# North Mining Shares Company Limited
# 北方礦業股份有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 433)

## Annual Report 2015

# Contents

# Corporate Information

## DIRECTORS

### Executive Directors

Yang Ying Min *(Chairman and Chief Executive Officer)*
Qian Yi Dong *(Deputy Chairman)*
Zhang Jia Kun
Li Li Juan

### Independent Non-executive Directors

William Fong
Leung Kar Fai
Cheng Chak Ho

## COMPANY SECRETARY AND AUTHORISED REPRESENTATIVE

Yuen Wing Kwan

## AUDIT COMMITTEE

William Fong *(Chairman)*
Leung Kar Fai
Cheng Chak Ho

## REMUNERATION COMMITTEE

Leung Kar Fai *(Chairman)*
William Fong
Cheng Chak Ho
Qian Yi Dong

## AUDITORS

Elite Partners CPA Limited
*Certified Public Accountants*

## PRINCIPAL BANKERS

Citibank
Standard Chartered Bank (Hong Kong) Limited
HSBC
CITIC Ka Wah Bank Limited
Wing Hang Bank Limited

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 1505–07, 15/F
Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

## PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## LISTING INFORMATION

Stock Code: 433, Hong Kong

## WEBSITE

www.northmining.com.hk

# Management Discussion and Analysis

## OVERALL FINANCIAL PERFORMANCE

During the year under review, North Mining Shares Company Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a revenue of approximately HK$245.9 million, representing a decrease of approximately 46% as compared with 2014 of approximately HK$454.9 million). Revenue attributable to mining business operations, which is the Group's major operation, amounted to approximately HK$238.2 million (2014: approximately HK$447.6 million), represents a decrease of approximately 47% of the Group's total turnover for the year ended 31 December 2015.

For the year ended 31 December 2015, the Group recorded a loss attributable to owners of the Company of approximately HK$436.2 million (2014: loss of approximately HK$165.2 million), representing an increase of 164% as compared with last year. The increase in loss was mainly due to the impairment loss on mining rights and property, plan and equipment of approximately HK$465.0 million and HK$253.8 million respectively.

## BUSINESS REVIEW

The principal activities of the Group are (i) mining operations — exploitation, exploration and trading of mineral resources; (ii) property management operations; and (iii) property leasing operations. There was no change in business segment during the year under review. An analysis of each of these business segments is presented below:

### Mining Operations — Exploitation and Exploration and Trading of Mineral Resources

The Group's mining operation mainly includes the exploitation and production of molybdenum concentrate in the PRC. Our molybdenum concentrate was produced by the molybdenum mine operated by Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited ("Jiu Long Kuang Ye"), a non-wholly owned subsidiary of the Group. The grading of molybdenum concentrate produced by our molybdenum mine was approximately 45%–50%. The operating performance of our mining operation is summarised below:

During the year under review, the volume of molybdenum concentrate produced was approximately 4,097 tonnes (2014: 8,760 tonnes). The sales volume of molybdenum concentrate was approximately 4,876 tonnes (2014: 7,266 tonnes). The average selling price of molybdenum concentrate was approximately HK$48,862 per tonne (2014: HK$61,607). During the year under review, the Group's mining operation contributed revenue of approximately HK$238.2 million (2014: approximately HK$447.6 million) to the Group. The cost of sales was approximately HK$218.8 million (2014: approximately HK$392.9 million). Gross profit amounted to approximately HK$19.5 million (2014: approximately HK$54.7 million) and the gross profit margin was 8.2% (2014: 12.2%), representing a decrease of 4% as compared with last year (2014: decrease 2.05%). The decrease in gross profit margin was mainly due to the decrease in average selling price of molybdenum concentrate about HK$61,607 per tonne in 2014 to HK$48,862 per tonne in 2015.

For the purpose of impairment testing, the directors of the Company (the "Directors" or the "Board") hired an independent professional valuation firm to assess the value in use of the Group's mining operation on yearly basis. The basis for assessing the value in use was based on Discount Cash Flow method ("DCF"). In the opinion of the Directors, the adoption of DCF method is the best to reflect the value in use of the Group's mining operation. During the year under review, there was no change in the valuation method used and the Directors have consensus to adopt a consistent valuation methodology and accounting policy in accounting for such mining operation over time given that no fundamental changes in the mining industry and such external environment will occur.

# Management Discussion and Analysis

The sources data and inputs of the DCF were mainly comprised of (i) the estimated sales of molybdenum concentrate; and (ii) major operating expenses. The assumptions used in the DCF were mainly related to forecasting the (i) estimated sales volume of molybdenum concentrate based on the corresponding molybdenum production plan; (ii) the average molybdenum price over the past years; (iii) major operating expenses which are determined based on actual daily operating expenditures; (iv) management's best estimate of future cash outflow including changes in working capital and the incremental capital expenditure foreseeable to be incurred. The discount rate of 13% has been used for the DCF projections which was is formulated by the Weighted Average Cost of Capital.

Based on the assessment of the value in use, an impairment loss on mining right and property, plant and equipment of approximately HK$465.0 million and HK$ 253.8 million respectively have been provided in the consolidated financial statements for the year ended 31 December 2015. In the opinion of the Directors, the impairment loss was mainly due to (i) decrease in selling price of molybdenum; and (ii) increase in production costs.

The Directors considered the prospect of the domestic molybdenum market showed a rising price trajectory amid a declining trading volume in recent months. The higher quoted price of large smelters, coupled with the sellout of molybdenum mining enterprises, boosted the rising molybdenum price. The prices of the downstream molybdenum processed products were raised in response to the significant increase in the raw materials purchasing cost, resulting in the increasing prices in many products, especially a significant increase in ferromolybdenum and ammonium tetramolybedate. Due to less supply that led to a rising price in the domestic molybednum concentrate market, the price of general grade molybdenum concentrate increased. In line with an increasing selling price of ferromolybenum the cash price offered in the free market was also increased.

It is expected in the trading market that the price of molybdenum in the domestic market will keep rising as there still exists a supply shortage of molybdenum concentrates. Meanwhile, large smelters are confident to maintain the current price. It is very obvious that the price of primary molybdenum products rose despite a limited trading volume, and that the downstream processed products price started to catch up. Based on the rising molybdenum prices in recent months and the analysis over this trajectory, both the domestic or international markets are optimistic about the rising price of molybdenum concentrate and deep-processed molybdenum products.

### Property management operations

During the year under review, the performance of the Group's property management operations was relatively stable. For the year ended 31 December 2015, revenue generated from this segment was approximately HK$7.7 million (2014: HK$7.3 million), represents a growth of approximately 5.5% (2014: 6.8%) as compared to last year.

### Property leasing operations

The Group did not have any investment properties held for leasing as at 31 December 2015 (2014: HK$ Nil). In view of the significant fluctuation of property market in the PRC, the Directors will closely monitor the property market and carefully identify the possible investment properties in the future when the property market in the PRC becomes stable.

# Management Discussion and Analysis

## Other Financial Assets

Detail of the financial assets held by the Group is set out below:

**Bai Shan Promissory Notes**

During the year ended 31 December 2013, the Group disposed of 25% of the entire equity interests in Rui Sui Kuang Ye Mining Company Limited ("Rui Sui") for an aggregate consideration of HK$500 million which was satisfied by a promissory note receivable with a principal value of HK$500 million issued by the purchaser. The maturity date is 3 years from the issue date of the promissory notes.

**Ding Jin Promissory Notes**

During the year ended 31 December 2011, the Group entered into a subscription agreement with Shaanxi Ding Jin Mining Company Limited ("Ding Jin"), the Issuer. Under this agreement, the Group has subscribed for the promissory notes issued by Ding Jin. The principal amount of the promissory notes was HK$500 million and carried at interest of HK$100 million, payable on the maturity date, which is 5 years from subscription.

**Rui Sui Promissory Notes**

During the year ended 31 December 2012, the Group disposed of 26% equity interests in Rui Sui, for an aggregate consideration of HK$600 million, which was satisfied by a promissory notes issued by the purchaser with maturity date of 3 years from the issue date of the promissory notes. During the year ended 31 December 2015, Rui Sui promissory notes were fully settled.

**Yi Tong Promissory Notes**

During the year ended 31 December 2012, the Group disposed of 70% equity interests in Heilongjiang Yi Tong Mining Company Limited ("Yi Tong") at a consideration of HK$230 million, of which approximately HK$46 million was settled by cash and approximately HK$184 million was settled by issuance of the promissory note issued by the purchaser with maturity date of 3 years from the issue date of the promissory notes. During the year ended 31 December 2015, Yi Tong Promissory Notes was fully settled.

