bank and other borrowings and lease liabilities were denominated in RMB but the convertible bonds were denominated in HKD, with an aggregate principal amount of HK\$670.0 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 2019. During the year ended 31 December 2019, the Company incurred an exchange difference on translation of financial statements of entities outside of the PRC equivalent to RMB15.3 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 2019.

Material acquisitions and disposals of subsidiaries and affiliated companies

Silver Eminent Group Limited (“Silver Eminent”)

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 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 years ended 31 December 2018, Silver Eminent and its subsidiaries made a net loss of RMB10,169,000 under IFRS, as such, no consideration shares were issuable to Yuanxin in 2018 under the sale and purchase agreement.

For the years ended 31 December 2019, Silver Eminent and its subsidiaries made a net profit of RMB13,190,000 under IFRS, as such, no consideration shares are issuable to Yuanxin in 2019 under the sale and purchase agreement.

The number of consideration shares for the second year to be issued, if any, is calculated on the following mathematic formula under the sale and purchase agreement:

$$(A \div B) \times (C + D \times \text{HK\$}3.8) - (C + E \times \text{HK\$}3.8) / \text{HK\$}3.8$$

- A = actual net profits of the target for the first and second years
- B = performance target for the first and second years, i.e. RMB55,000,000
- C = cash consideration, i.e. HK\$158,823,500
- D = the maximum number of consideration shares to be issued for the first and second years, i.e. 25,542,000 Shares
- E = the number of consideration shares already issued for the first year, i.e. nil Shares

Value Link Developments Limited (“Value Link”)

On 7 February 2018, the Company entered into a sale and purchase agreement with 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 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 were issued to Sure Victor under the sale and purchase agreement.

For the year ended 31 December 2019, Value Link and its subsidiaries made a net profit of RMB20,530,000 under IFRS, as such, no additional consideration shares will be issued to Sure Victor under the sale and purchase agreement.

The number of consideration shares for the second year to be issued, if any, is calculated on the following mathematic formula under the sale and purchase agreement:

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

- A = actual net profits of the target for the first and second years
- B = performance target for the first and second years, i.e. RMB105,000,000
- C = cash consideration, i.e. HK\$287,647,000
- D = the maximum number of consideration shares to be issued for the first and second years, i.e. 55,116,000 Shares
- E = the number of consideration shares already issued for the first year, i.e. 16,609,419 Shares

Sky Harvest Global Limited (“Sky Harvest”)

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 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.

For the year ended 31 December 2019, Sky Harvest and its subsidiaries made a net profit of RMB5,631,000 under IFRS, as such, no consideration shares are issuable to Advance Splendid under the sale and purchase agreement.

The number of consideration shares for the first year to be issued, if any, is calculated on the following mathematic formula under the sale and purchase agreement:

$$(A \div B) \times (C + D \times \text{HK\$}5.0) - C/\text{HK\$}5.0$$

- A = actual net profits of the target for the first year
- B = performance target for the first year, i.e. RMB35,000,000
- C = cash consideration, i.e. HK\$180,000,000
- D = the maximum number of consideration shares to be issued for the first year, i.e. 15,361,000 Shares

During the year ended 31 December 2019, 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 2019, the Group's capital expenditures payments represent additions to property, plant and equipment (including construction in progress) and land use rights of approximately RMB17.7 million (2018: RMB68.3 million). The capital expenditures were mainly financed from internal resources.

Capital commitments

As at 31 December 2019, 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 RMB40.4 million (as at 31 December 2018: RMB31.4 million).

Contingent liabilities

Other than the contingent consideration liabilities of three acquisitions as mentioned above, the Group had no material contingent liabilities as at 31 December 2019.

Events after the Reporting Period

Sichuan Jin Xunhuan E-commerce Trading Co., Ltd. (“JX E-commerce”)

On 25 October 2017, Fuqing Zhongjin Nonferrous Metal Materials Co., Ltd. (“Fuqing Zhongjin”), an indirect wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Sichuan Xijiulong Investment Co., Ltd. (“Sichuan Xijiulong”), pursuant to which Fuqing Zhongjin made a pre-IPO investment in JX E-commerce by acquiring from Sichuan Xijiulong 25% equity interest in JX E-commerce for a cash consideration of RMB125,000,000. According to the sale and purchase agreement, Fuqing Zhongjin was granted a put option by Sichuan Xijiulong (“Put Option”), pursuant to which, if JX E-commerce fails to complete a qualified IPO within 3 years of the date of Completion (“IPO Deadline”), Fuqing Zhongjin has the discretion to require Sichuan Xijiulong to repurchase Fuqing Zhongjin’s equity interest in JX E-commerce at any time after the expiration of such 3-year period at the consideration of RMB125,000,000. Sichuan Xijiulong shall execute an equity transfer agreement with Fuqing Zhongjin within 5 business days of receiving the written notice of exercising the Put Option from Fuqing Zhongjin. Please refer to the announcement of the Company dated 25 October 2017 for further details.

On 27 March 2020, Fuqing Zhongjin entered into a loan agreement with Sichuan Xijiulong, pursuant to which, Sichuan Xijiulong committed to make a short term loan of RMB125,000,000 to Fuqing Zhongjin before 20 April 2020, interest rate will be based on the benchmark rate of the People’s Bank of China, the term of the loan will be 7 months from 20 April 2020 to 20 November 2020. If JX E-commerce completes a qualified IPO before the IPO Deadline, Fuqing Zhongjin will repay the principal amount and interest thereof to Sichuan Xijiulong in cash on a one-off basis. If JX E-commerce fails to complete a qualified IPO before the IPO Deadline, the principal amount of the loan will be offset against the amount Sichuan Xijiulong is obligated to pay for repurchasing the 25% equity interest in JX E-commerce upon the exercise of the Put Option by Fuqing Zhongjin, and Fuqing Zhongjin will repay the interest to Sichuan Xijiulong in cash.

Except the above, please refer to the section “FURTHER ANNOUNCEMENT(S)” below.

Human resources

As at 31 December 2019, the Group had a total of 847 employees (2018: 864). The Group’s staff costs for the year ended 31 December 2019 were approximately RMB52.7 million (2018: RMB55.2 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 maintain 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 2019 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: 7% of cost of sales
- five largest suppliers combined: 26% of cost of sales

Sales

- the largest customer: 17% of revenue
- five largest customers combined: 51% 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 the PRC. 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 2019 (2018: Nil).

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of the PRC to combat the COVID-19 outbreak. The unaudited results contained herein have not been agreed by the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the Audit Committee of the Company.

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 2019.

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 two independent non-executive Directors were not able to attend the annual general meeting of the Company held on 6 June 2019.

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.

CLOSURE OF REGISTER OF MEMBERS

Please refer to the section "FURTHER ANNOUNCEMENT(S)" below.

ANNUAL GENERAL MEETING

Please refer to the section "FURTHER ANNOUNCEMENT(S)" below.

PUBLICATIONS OF RESULTS ANNOUNCEMENT

Please refer to the section “FURTHER ANNOUNCEMENT(S)” below.

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.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company’s auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders’ eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 March 2020

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.