NOVELIS (SHANGHAI) ALUMINUM TRADING CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR FOR THE YEAR ENDED 31 DECEMBER 2016

[English translation for reference only. Should there be any inconsistency between the Chinese and English versions, the Chinese version shall prevail.]

NOVELIS (SHANGHAI) ALUMINUM TRADING CO., LTD.

FINANCIAL STATEMENTS AND REPORT OF THE AUDITOR
FOR THE YEAR ENDED 31 DECEMBER 2016
[English translation for reference only]

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[English translation for reference only]

Auditor's Report

PwC ZT Shen Zi (2017) No. 26857

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

We have audited the accompanying financial statements of Novelis (Shanghai) Aluminum Trading Co., Ltd. (the "Company") which comprise the balance sheet as at 31 December 2016, the income statement, the statement of changes in owner's equity and the cash flow statement for the year ended 31 December 2016, and the notes to the financial statements.

Management's Responsibility for the Financial Statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of Accounting Standards for Business Enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

[English translation for reference only]

Auditor's Report (continued)

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016, and its financial performance and cash flows for the the year ended 31 December 2016 in accordance with the requirements of Accounting Standards for Business Enterprises.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

25 May 2017

NOVELIS (SHANGHAI) ALUMINUM TRADING CO., LTD.

BALANCE SHEET
AS AT 31 DECEMBER 2016
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

ASSETS	Notes	31 December 2016	31 December 2015
Current assets			
Cash at bank and on hand	6(1)	63,695,473.35	43,801,925.42
Accounts receivable	6(2)(a)	67,931,006.73	40,757,368.51
Advances to suppliers	6(3)	1,952,587.16	1,951,087.16
Other receivables	6(2)(b)	17,754,647.63	17,360,449.35
Inventories	6(4)	3,058,538.46	78,169,928.82
Other current assets	6(5)	664,472.50	-
Total current assets		155,056,725.83	182,040,759.26
Non-current assets			
Fixed assets	6(6)	51,772.27	130,038.77
Intangible assets	6(7)	5,062.87	55,691.65
Long-term prepaid expenses	6(8)	159,641.18	638,565.02
Deferred tax assets	6(12)	1,487,093.14	1,564,894.65
Total non-current assets		1,703,569.46	2,389,190.09
TOTAL ASSETS		156,760,295.29	184,429,949.35
LIABILITIES AND OWNER'S EQUITY			
Current liabilities			
Accounts payable	7(4)	39,179,097.14	66,051,813.90
Employee benefits payable	6(9)	3,643,395.97	2,527,481.11
Taxes payable	6(10)	-	6,505,844.58
Other payables	6(11)	6,322,682.41	7,550,542.37
Total current liabilities		49,145,175.52	82,635,681.96
Total liabilities		49,145,175.52	82,635,681.96
Owner's equity			
Paid-in capital (USD 3,500,000)		22,143,725.48	22,143,725.48
Surplus reserve	6(13)	8,547,139.43	7,965,054.19
Undistributed profits		76,924,254.86	71,685,487.72
Total owner's equity		107,615,119.77	101,794,267.39
TOTAL LIABILITIES AND OWNER'S EQUITY		156,760,295.29	184,429,949.35

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

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Craig Lewis	Craig Lewis

NOVELIS (SHANGHAI) ALUMINUM TRADING CO., LTD.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

	Notes	2016	2015
Revenue	6(14)	301,385,835.12	381,627,806.46
Less: Cost of sales	6(14)	(276,792,066.51)	(315,209,165.64)
Taxes and surcharges	6(15)	(2,164,467.89)	(1,814,620.70)
Selling and distribution expenses	6(17)	(1,643,494.65)	(15,774,564.89)
General and administrative expenses	6(17)	(13,431,441.09)	(22,263,622.49)
Financial (expenses)/income - net	6(16)	(2,028,771.29)	10,250,557.43
Operating profit		5,325,593.69	36,816,390.17
Add: Non-operating income	6(18)	4,593,528.65	5,758,444.88
Less：Non-operating expenses	6(18)	(2,157,985.83)	(4,225,250.37)
Total profit		7,761,136.51	38,349,584.68
Less: Income tax	6(19)	(1,940,284.13)	(9,587,396.17)
Net profit		5,820,852.38	28,762,188.51
Other comprehensive income, net of tax		-	-
Total comprehensive income		5,820,852.38	28,762,188.51