**Material Acquisition and Disposal**

On 22 August 2014, the Company announced that it entered into an acquisition agreement (the "Acquisition Agreement") with the vendors namely Mr. Li Sheng Li and Ms. Ma Wei Min pursuant to which the Company has conditionally agreed to acquire entire equity of China Potassium Shares Company Limited at a consideration of HK$4,722,900,000. The Acquisition Agreement has been amended and supplemented by 1st and 2nd supplemental agreement on 30 June 2014 and 6 August 2014 respectively, in which the parties of interests have agreed to amend certain terms and condition in relation to the settlement of consideration. As certain conditions precedent have not been fulfilled or waived, the Acquisition Agreement was terminated by the parties on 31 August 2015.

**Contingent assets**

During the year under review, the Group had disposed of the land and property rights of Xian Communication University Second Affiliated Middle School Southern District ("Middle School") at a cash consideration of RMB50 million. The Middle School was a compensation asset receivable by the Group resulting from a fraud transaction taken by a minority shareholder of the Group's subsidiary who had surrendered a property development project held by the Group to Xian Government without the Company's knowledge or consent in previous years.

# Management Discussion and Analysis

## PROSPECTS

Despite the economic downturn in 2015 which lead the decrease in demand and the price of molybdenum concentrate, in coming year, the Group will continue to focus on its mining operation, which is the core business of the Group and to locate its internal resources not only to support the its operation, but further to expand its production capacity to proper equip ourselves for future raise in the demand of molybdenum concentrate. Moreover, the Group is also committed to continue identifying investment opportunities that can enhance the Group's business development and strength its earning base. Nevertheless, the Group will continue to keep abreast of the changing market conditions and will adjust its business and operation strategies.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow. During the year under review, the Group's liquidity position was healthy and recorded a cash inflow of approximately HK$123.1 million (2014: inflow of approximately HK$629.3 million) which was mainly arising from the settlement of two promissory notes receivable, namely Rui Sui Promissory Note and Yi Tong Promissory Note.

As at 31 December 2015, the Group had outstanding bank borrowings at the amount of approximately HK$100.9 million (2014: approximately HK$103.0 million). The Group's gearing ratio as at 31 December 2015 was approximately 3% (2013: 4.0%). The decrease in gearing ratio was mainly due to the decrease in proportion of interest bearing bank borrowings to total liability and equity during the year under review. The Board considered that the gearing ratio remains at low level compared to equity attributable to owners of the Company and that the Group is of good liquidity. As at 31 December 2015, the Group's current ratio was approximately 5.25 (2014: approximately 2.94).

The increase in current ratio was mainly due to the increase in maturity of promissory notes during the year under review. As at 31 December 2015, the Group's debt to equity ratio was approximately 0.22 (2014: approximately 0.27). The decrease in debt to equity ratio was mainly due the decrease in borrowing during the year under review.

The ratio was calculated by dividing the total liabilities of approximately HK$787.1 million (2014: approximately HK$1,045.0 million) by equity attributable to owners of the Company of approximately HK$3,540.7 million (2014: approximately HK$3,915.7 million). Overall, the Board believes that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

## CAPITAL STRUCTURE AND TREASURY POLICIES

### Capital Structure

The Group's capital structure as at 31 December 2015 mainly comprised of current assets of approximately HK$2,546.2 million (2014: approximately HK$1,755.0 million), current liabilities of approximately HK$485.3 million (2014: approximately HK$597.9 million) and equity attributable to owners of the Company of approximately HK$3,540.7 million (2014: approximately HK$3,915.7 million).

Current assets mainly comprised of (i) cash and cash equivalents of approximately HK$225.4 million (2014: approximately HK$102.2 million); (ii) inventories of approximately HK$411.0 million (2014: approximately HK$173.1 million); (iii) prepayments, deposits and other receivables of approximately HK$374.4 million (2014: approximately HK$278.9 million); and (iv) investment deposits of approximately HK$458.3 million (2014: approximately HK$379.1million).

Current liabilities mainly comprised of (i) borrowings of approximately HK$100.9 million (2014: approximately HK$171.2 million); (ii) trade payables of approximately HK$76.7 million (2014: approximately HK$63.7 million); (iii) accruals and other payables of approximately HK$135.6 million (2014: approximately HK$182.2 million); (iv) and amounts due to related parties of approximately HK$52.5 million (2014: approximately HK$54.3 million).

### Treasury Policies

During the year ended 31 December 2015, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Board does not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever such financial impact is material to the Group. For the years ended 31 December 2015 and 2014, the Group did not employ any financial instruments for hedging purpose and was not engaged in foreign currency speculative activities.

## BANK AND OTHER BORROWING AND CHARGES OF GROUP ASSETS

As at 31 December 2015, the Group had bank and other borrowings amounted to approximately HK$100.9 million (2014: HK$171.2 million). As at 31 December 2015, the Group's interest bearing bank loans were carried at effective interest rates from 7.2% to 9.5% per annum and were secured by (i) a guarantee from an independent insurance company; (ii) the molybdenum concentrate as included in inventories; (iii) guarantees from a subsidiary of the Group and the subsidiary's minority shareholders; and (iv) personal guarantee from the subsidiary's minority shareholders.

## CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no significant contingent liabilities (2014: Nil).

## HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2015, the Group employed 820 full time employees (2014: 570 employees). Employees remuneration packages are structured and reviewed with reference to the nature of the jobs, market condition and individual merits. The Group also provides other employee benefits including year-end double pay, mandatory provident fund and medical insurance.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

**Mr. Yang Ying Min**, aged 46, was appointed as an Executive Director of the Company on 25 August 2014 and was subsequently appointed as the Chief Executive Officer of the Company on 22 September in the same year. He was appointed as the Chairman of the Board of the Company on 4 January 2016. Mr. Yang graduated from Peoples Public Security University of China with a Bachelor of Laws LL.B.. After graduation, he worked in Xian Municipal government, Shaanxi Province, China. In 2010, he joined Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited ("Jiu Long Kuang Ye"), the Company's subsidiary, as deputy managing director. In 2012, he was appointed as chairman of Jiu Long Kuang Ye. Mr. Yang has extensive experience in management and legal affairs relevant to mining industry.

**Mr. Qian Yi Dong**, aged 30, was appointed as an Executive Director of the Company on 15 March 2011 and was then appointed as the Deputy Chairman of the Board on 21 April 2011. He is also currently a director of certain subsidiaries of the Company. Mr. Qian graduated from Beijing Normal University Zhuhai majored in electronic commerce. He is also a director of Universal Union Limited and China Wan Tai Group Limited, the controlling shareholders of the Company.

**Mr. Zhang Jia Kun**, aged 68, was appointed as an Executive Director of the Company on 14 August 2009, and is also currently a director of certain subsidiaries of the Company. He graduated from Shanghai Education College and Shanghai Business College where he majored in professional mathematics and financial management respectively. He has extensive experience in financial management. Currently, he is the general manager of finance of Wan Tai Group Limited and the legal representative and chairman of the Company's wholly-owned subsidiary Shanghai Yuan Bei Trading Company Limited.

**Ms. Li Li Juan**, aged 53, was appointed as an Executive Director of the Company on 25 August 2014. Ms. Li graduated from Qinghai University where she majored in Inorganic Chemical Industry and holds a master degree in Chemical Engineering from Northwest University, China. Ms. Li has professional knowledge and extensive experience in potassium related products technology. Currently, she is an evaluation specialist in technology supporting projects of Technology Department, an evaluation specialist in international cooperation projects of Technology Department and an evaluation specialist in projects of China Potassium Salt Association. Since 1984 when she started working, Ms. Li has been mainly participating in research work in saline lake potassium resources comprehensive development and utilization and she receives government grants from China's State Council. Since 2007, she has been a researcher and Phd supervisor in Qing Hai Saline Lake Research Institute of Chinese Academy of Sciences, responsible in developing potassium, lithium, boron and magnesium, etc., comprehensive extraction technique and industrialization research.

# Biographical Details of Directors

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. William Fong**, aged 36, was appointed as an Independent Non-executive Director and the Chairman of the Audit Committee of the Company on 15 October 2015. He holds a Master Degree in Business Administration from the University of Hong Kong and a Bachelor's Degree (Hons) in Accountancy from City University of Hong Kong. Mr. Fong has over twelve years of experience in audit and finance. He has been the chief financial officer of China Kangda Food Company Limited, a company dual listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and Singapore Exchange Securities Trading Limited, since July 2010. Before that, Mr. Fong had respectively worked in two international accounting firms for seven years. He is a member of Hong Kong Institute of Certified Public Accountants and Taxation Institute of Hong Kong respectively. He was an independent non-executive director of ZMFY Automobile Glass Services Limited, a company listed on the Hong Kong Stock Exchange, from September 2013 to January 2015.

**Mr. Leung Kar Fai**, aged 37, was appointed as an Independent Non-executive Director and the Chairman of the Remuneration Committee of the Company on 24 November 2015. He holds a Master of Philosophy in Earth Sciences and Bachelor of Science (First Class Honours) from the University of Hong Kong. Mr. Leung has expensive experience in mineral exploration, project management, mining project evaluation as well as course management related to geology and natural resources management. He is currently a director of Dragon Global Group, a subsidiary of North Asia Strategic Holdings Limited ("North Asia Strategic"), and is a non-executive director of Future Bright Mining Holdings Limited ("Future Bright Mining"). North Asia Strategic and Future Bright Mining are listed on the Hong Kong Stock Exchange. Mr. Leung is currently the chairman of both the Geological Society of Hong Kong and the Hong Kong Mining Investment Professional Association.

**Dr. Cheng Chak Ho**, aged 46, was appointed as an Independent Non-executive Director of the Company on 12 April 2001. Dr. Cheng obtained a Bachelor of Science in Building, a Master degree in Urban Design from the University of Hong Kong. He has over 25 years' experience in property development, property investment, valuation and corporate finance. Among others, Dr. Cheng is a Fellow of: Institute of Public Accountants, The Royal Society of Medicine, The Hong Kong Institute of Directors, The Society of Operations Engineers, and Institution of Plant Engineers.

# Report of the Directors

The Directors of the Company present their report and the audited financial statements of the Group for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are mining operations — exploitation and exploration, trading of mineral resources, property leasing operations and property management operations. Details of the Group's principal subsidiaries are set out in Note 42 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the principal activities and geographical locations of the operations of the Group during the financial year are set out in Note 7 to the consolidated financial statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the sections headed "Management Discussion and Analysis" on pages 3 to 7 of this Annual Report.

## FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2015 and the state of the Group's affairs as at 31 December 2015 are set out in the consolidated financial statements on pages 29 to 31.

The cashflows of the Group are set out in the consolidated financial statements on pages 33 to 34.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015 (2014: Nil).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group's single largest customer and supplier accounted for approximately 22% (2014: 38%) and 60% (2014: 62%) respectively, of the Group's total operating revenue and cost of sales. The Group's five largest customers and suppliers accounted for approximately 60% (2014: 86%) and 71% (2014: 72%) of the Group's total operating revenue and cost of sales respectively.

At no time during the year had the Directors, their associates or any shareholder of the Company (which, to the knowledge of the Directors, owns more than 5% of the Company's share capital) have any interest in these major customers and suppliers.

## RESERVES

Details of movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 32 and Note 26 to the consolidated financial statements.

## DISTRIBUTABLE RESERVE

Details of the amount of the Company's reserve distributable to shareholders as at 31 December 2015 are set out in Note 40 to the consolidated financial statements.

# Report of the Directors

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 15 to the consolidated financial statements.

## SUBSIDIARIES

The particulars of the Company's principal subsidiaries as at 31 December 2015 are set out in Note 42 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in Note 25 to the consolidated financial statements.

## CHANGES IN THE INFORMATION OF DIRECTORS

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes of information of Directors during the year ended 31 December 2015 and up to the date of this report are set out below:

1. The annual remuneration of Mr. Qian Yi Dong increased to HK$302,400 (excluding discretionary bonus and/or other benefits) with effect from 1 January 2015.

2. Mr. Yang Ying Min was appointed as the Chairman of the Board of the Company on 4 January 2016.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2015.

## DIRECTORS

The Directors during the financial year and up to the date of this report were:

| | |
|---|---|
| **Executive Directors** | |
| Yang Ying Min *(Chairman and Chief Executive Officer)* | (appointed as the Chairman on 4 January 2016) |
| Qian Yi Dong *(Deputy Chairman)* | |
| Zhang Jia Kun | |
| Li Li Juan | |
| Gao Yuan Xing *(Chairman)* | (resigned on 4 January 2016) |
| Chen Jian Bao *(Deputy Chairman)* | (resigned on 31 August 2015) |
| **Independent Non-executive Directors** | |
| William Fong | (appointed on 15 October 2015) |
| Leung Kar Fai | (appointed on 24 November 2015) |
| Cheng Chak Ho | |
| Mu Xiangming | (resigned on 24 November 2015) |
| Lo Wa Kei Roy | (resigned on 24 November 2015) |

In accordance with the Company's bye-law 86(2), Mr. William Fong and Mr. Leung Kar Fai will hold the office only until the forthcoming annual general meeting ("AGM"), and being eligible, offer themselves for re-election at the AGM.

Moreover, in accordance with the Company's bye-laws 87(1) and (2), Mr. Qian Yi Dong, Mr. Zhang Jia Kun and Ms. Li Li Juan will retire from office by rotation, and both of them being eligible, offer themselves for re-elections at the AGM.

## SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 25 May 2011, the Company adopted the share option scheme (the "Share Option Scheme"). A summary of the Share Option Scheme is as follows:

### (1) Purposes of the Share Option Scheme

The principal purposes of the Share Option Scheme are to enable the Group and any entity in which the Group holds any equity interest ("Invested Entity") to recruit and retain high calibre persons and attract human resources that are valuable to the Group or any Invested Entity, to recognise the contributions of the eligible persons to the growth of the Group or any Invested Entity by rewarding them with opportunities to obtain ownership interest in the Company and to motivate and give incentives to these eligible persons to continue to contribute to the long term success and prosperity of the Group or any Invested Entity.

### (2) Who may join

Persons who are eligible to the Share Option Scheme ("Eligible Person(s)") are any employee (whether full time or part time), senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of the Company, any of its affiliates or any Invested Entity, or any of their respective associates, chief executives, or substantial shareholders, or any person, who, as determined by the Board, have contributed or will contribute to the growth and development of the Group or any Invested Entity.

### (3) Total number of shares available for issue

Total number of shares available for issue are 1,300,261,670, representing approximately 10% of the issued share capital of the Company as at the date of the AGM held on 25 May 2011.

On 26 July 2011, the Company granted 500,000 share options to a consultant of the Company with 3 years of exercisable period from 26 July 2011 to 25 July 2013. Upon the expiry of exercise period, no share option was exercised, all outstanding share options granted under the Share Option Scheme had been lapsed accordingly.

During the year ended 31 December 2015, no share option had been granted, exercised, lapsed, or was cancelled under the Share Option Scheme.

As at 31 December 2015, total number of share available for issue under the Share Option Scheme was 1,299,761,670, representing 6.53% of the issued shares of the Company.

### (4) Maximum entitlement of each eligible person

The maximum number of shares issued and to be issued upon exercise of the options granted to each Eligible Person under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed one (1) per cent. of the shares in issue.

### (5) Maximum entitlement of each eligible person who is a connected person

(a) each grant of option to an Eligible Person who is a director, chief executive or substantial shareholder of the Company or any of their respective associates, under the Share Option Scheme must be approved by the independent non-executive director(s) of the Company (excluding the independent non-executive director who is the grantee of the option); and

(b) where the Board proposes to grant any option to an Eligible Person who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, and such option, if exercised in full, would result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding options) in the past 12-month period up to and including the date of grant:

(i) representing in aggregate more than 0.1 per cent. of the total number of Shares in issue; and

(ii) having an aggregate value (on the assumption that all such Options had been exercised and all Shares allotted), based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant or, if that date is not a business day, the business day immediately before, in excess of HK$5,000,000.00,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders containing the information required under Rule 17.04 of the Listing Rules. All connected persons of the Company must abstain from voting at their respective general meetings, except that any connected person may vote against the relevant resolution at such general meeting(s) provided that his or her intention to do so has been stated in the circular to be sent to the relevant shareholders. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

### (6) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period within which the option may be exercised, to be notified by the Directors to each Eligible Person who accepts an offer in accordance with the terms of the Share Option Scheme, provided that it shall commerce on a date not be more than ten years from the date of grant.