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

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Craig Lewis	Craig Lewis

NOVELIS (SHANGHAI) ALUMINUM TRADING CO., LTD.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

	Notes	2016	2015
1. Cash flows used in operating activities			
Cash received from sales of goods or rendering of services		321,664,993.20	432,866,940.22
Cash received relating to other operating activities		4,697,246.25	5,375,849.53
Sub-total of cash inflows		326,362,239.45	438,242,789.75
Cash paid for goods and services		(230,689,170.77)	(336,970,813.54)
Cash paid to and on behalf of employees		(18,467,084.50)	(18,874,633.56)
Payments of taxes and surcharges		(22,660,095.08)	(31,658,603.07)
Cash paid relating to other operating activities		(35,368,110.40)	(32,010,357.10)
Sub-total of cash outflows		(307,184,460.75)	(419,514,407.27)
Net cash flows generated used in operating activities	6(20)(a)	19,177,778.70	18,728,382.48
2. Cash flows from/(used in) investing activities			
Cash received relating to other investing activities		715,372.08	297,125.00
Sub-total of cash inflows		715,372.08	297,125.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		-	(167,815.38)
Cash paid relating to other investing activities		-	(9,500,000.00)
Sub-total of cash outflows		-	(9,667,815.38)
Net cash flows from/(used in) investing activities		715,372.08	(9,370,690.38)
3. Net cash flows from financing activities		-	-
4. Effect of foreign exchange rate changes on cash		397.15	337.05
5. Net increase in cash	6(20)(b)	19,893,547.93	9,358,029.15
Add: Cash at beginning of the year		43,801,925.42	34,443,896.27
6. Cash at end of the year		63,695,473.35	43,801,925.42

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

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Craig Lewis	Craig Lewis

NOVELIS (SHANGHAI) ALUMINUM TRADING CO., LTD.

STATEMENT OF CHANGES IN OWNER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
(All amounts in Rmb Yuan unless otherwise stated)
[English translation for reference only]

Items	Paid-in capital	Surplus reserve	Undistributed profits	Total owner'sequity
Balance at 1 January 2015	22,143,725.48	5,088,835.34	45,799,518.06	73,032,078.88
Movements for the year ended 31 December 2015				
Net profit	-	-	28,762,188.51	28,762,188.51
Appropriation to surplus reserves	-	2,876,218.85	(2,876,218.85)	-
Balance at 31 December 2015	22,143,725.48	7,965,054.19	71,685,487.72	101,794,267.39
Balance at 1 January 2016	22,143,725.48	7,965,054.19	71,685,487.72	101,794,267.39
Movements for the year ended 31 December 2016				
Net profit	-	-	5,820,852.38	5,820,852.38
Appropriation to surplus reserves	-	582,085.24	(582,085.24)	-
Balance at 31 December 2016	22,143,725.48	8,547,139.43	76,924,254.86	107,615,119.77

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

Legal representative:	Person in charge of accounting:	Head of accounting department:
Liu Qing	Craig Lewis	Craig Lewis

1 General information

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

The approved scope of business of the Company includes wholesale, commissioned agency (excluding auction), import, export of aluminum flat rolled products, metal materials (excluding rare metals, precious metals and steel), metal products, machinery and equipment, provision of ancillary services and related technical consulting and technical service (not involving any goods subject to state-run trade; if the business involves any goods subject to quota or license administration, application shall be filed in accordance with relevant national regulations); provision of trade-related information consulting (excluding financial information), and enterprise management consulting (subject to licensing where a license is required). For the year ended 31 December 2016, the actual principal activities of the Company were the same as above.

These financial statements were authorised for issue by the Company's legal representative on 25 May 2017.