### (7) Acceptance of offer

The Eligible Person must accept any such offer notified to him or her within ten (10) business days from the offer date, failing which it shall be deemed to have been rejected. Upon acceptance of the offer, the grantee shall pay HK$1.00 to the Company as consideration for the grant.

### (8) Basis of determining the subscription price

The subscription price for the shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an Eligible Person but shall not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the offer date;

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the offer date; and

(iii) the nominal value of a Share.

### (9) The remaining life of the Share Option Scheme

The Share Option Scheme became effective on 25 May 2011 and will remain in force for a period of 10 years from that date.

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2015, none of the Directors or the chief executive of the Company, or any of their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

## SUBSTANTIAL SHAREHOLDERS' INTEREST IN SHARES

As at 31 December 2015, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as was known to the Directors or chief executive of the Company, the following persons had, or was deemed or taken to have, an interest or short position in the shares or underlying shares of the Company:

| Name of shareholders | Capacity | Number of shares/ underlying shares held | Approximate percentage interest in the issued voting shares of the Company |
|---|---|---|---|
| Qian Yong Wei | Beneficial owner | 11,500,000 | 0.06% |
| ("Mr. Qian") (Note 1) | Held by controlled corporation | 3,729,808,552 | 18.74% |
| | | 3,741,308,552 | 18.80% |
| Xu Zhe Cheng ("Ms. Xu") (Note 2) | Held by spouse | 3,741,308,552 | 18.80% |
| China Wan Tai Group Limited ("China Wan Tai") (Note 3) | Held by controlled corporation | 3,729,808,552 | 18.74% |
| Universal Union Limited ("Universal Union") | Beneficial owner | 3,729,808,552 | 18.74% |
| China Huarong International Holdings Limited ("Huarong") (Note 4) | Held by controlled corporation | 4,898,000,000 | 24.61% |
| Gu Jie ("Mr. Gu") (Note 5) | Beneficial owner | 1,876,580,000 | 9.43% |

Notes:

1. Mr. Qian personally held 11,500,000 shares in the Company, and held 95% interest in China Wan Tai. China Wan Tai held 100% interest in Universal Union. Universal Union held 3,729,808,552 shares in the Company.

2. Ms. Xu is the spouse of Mr. Qian. The interest of Mr. Qian was deemed to be Ms. Xu's interest.

3. These shares are held by Universal Union, a wholly owned subsidiary of China Wan Tai which is in turn beneficially owned by Mr. Qian and Ms. Xu as to 95% and 5% respectively.

4. (i) Driven Innovation Limited ("Driven"), a wholly-owned subsidiary of Huarong, held 128,000,000 shares in the Company. (ii) Mr. Gu charged his 1,870,000,000 shares to Huarong on 11 December 2014. (iii) On 2 September 2015, the Company and Driven entered into the Placing Agreement pursuant to which the Company has conditionally agreed to allot and issue, and Driven has conditionally agreed to subscribe for 2,900,000,000 new shares in the Company at a price of HK$0.08 each ("Placing Shares"). Afterwards, the conditions of the Placing Agreement were satisfied and the Placing was completed by issue and allotment of 2,900,000,000 Placing Shares to Driven on 17 September 2015.

5. The Company issued and allotted a total of 1,870,000,000 conversion shares to Mr. Gu on 29 August 2014 and Mr. Gu subsequently charged these shares to Huarong on 11 December 2014.

6. All interests stated above represent long position.

Save as disclosed above, the Directors and chief executive of the Company were not aware of any persons who, as at 31 December 2015, had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or, who was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

The Directors' remuneration for the financial year is set out in Note 10 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance in relation to the Group's business to which the Company, any of its holding companies or fellow subsidiaries was a party, in which a Director had a material interest, subsisted at the end of the year under review or at any time during the year under review.

## EMOLUMENT POLICY

The Board has the general power of determining the Directors' remuneration, subject to the authorization of the shareholders of the Company at the annual general meeting each year. The remuneration of the Directors is subject to review by the Remuneration Committee, and their remuneration is determined with reference to the Directors' qualifications, experience, duties, responsibilities and performance and results of the Company.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions during the financial year are set out in Note 35 to the consolidated financial statements.

## COMPETING INTERESTS

The Directors believe that none of the Directors and their respective associates had an interest, directly or indirectly, in a business which competes or may compete with the business of the Group.

# Report of the Directors

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the law of Bermuda.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 92 of this annual report.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, namely Mr. William Fong, Mr. Leung Kar Fai and Dr. Cheng Chak Ho. The purpose of the establishment of the audit committee is for reviewing and supervising the financial reporting process, risk management and internal control systems of the Group. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2015.

## AUDITORS

Elite Partners CPA Limited ("Elite") was appointed as auditors of the Company in 2012, and then retired and was re-appointed at the Company's annual general meeting in 2012, 2013, 2014 and 2015.

Elite will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

A resolution for the re-appointment of Elite as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Yang Ying Min**
*Chairman of the Board*

Hong Kong, 16 March 2016

# Report on Corporate Governance

## CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders.

During the year ended 31 December 2015, the Company had applied the principles of the Corporate Governance Code (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with all the applicable code provisions of the Code, except the following code provision:

1. Under the code provision A.5.1 of the Code, company should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors.

   However, the Board considers that the setting up of such a nomination committee may not be necessary at the current scale of the Board and the Company. The Board is responsible for considering and approving the appointment of its members and making recommendations to shareholders on directors standing for re-election, providing sufficient biographical details of directors to enable shareholders to make an informed decision on the re-election, and where necessary, nominate and appoint directors to fill casual vacancies.

   The Company has set out a board diversity policy (the "Policy") for achieving diversity on board of directors of the Company. The Policy provide a sustainable and balanced development in Company's strategic objectives. The Board review the Policy annually and ensure the effectiveness of the Policy.

2. Under the code provision A.6.7 of the Code, independent non-executive directors should, inter alia, attend general meetings.

   Due to personal and other important engagement at the relevant time, Mr. Mu Xiangming and Dr. Cheng Chak Ho were absent from the 2015 annual general meeting of the Company.

The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than the Code.

The Company will periodically review and improve its corporate governance practices with reference to the latest development of corporate governance.

# Report on Corporate Governance

## DIRECTORS' SECURITIES TRANSACTIONS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2015, and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

## BOARD OF DIRECTORS

Directors during the year ended 31 December 2015 and up to the date of this report are as follows:

**Executive Directors**

| | |
|---|---|
| Yang Ying Min *(Chairman and Chief Executive Officer)* | (Appointed as the Chairman on 4 January 2016) |
| Qian Yi Dong *(Deputy Chairman)* | |
| Zhang Jia Kun | |
| Li Li Juan | |
| Gao Yuan Xing *(Chairman)* | (Resigned on 4 January 2016) |
| Chen Jian Bao *(Deputy Chairman)* | (Resigned on 31 August 2015) |

**Independent Non-executive Directors**

| | |
|---|---|
| William Fong | (Appointed on 15 October 2015) |
| Leung Kar Fai | (Appointed on 24 November 2015) |
| Cheng Chak Ho | |
| Mu Xiangming | (Resigned on 24 November 2015) |
| Lo Wa Kei Roy | (Resigned on 24 November 2015) |

# Report on Corporate Governance

The following table shows the attendance of each individual member of the Board and the respective Board Committees at the Board and the respective Board Committees meetings and general meeting held during the year ended 31 December 2015:

| Name of Directors | Board meeting | Audit Committee meeting | Remuneration Committee meeting | Corporate Governance Committee meeting | Financial Reporting Committee meeting | General meeting |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Yang Ying Ming | 4/4 | n/a | n/a | n/a | n/a | 0/1 |
| Qian Yi Dong | 4/4 | n/a | 2/2 | 2/2 | 2/2 | 0/1 |
| Zhang Jia Kun | 4/4 | n/a | n/a | 2/2 | 2/2 | 0/1 |
| Li Li Juan | 4/4 | n/a | n/a | n/a | n/a | 0/1 |
| Gao Yuan Xing (Note 3) | 4/4 | n/a | n/a | n/a | n/a | 1/1 |
| Chen Jian Bao (Note 4) | 0/4 | n/a | n/a | n/a | n/a | 0/1 |
| **Independent Non-executive Directors** | | | | | | |
| William Fong (Note 1) | 0/0 | 0/0 | 0/0 | n/a | 0/0 | 0/0 |
| Leung Kar Fai (Note 2) | 0/0 | 0/0 | 0/0 | n/a | n/a | 0/0 |
| Cheng Chak Ho | 4/4 | 2/2 | 2/2 | 2/2 | n/a | 0/1 |
| Mu Xiangming (Note 5) | 4/4 | 2/2 | n/a | n/a | n/a | 0/1 |
| Lo Wa Kei Roy (Note 6) | 4/4 | 2/2 | 2/2 | n/a | 2/2 | 1/1 |

Notes:

1. Mr. William Fong was appointed as an Independent Non-executive Director and a member of the Committees on 15 October 2015.

2. Mr. Leung Kar Fai was appointed as an Independent Non-executive Director and a member of the Committees on 24 November 2015.

3. Mr. Gao Yuan Xing resigned as the Chairman and an Executive Director on 4 January 2016.

4. Mr. Chen Jian Bao resigned as the Deputy Chairman and an Executive Director on 31 August 2015.

5. Mr. Mu Xiangming resigned as an Independent Non-executive Director and a member of the Committees on 24 November 2015.

6. Mr. Lo Wa Kei Roy resigned as an Independent Non-executive Director and a member of the Committees on 24 November 2015.

# Report on Corporate Governance

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management.

Board members were provided with complete, adequate and timely information to allow them to fulfill their duties properly. Schedules for annual meeting and draft agenda of each meeting is sent to all Directors in advance. Notice of at least 14 days is given for a regular Board meeting. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are dispatched to all Directors at least three days before each regular Board meeting to ensure that the Directors have sufficient time to review the related documents and be adequately prepared for the meeting.

Minutes of all Board meetings and committee meetings, which record in sufficient detail the matters considered and decisions reached, are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director. The Company's Articles contains provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board.

During the financial year of 2015, the Board had at all times at least three independent non-executive directors and at least one of independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise. The Company has appointed independent non-executive directors representing at least one-third of the board.

The Company has arranged for appropriate liability insurance for the Directors for indemnifying their liabilities arising out of corporate activities. The insurance coverage is reviewed on an annual basis.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independency pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## Director's Continuous Professional Development

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills.

During the year, all existing and resigned Executive Directors of the Company namely, Messrs Yang Ying Min, Qian Yi Dong, Zhang Jia Kun, Ms. Li Li Juan, Messrs. Gao Yuan Xing and Chen Jian Bao received briefings and updates on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to rules and regulations applicable to the Group were provided to them. According to the training records maintained by the Company, Independent Non-executive Directors namely Messrs. William Fong, Leung Kar Fai, Cheng Chak Ho and Lo Wa Kei Roy also attended regulatory update sessions and seminars on relevant topics.

# Report on Corporate Governance

## CHAIRMAN AND CHIEF EXECUTIVE

During the financial year of 2015, Mr. Gao Yuan Xing ("Mr. Gao") performed the role of the Chairman of the Board of the Company and Mr. Yang Ying Min ("Mr. Yang") performed the role of the Chief Executive Officer of the Company separately. The Company has complied with the code provision A.2.1.

However, Mr. Gao resigned as the Chairman and an Executive Director of the Company on 4 January 2016 due to his other business engagement which requires more of his attention. As such, Mr. Yang was appointed as the Chairman of the Board of the Company with effect from 4 January 2016.

The Board considered that Mr. Yang has in-depth knowledge and considerable experience of the Group's business as well as consistent leadership which can lead the Company to set up and implement strategic planning effectively.

The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

## NON-EXECUTIVE DIRECTORS

All the non-executive Directors of the Company were appointed for an initial term of one year and every Director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the bye-laws of the Company.

## BOARD COMMITTEES

The Board set up various board committees responsible for various aspect of business of the Company.

### Remuneration Committees

The Remuneration Committee of the Company was established in May 2006. The members of the Committee during the financial year of 2015 are:

Mr. Leung Kar Fai, Independent Non-executive Director, *(Chairman of the Committee)* (Appointed on 24 November 2015)
Dr. Cheng Chak Ho, Independent Non-executive Director
Mr. Qian Yi Dong, Executive Director
Mr. William Fong, Independent Non-executive Director (Appointed on 15 October 2015)
Mr. Lo Wa Kei Roy, Independent Non-executive Director (Resigned on 24 November 2015)

The responsibilities of the Remuneration Committee include setting remuneration policy of the Group and fixing remuneration packages of the Directors in accordance with the Listing Rules and the Bye-laws. Details of the remuneration paid to the respective Directors are set out in note 10 to the financial statements. No Directors can determine their own remuneration packages. The Remuneration Committee is provided with sufficient resources to discharge its duties. The Remuneration Committee has adopted terms of reference which are aligned with the Code. The chairman of the Remuneration Committee will report their findings and recommendations to the Board for consideration and approval. The Remuneration Committee will meet at least once a year to discharge its responsibilities in accordance with its terms of reference.

During the year ended 31 December 2015, the Remuneration Committee held two meetings, the work performed included the followings:

a. discussing the policy for the remuneration of the Directors;

b. reviewing remuneration packages of the Directors;

c. making recommendations to the Board on remuneration of the Non-Executive Directors; and

d. proposed annual remuneration package of newly appointed Directors to the Board.

## Audit Committee

The Audit Committee comprises all Independent Non-executive Directors of the Company, they are as follows:

Mr. William Fong, Independent Non-executive Director, *(Chairman of the Committee)* (Appointed on 15 October 2015)
Mr. Cheng Chak Ho, Independent Non-executive Director
Mr. Leung Kar Fai, Independent Non-executive Director (Appointed on 24 November 2015)
Mr. Mu Xiangming, Independent Non-executive Director (Resigned on 15 October 2015)
Mr. Lo Wa Kei Roy, Independent Non-executive Director (Resigned on 24 November 2015)

The Audit Committee will meet no less than twice a year to review all business affairs managed by the Executive directors and to review the interim and annual financial statements of the Group before their submission to the Board for approval and to review the effectiveness of the financial reporting system, risk management and internal control system of the Group. The Audit Committee has adopted terms of reference which are aligned with the Code. A copy of the terms of reference of the Audit Committee has been posted on the Company's website.

During the year ended 31 December 2015, the Audit Committee met on two occasions with the presence of external auditors and discharged its responsibilities in its review of the interim and annual results. The work performed by the Audit Committee for the year ended 31 December 2015 included reviews of the following:

a. the directors' report and the consolidated financial statements for the year ended 31 December 2014 of the Group, with a recommendation to the Board for approval;

b. the consolidated financial statements for the six months ended 30 June 2015 of the Group, with a recommendation to the Board for approval;

c. the audit fees for the year ended 31 December 2015 proposed by the external auditors, with a recommendation to the Board for approval;

d. the new accounting policies and practices adopted by the Group;

e. the compliance status of the Group with the applicable regulatory and other legal requirements;

f. the Group's investment policy and the adequacy of provision made for diminution in value for the Group's assets and investments; and

g. the risk management and internal control system of the Group.

## Corporate Governance Committee

In order to further strengthen the Company's corporate governance, the Company established the Corporate Governance Committees on 12 January 2008:

The members of the Committee during the financial year of 2015 are as follows:

Mr. Qian Yi Dong, Executive Director *(Chairman of the Committee)*
Dr. Cheng Chak Ho, Independent Non-executive Director
Mr. Zhang Jia Kun, Executive Director

The major responsibilities of the Corporate Governance Committee are to oversee the Company's corporate governance matters and to ensure that the Company has complied with the Code. The Corporate Governance Committee had reviewed the corporate governance report of the Company and confirmed that the Company had complied with the Code of the Listing Rules throughout the year except some deviations from the Code mentioned on the page 1 of this report.

## Financial Reporting Committee

The Board, supported by the accounts department, is responsible for the preparation of the financial statements of the Company and the Group. The Company has also set up a Financial Reporting Committee which major responsibility is to oversee the preparation of financial statements of each financial period, which give a true and fair view of the state of affairs of the Group and of the Group's results and cash flow for that year. The Financial Reporting Committee is also responsible to ensure the compliance by the Group of disclosure requirements under the Listing Rules in a timely manner.