2 Basis of preparation

The financial statements were prepared by the Company in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by Ministry of Finance on 15 February 2006, Application Guidance of the Accounting Standard for Business Enterprises, Interpretation of the Accounting Standards for Business Enterprises and other regulations issued thereafter (the "Accounting Standard for Business Enterprises", "China Accounting Standards" or "CAS").

The financial statements are prepared on a going concern basis.

3 Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position of the Company as of 31 December 2016 and of its financial performance, cash flows and other information for the year ended 31 December 2016.

4 Summary of significant accounting policies and accounting estimates

(1) Accounting period

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

(2) Recording currency

The recording currency is Renminbi ("RMB").

(3) Foreign currency translation

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

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

(3) Foreign currency translation (continued)

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(4) Cash and cash equivalents

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

(5) Financial assets

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Company's intention and ability to hold the financial assets. The financial assets held by the Company are receivables.

(a) Receivables

Receivables, including accounts receivable and other receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market (Note 4 (6)).

(b) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired, or all substantial risks and rewards of ownership of the financial assets have been transferred.

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

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

(5) Financial assets (continued)

(c) Impairment of financial assets

The Comany assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

(6) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Company will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made at the difference between its carrying amount and the present value of its estimated future cash flows.

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

(7) Inventories

Inventories are goods held for sale, and are presented at the lower of cost and net realisable value.

Cost is determined using the specific identification method.

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

The Company adopts the perpetual inventory system.

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

(8) Fixed assets

Fixed assets comprise computers and electronic equipment. Fixed assets purchased or constructed by the Company are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Company and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated residual values	Annual depreciation rates
Computer and electronic equipment	3 years	10%	30%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

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

(9) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month.

(10) Intangible assets

Intangible assets are softwares measured at cost.

(a) Softwares

Sofwares are amortised on the straight-line basis over their approved use period of 3 years.

(b) Periodical review of useful life and amortisation method

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

(11) Long-term prepaid expenses

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

(12) Impairment of long-term assets

Fixed assets, construction in progress and intangible assets with finite useful lives are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

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

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

(13) Employee benefits

Employee benefits include short-term employee benefits and post-employment benefits, provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognized in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Company pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Company's post-employment benefits mainly include basic pensions and unemployment insurance, both of which belong to the defined contribution plans.

Basic pensions

The Company’s employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognized as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(14) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

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

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

Deferred tax assets and liabilities are offset when:

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

(15) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of rebates, discounts and returns.

Revenue is recognised when it's probable that the economic benefits associated with the transaction will flow to the Company, the relevant revenue can be reliably measured and specific revenue recognition criteria have been met for each of the Company's activities as described below:

(a) Sale of goods

Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the buyer, the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, and it is probable that the economic benefit associated with the transaction will flow to the Company and the relevant revenue and costs can be measured reliably.

(b) Rendering of services

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

(16) Government grant

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

Government grant should be recognised when the Company meets all the conditions and makes sure that the government grant could be received. Government grants refer to the monetary should be recognised as the received or should receive amount. Government grants refer to the non-monetary assets should be recognised as the fair value or the nominal amount when the fair value can't be obtained. Government grant should be recognised when the Company meets all the conditions and makes sure that the government grant could be received. Government grants refer to the monetary should be recognised as the received or should receive amount. Government grants refer to the non-monetary assets should be recognised as the fair value or the nominal amount when the fair value can't be obtained.

The government grants related to income refer to the government grants other than those related to assets. The income related government grants used for compensating the relevant future expenses or losses of the enterprise shall be deferred and recognised in the income statement when the relevant expenses or losses are recognised. For those used for compensating the relevant expenses or losses that have incurred by the enterprise, the income related government grants shall be recognised in the income statement immediately.

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

(17) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

(a) Operating leases

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

(18) Critical accounting estimates and judgments

The Company continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

(a) Critical accounting estimates and judgments

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

(i) Provision for bad debts of receivables

The impairment for receivables is based on the assessment of the collectability of receivables. Management assesses the impairment for receivables by using judgment and estimates. The differences between actual results and the original estimates will impact the carrying amount of the receivables and provision or reversal of provision for bad debts of the receivables during the period of changes of estimates.