The members of the Financial Reporting Committee during the financial year of 2015 are as follows:

Mr. Qian Yi Dong, Executive Director *(Chairman of the committee)*
Mr. Zhang Jia Kun, Executive Director
Mr. William Fong, Independent Non-executive Director (Appointed on 15 October 2015)
Mr. Lo Wa Kei Roy, Independent Non-executive Director (Resigned on 24 November 2015)

During the year ended 31 December 2015, the Financial Reporting Committee had reviewed the audited financial statements of the Group for the year ended 31 December 2014 and the unaudited financial statements of Group for the six months ended 30 June 2015. They also confirmed the preparations of the audited and unaudited financial statements of the Group were in compliance with the disclosure requirements under the Listing Rules.

## Nomination Function

The Board is collectively responsible for performing the nomination duties including:

a. reviewing the structure, size and diversity (including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service) of the Board on a regular basis ("Board Diversity Policy");

b. formulating and adjusting the Board Diversity Policy and reviewing the measurable objectives for implementing diversity on the Board from time to time;

c. reviewing the candidates' qualification and competence;

d. assessing the independence of the Independent Non-Executive Directors; and

e. making decision on appointment of Directors.

### Board Diversity Policy

The Board has adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the Code. Such policy aims to set out the approach to achieve diversity on the Board. Accordingly, all Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution could the selected candidates could bring to the Board. The Board, from time to time, oversees the implementation of the policy, and reviews, as appropriate, the policy to ensure the effectiveness of the policy and continues to give adequate consideration to these measurable objectives when making recommendations of candidates for appointment to the Board.

## AUDITOR'S REMUNERATION

An amount of approximately HK$900,000 (2014: HK$900,000) was charged to the Group's consolidated financial statements for the year ended 31 December 2015 for the auditing services provided by Elite Partners CPA Limited. There was no non-audit service assignment provided by Elite Partners CPA Limited during the year (2014: Nil).

## SHAREHOLDER'S RIGHTS

### Convening a Special General Meeting by Shareholders

Pursuant to the Bye-law 58 of the Company, a special general meeting may be convened by the Board upon requisition by any shareholder holding not less than one-tenth of the issued share capital of the Company and the securities being held carrying the right of voting at any general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office or principal place of business in Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal regarding any specified transaction/business and its supporting documents.

The Board shall arrange to hold such general meeting within two (2) months after the receipt of such written requisition. The Company shall serve requisite notice of the general meeting, including the time, place of meeting and particulars of resolutions to be considered at the meeting and the general nature of the business. If within twenty-one (21) days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so pursuant to the provisions of Section 74(3) of the Companies Act of Bermuda.

### The procedures for sending enquiries to the Board

Shareholders may send their enquiries and concerns in writing to the Board by addressing them to the Company Secretary at the Principal Place of Business and the Company Secretary shall then forward the same to the appropriate executives of the Company or members in the Board for further handling.

### Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office or principal place of business in Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

## INVESTOR RELATIONS

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. The Directors meet and communicate with shareholders at the AGM of the Company. The Chairman proposes separate resolutions for each issue to be considered and put each proposed resolution to the vote by way of a poll. Voting results are posted on the Company's website on the day of AGM.

Our corporate website which contains corporate information, corporate governance practice, interim and annual reports, announcements and circulars issued by the Company enables the Company's shareholders to have timely and updated information of the Company.

## INTERNAL CONTROL

The Board acknowledges its responsibility in maintaining sound and effective internal control system for the Group to safeguard investments of the Shareholders and assets of the Group at all times. The Board is responsible to review the effectiveness of the internal control systems of the Group annually, such review should cover all material controls, including financial, operational and compliance controls and risk management functions. For the year under review, the Board, through the Audit Committee, had reviewed the effectiveness of the Company's internal control systems including the adequacy of resources, staff qualifications and experience and budget of the Company's accounting and financial reporting function. The Board believes that the existing internal control system is adequate and effective.

On behalf of the Board
**Yang Ying Min**
*Chairman of the Board*

Hong Kong, 16 March 2016

# Independent Auditor's Report

開元信德會計師事務所有限公司
ELITE PARTNERS CPA LIMITED
Certified Public Accountants

**To the members of**
**North Mining Shares Company Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of North Mining Shares Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 91, which comprise the consolidated statements of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that gives a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the inability to obtain sufficient appropriate audit evidence as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements that give a true and fair view 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 the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## BASIS FOR QUALIFIED OPINION

### Prior year's audit scope limitation affecting opening balances and comparative figures

The auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2014 contained qualification on the possible effect of the limitations on the scope of the audit in relation to a property development project held by a subsidiary of the Company. Details of which has been set out in the auditor's report dated 26 March 2015 and was included in the Group's annual report for the year ended 31 December 2014.

As the auditor's report on the consolidated financial statements of the Group for the year ended 31 December 2014 formed the basis for the corresponding figures presented in the current year's consolidated financial statements, any adjustments found to be necessary in respect of the carrying amount of the abovementioned property development project would have a significant effect on the opening balances and consequential effect on the consolidated financial position of the Group as at 31 December 2015 and the results and cash flows for the year ended 31 December 2015 and the related disclosures thereof in the consolidated financial statements of the Group for the year ended 31 December 2015.

## QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## REPORT ON MATTERS UNDER SECTIONS 407(2) AND 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the matters described in the basis for qualified opinion's paragraph:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

**Elite Partners CPA Limited**
*Certified Public Accountants*
Hong Kong, 16 March 2016

**Siu Jimmy**
Practising Certificate Number: P05898

10/F., 8 Observatory Road,
Tsimshatsui, Hong Kong

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2015*

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| **Revenue** | 5(a) | **245,969** | 454,948 |
| Cost of sales | | **(225,774)** | (399,130) |
| **Gross profit** | | **20,195** | 55,818 |
| Other income | 5(b) | **85,439** | 86,298 |
| Other gains and losses | 6 | **(822,932)** | (308,188) |
| Administrative expenses | | **(101,405)** | (66,631) |
| **Loss from operations** | | **(818,703)** | (232,703) |
| Finance costs | 8 | **(16,949)** | (19,619) |
| **Loss before income tax** | 9 | **(835,652)** | (252,322) |
| Taxation | 12 | **125,690** | 36,392 |
| **Loss for the year** | | **(709,962)** | (215,930) |
| **Attributable to:** | | | |
| Owners of the Company | | **(436,220)** | (165,189) |
| Non-controlling interests | | **(273,742)** | (50,741) |
| **Loss for the year** | | **(709,962)** | (215,930) |
| **Other comprehensive (loss)/income (Net of tax effect):** | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising from translation of foreign subsidiaries | | **(270,782)** | 664 |
| **Other comprehensive (loss)/income for the year** | | **(270,782)** | 664 |
| **Total comprehensive loss for the year** | | **(980,744)** | (215,266) |
| **Attributable to:** | | | |
| Owners of the Company | | **(707,001)** | (162,266) |
| Non-controlling interests | | **(273,743)** | (53,000) |
| | | **(980,744)** | (215,266) |
| **Loss per share** | | | |
| — Basic, HK cents | 14(a) | **(2.49)** | (1.09) |
| — Diluted, HK cents | 14(b) | **(2.49)** | (1.09) |

# Consolidated Statement of Financial Position

*As at 31 December 2015*

| | Notes | 31 December 2015 HK$'000 | 31 December 2014 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 15 | **545,198** | 572,858 |
| Prepaid lease payments | 16 | **62,128** | 71,796 |
| Mining rights | 17 | **1,104,387** | 1,774,175 |
| Goodwill | 18 | **13,403** | – |
| Other financial assets | 19 | **–** | 992,985 |
| Loan receivables | 20 | **191,068** | 202,199 |
| | | **1,916,184** | 3,614,013 |
| **Current Assets** | | | |
| Other financial assets | 19 | **1,045,628** | 805,376 |
| Inventories | 22 | **411,032** | 173,081 |
| Investment deposits | 21 | **458,252** | 379,123 |
| Trade and bill receivables | 23 | **16,318** | 8,688 |
| Prepayments, deposits and other receivables | 24 | **374,381** | 278,888 |
| Tax recoverable | | **15,225** | 7,604 |
| Cash and cash equivalents | | **225,362** | 102,238 |
| | | **2,546,198** | 1,754,998 |
| **Total Assets** | | **4,462,382** | 5,369,011 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 25 | **318,441** | 265,641 |
| Reserves | 26 | **3,222,263** | 3,650,064 |
| Equity attributable to owners of the Company | | **3,540,704** | 3,915,705 |
| Non-controlling interests | | **134,526** | 408,269 |
| **Total Equity** | | **3,675,230** | 4,323,974 |

# Consolidated Statement of Financial Position

*As at 31 December 2015*

| | Notes | **31 December 2015 HK$'000** | 31 December 2014 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-Current Liabilities** | | | |
| Deferred tax liabilities | 27 | **301,801** | 447,107 |
| | | **301,801** | 447,107 |
| **Current Liabilities** | | | |
| Trade and bill payables | 28 | **76,663** | 63,654 |
| Other payables and accruals | 30 | **135,590** | 182,221 |
| Bank loans and other borrowings | 31 | **100,908** | 171,248 |
| Amounts due to related parties | 32 | **52,527** | 54,266 |
| Provision for environmental and resources tax | 29 | **95,534** | 101,099 |
| Tax payables | | **24,129** | 25,442 |
| | | **485,351** | 597,930 |
| **Total Liabilities** | | **787,152** | 1,045,037 |
| **Total Equity and Liabilities** | | **4,462,382** | 5,369,011 |
| **Net Current Assets** | | **2,060,847** | 1,157,068 |
| **Total Assets Less Current Liabilities** | | **3,977,031** | 4,771,081 |
| **Net Assets** | | **3,675,230** | 4,323,974 |

Approved and authorised for issue by the board of directors on 16 March 2016.

**Yang Ying Min**
*Director*

**Qian Yi Dong**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2015*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** HK$'000 | **Share premium** HK$'000 | **Contributed surplus** HK$'000 | **Capital reserve** HK$'000 | **Statutory reserve** HK$'000 | **Exchange reserve** HK$'000 | **Retained earnings/ (Accumulated loss)** HK$'000 | **Sub-total** HK$'000 | **Attributable to Non-controlling interests** HK$'000 | **Total equity** HK$'000 |
| At 1 January 2014 | 230,921 | 2,688,625 | 31,350 | (894) | 12,677 | 297,964 | (117,572) | 3,143,071 | 461,269 | 3,604,340 |
| Loss and total comprehensive loss for the year | – | – | – | – | – | 2,923 | (165,189) | (162,266) | (53,000) | (215,266) |
| Conversion of convertible notes | 34,720 | 594,580 | – | – | – | – | 305,600 | 934,900 | – | 934,900 |
| At 31 December 2014 and at 1 January 2015 | 265,641 | 3,283,205 | 31,350 | (894) | 12,677 | 300,887 | 22,839 | 3,915,705 | 408,269 | 4,323,974 |
| Loss and total comprehensive loss for the year | – | – | – | – | – | (270,782) | (436,219) | (707,001) | (273,743) | (980,744) |
| Issuance of consideration shares | 6,400 | 93,600 | – | – | – | – | – | 100,000 | – | 100,000 |
| Placing of shares | 46,400 | 185,600 | – | – | – | – | – | 232,000 | – | 232,000 |
| At 31 December 2015 | 318,441 | 3,562,405 | 31,350 | (894) | 12,677 | 30,105 | (413,380) | 3,540,704 | 134,526 | 3,675,230 |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2015*

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss from operations | **(818,703)** | (232,703) |
| Adjustments for: | | |
| Imputed interest income arising from promissory notes | **(69,745)** | (84,429) |
| Loan interest income | **(15,360)** | – |
| Bank interest income | **(18)** | (87) |
| Depreciation of property, plant and equipment | **19,113** | 18,241 |
| Amortisation of prepaid lease payments | **5,953** | 6,042 |
| Amortisation of mining rights | **130,852** | 173,347 |
| Written down of inventories | **8,416** | – |
| Loss on disposal of property, plant and equipment | **–** | 107 |
| Loss arising from change in fair value of financial liabilities designated as at FVTPL | **–** | 128,799 |
| Impairment loss on mining rights | **465,033** | – |
| Impairment loss on other receivables | **19,661** | – |
| Impairment loss on property, plant and equipment | **253,772** | – |
| Operating (loss)/profit before working capital changes | **(1,026)** | 9,317 |
| (Increase)/Decrease in inventories | **(285,842)** | 38,880 |
| Increase in loan receivables | **–** | (201,969) |
| Increase in trade and bill receivables, prepayments, deposits and other receivables | **(151,302)** | (133,545) |
| (Decrease)/Increase in trade and bill payables, other payables and accruals | **(61,430)** | 37,958 |
| Increase/(Decrease) in amounts due to related parties | **1,299** | (5,225) |
| Cash used in operating activities | **(498,301)** | (254,584) |
| Bank interest income received | **18** | 87 |
| Tax (paid)/recovered | **(8,380)** | 21,038 |
| Net cash used in operating activities | **(506,663)** | (233,459) |
| **Cash flows from investing activities** | | |
| Purchase of items of property, plant and equipment and addition to properties under development | **(237,849)** | (267,807) |
| Proceeds from sales of property, plant and equipment | **–** | 338 |
| Net cash outflow of acquisition of a subsidiary | **(88,895)** | – |
| Settlement of promissory notes | **822,478** | – |
| Net cash generated from/(used in) investing activities | **495,734** | (267,469) |

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2015*

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Cash flows from financing activities** | | |
| Interest expense paid | (16,949) | (19,619) |
| Proceeds from bank loans | 44,279 | 102,878 |
| Repayment of loans | (107,723) | (162,081) |
| Conversion of convertible notes option | – | 629,300 |
| Proceeds from issuance of shares | 232,000 | – |
| Net cash generated from financing activities | 151,607 | 550,478 |
| **Net increase in cash and cash equivalents** | 140,678 | 49,550 |
| Cash and cash equivalents at 1 January | 102,238 | 44,907 |
| Effect of foreign exchange rate changes, net | (17,554) | 7,781 |
| **Cash and cash equivalents at 31 December** | 225,362 | 102,238 |
| **Analysis of balances of cash and cash equivalents** | | |
| Cash and bank balances | 225,362 | 102,238 |

## 1. GENERAL INFORMATION

North Mining Shares Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liabilities. The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business is located at Rooms 1505–7, 15/F., Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The principal activities of the Company are investment holding and property investment. The principal activities of the Company and its subsidiaries (the "Group") are mining operation, property leasing and property management operation.

The consolidated financial statements are presented in Hong Kong dollars, which is the same functional currency of the Company.

In the opinion of the directors, the ultimate and immediate holding company of the Company is China Wan Tai Group Limited, which was incorporated in Hong Kong.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Company. The following paragraph provides information on initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these consolidated financial statements.

### 2.1 Initial application of Hong Kong Financial Reporting Standards

In the current year, the Group initially applied the following Hong Kong Financial Reporting Standards:

| | |
|---|---|
| Amendment to HKAS 19 | Defined benefit plans |
| Annual improvements 2012 | Annual improvements 2010–2012 cycle |
| Annual improvements 2013 | Annual improvements 2011–2013 cycle |

The initial application of these financial reporting standards does not necessitate material changes in the Group's accounting policies.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

### 2.2 Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue at 31 December 2015 have not been applied in the preparation of the Group's consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1 January 2015.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements 2012–2014 Cycle[1] |
| Amendments to HKAS 1 | Disclosure Initiative[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[1] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to HKFRS 10, 12 and HKAS 28 | Investment Entities Applying the Consolidation Exception[1] |
| HKFRS 9 (2014) | Financial Instruments[2] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |

[1] Changes effective for annual periods beginning on or after 1 January 2016

[2] Changes effective for annual periods beginning on or after 1 January 2018

[3] Changes effective for annual periods beginning on or after a date to be determined

The Group anticipates that the application of the above new or amended standards have no material impact on the results and the financial position of the Group.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance ("CO"). These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on Stock Exchange of Hong Kong Limited (the "Listing Rules").

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Group for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the financial statements for the financial year ended 31 December 2015 have been change to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in the HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included with Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

— has power over the investee;

— is posed, or has rights, to variable returns from its involvement with the investee; and

— has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

— the size of the Group's holding of voting rights relevant to the size and dispersion of holdings of the other vote holders;

— potential voting rights held by the Group, other vote holders or other parties;

— rights arising from other contractual arrangements; and

— any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.2 Basis of consolidation (Continued)

Non-controlling interests in the net assets of consolidated subsidiaries are presented separately from the Group's entity therein. Non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### 3.3 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

— deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

— liabilities or equity instruments related to share-based payment transactions of the acquire or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.3 Business combination (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.3 Business combination (Continued)

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

### 3.4 Goodwill

Goodwill arising on acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost at the date of acquisition of the business less accumulated impairment losses, if any.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other assets of the unit pro rata based in the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provision of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**(a) Financial assets**

The Group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchase or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchase or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***(i) Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised in profit or loss on an effective interest basis other than those financial assets classified as at fair value through profit or loss.