(ii) Net realisable value of inventories

Net realisable value of inventories is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. These estimates are made based on current market conditions and historical experiences of selling products of similar nature, which may change due to the changes of customers' preference and the changes adopted by competitors in the different stage of business cycle. The management assesses the reasonableness of this estimate on each financial statements date.

(iii) Income taxes

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Company in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

(18) Critical accounting estimates and judgments (continued)

(a) Critical accounting estimates and judgments (continued)

(iii) Income taxes (continued)

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Expected applicable tax rate is determined according to current tax regulation and status of the Company.

The Company management recognizes deferred tax assets according to expected taxable income gained with great possibility which will deduct temporary difference for coming years.If expected taxable income for coming year changes, the Company management will adjust deferred tax assets accordingly.

5 Taxation

The main categories and rates of taxes applicable to the Company are set out below:

Category	Tax rate	Tax base
Enterprise income tax	25%	Taxable income
Value added tax (“VAT”) (a)	17% and 6%	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of current period)
City maintenance and construction tax	7%	The payment amount of VAT
Education surcharges	5%	The payment amount of VAT
Riverway management charges	1%	The payment amount of VAT

(a) Pursuant to the Circular on the Pilot Plan for Levying VAT in Place of Business Tax (Caishui No.110, 2011) and the Circular on the Pilot Practice of Levying VAT in Place of Business Tax for the Transportation Industry and Some Modern Service Industries in Shanghai (Caishui No.37, 2013) jointly issued by the Ministry of Finance and the State Administration of Taxation, payments made by the Company on behalf of related parties offshore was subject to VAT since 1 August 2013, and the applicable tax rate is 6%. Before 1 August 2013, the business mentioned above was subject to business tax and the applicable tax rate was 5%.

6 Notes to the financial statements

(1) Cash at bank and on hand

	31 December 2016	31 December 2015
Cash at bank	63,695,473.35	43,801,925.42

(2) Accounts receivable and other receivables

(a) Accounts receivable

	31 December 2015			31 December 2016
Accounts receivable	40,757,368.51			67,931,006.73
		Increase in current year	Decrease in current year	
Less: provision for bad debts	-	-	-	-
	40,757,368.51			67,931,006.73

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

	31 December 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	67,931,006.73	100.00%	-	40,757,368.51	100.00%	-

6 Notes to the financial statements (continued)

(2) Accounts receivable and other receivables (continued)

(b) Other receivables

	31 December 2015			31 December 2016
Receivables from related parties (Note7(4)(b))	16,025,498.00			13,847,814.36
Logistics deposit	-			3,193,795.55
Prepayments of custom duty and VAT	836,562.75			585,770.42
Rental deposit	239,312.17			89,390.90
Others	259,076.43			37,876.40
	17,360,449.35			17,754,647.63
		Increase in current year	Decrease in current year	
Less: provision for bad debts	-	-	-	-
	17,360,449.35			17,754,647.63

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

	31 December 2016			31 December 2015		
	Amount	% of total balance	Provision for bad debts	Amount	% of total balance	Provision for bad debts
Within 1 year	4,494,927.63	25.32%	-	15,221,137.18	87.68%	-
1 to 2 years	11,359,720.00	63.98%	-	2,139,312.17	12.32%	-
2 to 3 years	1,900,000.00	10.70%	-	-	-	-
	17,754,647.63	100.00%	-	17,360,449.35	100.00%	-

(3) Advances to suppliers

The aging of advances to suppliers is analysed below:

Aging	31 December 2016		31 December 2015	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	1,952,587.16	100.00%	1,951,087.16	100.00%

6 Notes to the financial statements (continued)

(4) Inventories

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Cost				
Goods held for trading	78,169,928.82			3,058,538.46
Less: Provision for declines in the value of inventories				
Goods held for trading	-	-	-	-
	78,169,928.82			3,058,538.46

(5) Other current assets

	31 December 2016	31 December 2015
Prepaid VAT	348,853.37	-
Prepaid enterprise income tax	315,619.13	-
	664,472.50	-

(6) Fixed assets

	Computer and electronic equipment
Cost	
As at 31 December 2015 and 31 December 2016	254,814.83
Accumulated depreciation	
31 December 2015	(124,776.06)
Increase in the current year	(78,266.50)
31 December 2016	(203,042.56)
Net book value	
31 December 2016	51,772.27
31 December 2015	130,038.77

In 2016, the amount of depreciation expense charged to general and administrative expenses was RMB 78,266.50 (2015：RMB 64,286.74).

6 Notes to the financial statements (continued)

(7) Intangible assets

	Cost	31 December 2015	Amortization charged in current year	31 December 2016	Accumulated amortization
Software model	151,886.32	55,691.65	(50,628.78)	5,062.87	(146,823.45)

(8) Long-term prepaid expenses

	Improvements to fixed assets held under operating leases
31 December 2015	638,565.02
Amortisation charged in current year	(478,923.84)
31 December 2016	159,641.18

(9) Employee benefits payable

	31 December 2016	31 December 2015
Short-term employee benefits payable(a)	3,643,395.97	2,527,481.11
Defined contribution plans payable(b)	-	-
	3,643,395.97	2,527,481.11

(a) Short-term employee benefits payable

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Wages and salaries, bonuses, allowances and subsidies	2,527,481.11	18,247,192.42	(17,131,277.56)	3,643,395.97
Social security contributions	-	455,559.74	(455,559.74)	-
Including: Medical insurance	-	401,546.41	(401,546.41)	-
Work injury insurance	-	15,681.43	(15,681.43)	-
Maternity insurance	-	38,331.90	(38,331.90)	-
Housing funds	-	321,711.36	(321,711.36)	-
	2,527,481.11	19,024,463.52	(17,908,548.66)	3,643,395.97

(b) Defined contribution plans payable

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Basic pensions	-	805,874.09	(805,874.09)	-
Unemployment insurance	-	41,661.75	(41,661.75)	-
	-	847,535.84	(847,535.84)	-

6 Notes to the financial statements (continued)

(10) Taxes payable

	31 December 2016	31 December 2015
Enterprise income tax payable	-	3,447,080.75
Unpaid VAT	-	3,058,763.83
	-	6,505,844.58

(11) Other payables

	31 December 2016	31 December 2015
Compensation payables	4,424,511.32	4,225,250.37
Accrued personnel expenditures	1,688,299.99	2,511,235.73
Professional fees	209,871.10	477,346.36
Freight	-	169,709.91
Recruiting service fees	-	167,000.00
	6,322,682.41	7,550,542.37

(12) Deferred tax assets

	31 December 2016		31 December 2015	
	Deferred tax assets	Deductible temporary differences	Deferred tax assets	Deductible temporary differences
Accrued payroll	910,848.99	3,643,395.97	631,870.28	2,527,481.11
Accrued expenses	576,244.15	2,304,976.58	933,024.37	3,732,097.49
	1,487,093.14	5,948,372.55	1,564,894.65	6,259,578.60
Including:				
Amount to be recovered within 1 year (including 1 year)	1,487,093.14		1,564,894.65	

6 Notes to the financial statements (continued)

(13) Surplus reserve

	31 December 2015	Increase in current year	Decrease in current year	31 December 2016
Reserve fund	7,965,054.19	582,085.24	-	8,547,139.43

	31 December 2014	Increase in current year	Decrease in current year	31 December 2015
Reserve fund	5,088,835.34	2,876,218.85	-	7,965,054.19

In accordance with the Law of the People's Republic of China on Enterprises Operated Exclusively with Foreign Capital and the Company's Articles of Association, appropriations from net profit are to be made to the reserve fund after offsetting accumulated losses from prior years, and before profit distributions to the investors. The reserve fund accounts for no less than 10% of net profit, and the Company can cease appropriation when the reserve fund accumulated to more than 50% of the registered capital.

The Company appropriated 10% of net profit for the year ended 31 December 2016 to the reserve fund with the amount to RMB 582,085.24 (2015: RMB 2,876,218.85).

(14) Revenue and cost of sales

	2016		2015	
	Revenue	Cost of sales	Revenue	Cost of sales
Main operations				
-sale of aluminum flat rolled products	264,707,268.96	(247,580,680.34)	381,343,410.13	(315,209,165.64)
Other business				
-Labor services to related parties (Note7(3))	36,678,566.16	(29,211,386.17)	284,396.33	-
	301,385,835.12	(276,792,066.51)	381,627,806.46	(315,209,165.64)

6 Notes to the financial statements (continued)

(15) Taxes and surcharges

	2016	2015
City maintenance and construction tax	1,094,044.21	994,140.66
Educational surcharge	782,346.02	710,100.45
River management fee	156,365.86	110,379.59
Stamp duty	130,449.80	-
Other	1,262.00	-
	2,164,467.89	1,814,620.70

(16) Financial expenses/(income) - net

	2016	2015
Interest income	(819,089.68)	(361,104.38)
Exchange losses/(gains) - net	2,821,405.62	(9,916,477.34)
Bank charges	26,455.35	27,024.29
	2,028,771.29	(10,250,557.43)

(17) Expenses by nature

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

	2016	2015
Cost of goods sold	242,880,747.94	305,421,545.89
Employee benefits	19,582,999.36	19,108,642.02
Freight	9,930,937.36	9,787,619.75
Resettlement fees	4,311,732.00	4,126,533.52
Travelling expenses	3,725,252.10	4,334,512.34
Rental fees	3,570,090.49	2,845,437.30
IT service charges	1,894,408.98	1,758,140.50
Professional service fees	1,626,114.05	1,124,944.45
Branding fees	1,333,663.99	1,245,149.77
Marketing expenses	883,027.58	1,071,348.73
Depreciation and amortization	607,819.12	585,213.56
Communication expenses	491,285.91	655,584.95
Recruiting cost	348,525.90	50,316.15
Scrapping expenses	-	473,300.77
Others	680,397.47	659,063.32
	291,867,002.25	353,247,353.02

6 Notes to the financial statements (continued)

(18) Non-operating income and expenses

(a) Non-operating income

	2016	2015
Government grant	2,435,542.82	1,940,000.00
Compensation income	2,157,985.83	3,818,444.88
	4,593,528.65	5,758,444.88

(b) Non-operating expenses

	2016	2015
Compensation loss	2,157,985.83	4,225,250.37

(19) Income tax

	2016	2015
Current income tax	1,862,482.62	9,651,932.98
Deferred income tax	77,801.51	(64,536.81)
	1,940,284.13	9,587,396.17

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the financial statements to the income tax is listed below:

	2016	2015
Total profit	7,761,136.51	38,349,584.68
Income tax rate	25%	25%
Income tax expenses calculated at applicable tax rates	1,940,284.13	9,587,396.17

(20) Notes to the cash flow statement

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

	2016	2015
Net profit	5,820,852.38	28,762,188.51
Add: Depreciation of fixed assets	78,266.50	64,286.74
Amortization of intangible assets	50,628.78	50,628.77
Amortisation of long-term prepaid expenses	478,923.84	470,298.05
Financial income	(715,769.23)	(297,462.05)
Decrease/(increase) in deferred tax assets	77,801.51	(64,536.81)
Decrease in inventories	75,111,390.36	21,115,869.39
Increase in operating receivables	(27,918,189.87)	(16,848,467.46)
Decrease in operating payables	(33,806,125.57)	(14,524,422.66)
Net cash flows from operating activities	19,177,778.70	18,728,382.48

6 Notes to the financial statements (continued)

(20) Notes to the cash flow statement (continued)

(b) Net increase in cash

	2016	2015
Cash at the end of the year	63,695,473.35	43,801,925.42
Less: cash at the beginning of the year	(43,801,925.42)	(34,443,896.27)
Net increase in cash	19,893,547.93	9,358,029.15

7 Related parties and related party transactions

(1) The parent company

(a) General information of the parent company

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

The ultimate holding company of the Company is Hindalco Industries Ltd.

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

	31 December 2015	Increase in the current year	Decrease in the current year	31 December 2016
Novelis Inc.	1,000 shares	-	-	1,000 shares

(c) The percentages of shareholding and voting rights in the Company held by the parent company

	31 December 2016		31 December 2015	
	Share holding	voting rights	Share holding	voting rights
Novelis Inc.	100%	100%	100%	100%

(2) Nature of related parties that do not control are not controlled by the Company

	Relationship with the Company
Novelis Services Limited (UK)	Controlled by the same ultimate parent company
Novelis Switzerland SA	Controlled by the same ultimate parent company
Novelis Deutshland GmbH	Controlled by the same ultimate parent company
Novelis Korea Limited	Controlled by the same ultimate parent company
Novelis (China) Aluminum Products Co., Ltd.	Controlled by the same ultimate parent company

(3) Related party transactions

(a) Pricing policies

The Company's pricing policies on services provided to related parties are based on contract in terms of cost with markup. The Company's pricing policies on procurement of inventories from related parties, sale of goods to related parties and other related party transactions are negotiated between the transaction parties based on each specific situation.

7 Related parties and related party transactions (continued)

(3) Related party transactions (continued)

(b) Purchases of goods

	2016	2015
Novelis (China) Aluminum Products Co., Ltd.	130,066,951.50	22,796,183.79
Novelis Deutshland GmbH	32,069,675.44	128,014,903.23
Novelis Switzerland SA	20,040,126.51	104,829,897.67
Novelis Inc.	3,894,598.52	3,491,753.71
	186,071,351.97	259,132,738.40

(c) Sale of goods

	2016	2015
Novelis (China) Aluminum Products Co., Ltd.	5,631,912.28	9,381,130.70

(d) Rendering of service

	2016	2015
Novelis (China) Aluminum Products Co., Ltd.	25,255,077.83	-
Novelis Korea Limited*	9,988,776.39	-
Novelis Inc.	1,434,711.94	284,396.33
	36,678,566.16	284,396.33

*The Company provided certain service to Novelis Korea Limited in 2015 but did not reach an agreement on the service price. After negociation in 2016, the value of the services provided in 2015 was confirmed at USD 944,901.96, which was recognized as revenue in 2016 by the Company.

(e) Expenses paid by related parties

	2016	2015
Novelis Inc.	6,085,723.96	5,878,060.22

(f) Branding fees

	2016	2015
Novelis Service Limited(UK)	1,465,452.27	945,860.09

7 Related parties and related party transactions (continued)

(3) Related party transactions (continued)

(g) Cashpool – loan funds

	2016	2015
Novelis (China) Aluminum Products Co., Ltd.	-	9,500,000.00

Since 2014, the Company, Novelis (China) Aluminum Products Co., Ltd., and Industrial and Commercial Bank of China Jiangsu branch ("ICBC") signed the cashpool agreement for the purpose of allocating funds withing group. According to the agreement, both Novelis entities involved can entrust ICBC to provide cashpool funds to the other party.

Annual interest rate of 2016 is 3% (2015: 3%).

(h) Cashpool – interest income

	2016	2015
Novelis (China) Aluminum Products Co., Ltd.	715,372.08	297,125.00

(4) Receivables from and payables to related parties

(a) Accounts receivables

	31 December 2016	31 December 2015
Novelis (China) Aluminum Products Co., Ltd.	29,975,951.29	4,922,302.74
Novelis Inc.	1,090,845.00	-
Novelis Korea Limited	799,659.59	-
	31,866,455.88	4,922,302.74

(b) Other receivables

	31 December 2016	31 December 2015
Novelis (China) Aluminum Products Co., Ltd.	11,400,000.00	11,400,000.00
Novelis Deutshland GmbH	1,469,110.36	881,016.00
Novelis Switzerland SA	978,704.00	978,704.00
Novelis Inc.	-	2,765,778.00
	13,847,814.36	16,025,498.00

(c) Accounts payable

	31 December 2016	31 December 2015
Novelis (China) Aluminum Products Co., Ltd.	35,446,726.72	23,598,407.10
Novelis Inc.	3,732,370.42	1,514,077.34
Novelis Switzerland SA	-	23,304,111.14
Novelis Deutshland GmbH	-	17,364,619.24
Novelis Service Limited(UK)	-	270,599.08
	39,179,097.14	66,051,813.90

7 Related parties and related party transactions (continued)

(4) Receivables from and payables to related parties (continued)

(d) Other payables

	31 December 2016	31 December 2015
Novelis Inc.	820,738.16	1,502,855.68

8 Commitments

(1) Operating lease commitments

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

	31 December 2016	31 December 2015
Within 1 year	2,128,514.55	3,155,519.40
1 to 2 years	204,000.00	1,924,514.55
	2,332,514.55	5,080,033.95

9 Financial risk

The Company's activities expose it to a variety of financial risks: market risk (primarily currency risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(1) Market risk

(a) Foreign exchange risk

The Company’s major operational activities are carried out in Mainland China. Sales of products are mainly denominated in RMB, and purchases of products are partially denominated in EUR and USD. The Company is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to USD and EUR. The Company’s finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Therefore, the Company may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During 2016 and 2015, the Company did not enter into any forward exchange contracts or currency swap contracts.

9 Financial risk (continued)

(1) Market risk (continued)

As at 31 December 2016 and 31 December 2015, the carrying amounts in RMB equivalent of the Company's assets and liabilities denominated in foreign currencies are summarized below:

	31 December 2016		
	USD	EUR	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	6,242.85	514,686.12	520,928.97
Receivables	799,659.59	-	799,659.59
	805,902.44	514,686.12	1,320,588.56
Financial liabilities denominated in foreign currency -			
Payables	3,732,370.42	-	3,732,370.42

	31 December 2015		
	USD	EUR	Total
Financial assets denominated in foreign currency -			
Cash at bank and on hand	5,843.37	-	5,843.37
Financial liabilities denominated in foreign currency -			
Payables	3,287,532.10	40,952,286.47	44,239,818.57

As at 31 December 2016, if RMB had strengthened/weakened by 10% against the foreign currencies while all other variables had been held constant, the Company's net profit for the year would have been approximately RMB 180,883.64 higher/lower (31 December 2015 approximately RMB 3,317,548.14 higher/lower) for various financial assets and liabilities denominated in foreign currencies.

9 Financial risk(continued)

(2) Credit risk

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

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

In addition, the Company has policies to limit the credit exposure on accounts receivable and other receivables. The Company assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Company. In respect of customers with a poor credit history, the Company will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Company is limited to a controllable extent.

(3) Liquidity risk

Cash flow forecasting is performed by finance department of the Company. The finance department monitors rolling forecasts of the Company's short-term and long-term liquidity requirements to ensure it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Company does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

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

	31 December 2016	31 December 2015
	Within 1 year	Within 1 year
Accounts payable	39,179,097.14	66,051,813.90
Other payables	6,322,682.41	7,550,542.37
	45,501,779.55	73,602,356.27

10 Fair value estimates

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

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

As at 31 December 2016 and 31 December 2015, no assets measured at fair value on a recurring basis are held by the Company.

10 Fair value estimates (continued)

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

Non-current assets held for sale are recognized at the amount equal to the lower of the original carrying amount and the fair value less costs to sell. As at 31 December 2016 and 31 December 2015, no assets measured at fair value on a non-recurring basis are held by the Company.

(c) Assets and liabilities not measured at fair value but for which the fair value is disclosed

Financial assets and liabilities measured at amortised cost mainly include receivables and payables.

As at 31 December 2016 and 31 December 2015, the carrying amount of the financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

11 Capital management

The Company’s capital management policies aim to safeguard the Company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

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

As at 31 December 2016 and 31 December 2015, the Company's gearing ratio is as follows:

	31 December 2016	31 December 2015
Gearing ratio	31%	45%