***(ii) Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss includes financial assets held for trading, financial assets designated upon initial recognition as at fair value through profit or loss and all derivatives other than hedging instruments.

Financial assets are classified as held for trading if:

— it has been acquired principally for the purpose of selling it in the near term;

— on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments (Continued)

#### (a) Financial assets (Continued)

***(ii) Financial assets at fair value through profit or loss (Continued)***

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

— such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

— the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

— it forms part of a contract containing one or more embedded derivatives, and HKAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets and is included in the other gain and losses line item.

***(iii) Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

***(iv) Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-for-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments (Continued)

#### (a) Financial assets (Continued)

***(iv) Available-for-sale financial assets (Continued)***

The fair value of available-for-sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at the end of the reporting period.

Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

***(v) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

***(vi) Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments (Continued)

#### (a) Financial assets (Continued)

***(vii) Impairment of financial assets***

At each end of reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the issuer or counterparty; or

— breach of contract, such as a default or delinquency in interest or principal payments; or

— it becoming probable that the debtor will enter bankruptcy or other financial re-organisation; or

— the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments (Continued)

**(a) Financial assets (Continued)**

***(vii) Impairment of financial assets (Continued)***

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

**(b) Financial liabilities and equity instruments issued by the Group**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liabilities and an equity instrument.

***(i) Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own instruments.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments (Continued)

#### (b) Financial liabilities and equity instruments issued by the Group (Continued)

***(ii) Compound instruments***

The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured.

In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium and share capital. When the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

***(iii) Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised in profit or loss on an effective interest basis.

***(iv) Financial liabilities***

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.5 Financial instruments (Continued)

#### (b) Financial liabilities and equity instruments issued by the Group (Continued)

***(v) Financial liabilities at fair value through profit or loss ("Financial liabilities at FVTPL")***

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

— it has been acquired principally for the purpose of repurchasing it in the near term;

— on initial recognition it is part of a portfolio of identified financial instruments that the Group manages tighter and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at fair value through profit or loss are measured at fair value, with any gains or losses arising on remeasurement recognised directly in profit or loss in the period in which they arise.

***(vi) Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

***(vii) Derecognition***

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided to write off the cost of property, plant and equipment, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

| | |
|---|---|
| Mining structure and building, plant and machinery | 20 years |
| Leasehold improvement | 3 to 5 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 3 to 5 years |

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the profit or loss.

### 3.7 Leasehold interests in land

Leasehold interests in land are classified as operating leases and presented as "prepaid lease payments" in the consolidated statement of financial position when all the risks and rewards incidental to ownership are not substantially transferred to the Group. Leasehold interests in land are amortised in the profit or loss on a straight-line basis over the period of the lease or when there is impairment, the impairment is recognised in the profit or loss.

### 3.8 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated profit or loss and other comprehensive income.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.9 Mining rights

Mining rights acquired separately are initially measured at cost. Mining rights are reclassified from exploration and evaluation assets at the carrying amount when the technical feasibility and commercial viability of extracting mineral resources are demonstrable. Mining rights with finite useful lives are carried at costs less accumulated amortisation and any identified impairment loss. Amortisation for mining rights with finite useful lives is provided using the unit of production method based on the actual production volume over the estimated total proved and probable reserves of the mineral mines.

### 3.10 Current assets and current liabilities

Current assets are expected to be realised within twelve months of the end of reporting period or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the end of reporting period or in the normal course of the Group's operating cycle.

### 3.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

### 3.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 3.13 Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or except in the case of goodwill, an impairment loss previously recognised no longer exists or may have been decreased:

— Property, plant and equipment

— Prepaid lease payments

— Mining rights

— Investment in subsidiaries

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.13 Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— **Calculation of recoverable amount**

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— **Recognition of impairment loss**

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying amount of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversible. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.14 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

— **Sales of molybdenum concentrate, sulfuric acid and mineral resources**

Sales of molybdenum concentrate, sulfuric acid and mineral resources are measured at the fair value of the consideration received or receivable and represents amounts of goods sold in the normal course of business, net of sales related tax. Sales of goods are recognised when goods are delivered and title has passed.

— **Rental income from operating lease**

Rental income receivable under operating leases is recognised in equal instalments over the accounting periods covered by the lease term. Lease incentives granted are recognised as an integral part of the aggregate lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

— **Interest income and property management income**

Interest income from bank deposits and loans receivable are accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable. Property management income is recognised when the services are rendered.

### 3.15 Foreign currencies

**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

**(ii) Transaction and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated profit or loss and other comprehensive income, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.15 Foreign currencies (Continued)

**(iii) Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(2) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 3.16 Lease

Leases are classes are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease.

**The Group as lessee**

Rentals payable under operating leases are charged to the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.17 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 3.18 Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance and to the state-managed retirement benefits schemes for the employees of the Group's overseas entities are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income as incurred.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting condition) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

### 3.19 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.19 Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or gain on bargain purchase) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each end of reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 3.20 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of the time value of money is material, the amount of a provision is the present value at the end of reporting period of the expenditures expected to be required to settle the obligation.

### 3.21 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.22 Related parties

For the purposes of these consolidated financial statements, related parties include a person and an entity as defined below:

(i) A person or a close member of that person's family is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group;

(c) is a member of the key management personnel of the Company or of a parent of the Company.

(ii) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(a) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member);

(c) both entities are joint ventures of a third entity;

(d) either entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan;

(f) the entity is controlled or jointly controlled by a person identified in (i);

(g) a person identified in (i)(a) has significant voting power in the entity;

(h) the entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the parent of the Group.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and 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 discussed below.

### 4.1 Useful life of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

### 4.2 Amortisation and impairment of mining rights

Mining rights are amortised using the unit of production method based on the actual production volume over the estimated total proved and probable reserve of the molybdenum mines.

The process of estimating quantities of reserves is inherently uncertain and complex. It requires significant judgment and decision based on available geological, geophysical engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting mineral prices and costs change. Reserve estimates are based on current production forecasts, prices and economic conditions. The directors exercise their judgments in estimating the total proved and probable reserves of the molybdenum mines. If the quantities of reserves are different from current estimates, it will result in significant changes to amortisation of mining rights and affect the recoverable amount of exploration and evaluation, from which a material loss may arise.

The carrying amounts of mining rights are reviewed for impairment assessment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amounts of mining rights, or where appropriate, the cash-generating-units to which they belong, are calculated as the higher of its fair values less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating-units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

### 4.3 Impairment of loans and receivables

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the consolidated statement of profit or loss and other comprehensive income. Changes in the collectability of trade receivables for which provisions are not made could affect our results of operations.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

### 4.4 Net realisable values of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the end of the reporting period.

### 4.5 Fair value of other financial assets and liabilities

The fair values of loans and receivables and financial liabilities are accounted for or disclosed in the consolidated financial statements. The calculation of fair values requires the Group to estimate the future cash flows expected to arise from those assets and liabilities and suitable discount rates. Variations in the estimated future cash flows and the discount rates used may result in adjustments to the carrying amounts of these assets and liabilities and the amounts disclosed in the consolidated financial statements.

### 4.6 Income taxes and deferred taxation

The Group is subject to income taxes in different jurisdictions. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. 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.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

## 5. REVENUE AND OTHER INCOME

An analysis of the Group's revenue and other income is as follows:

| | | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| (a) | **Revenue:** | | |
| | Sales of molybdenum concentrate | **238,225** | 447,633 |
| | Property management fee income | **7,744** | 7,315 |
| | | **245,969** | 454,948 |
| (b) | **Other income:** | | |
| | Bank interest income | **18** | 87 |
| | Imputed interest on promissory notes | **69,745** | 84,429 |
| | Loan interest income | **15,360** | – |
| | Sundry income | **316** | 1,782 |
| | | **85,439** | 86,298 |

## 6. OTHER GAINS AND LOSSES

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Amortisation of prepaid lease payments | (5,953) | (6,042) |
| Amortisation of mining rights | (130,852) | (173,347) |
| Loss arising from change in fair value of financial liabilities designated as at FVTPL | – | (128,799) |
| Impairment loss on mining rights | (465,033) | – |
| Impairment loss on other receivables | (19,661) | – |
| Impairment loss on property, plan and equipment | (253,772) | – |
| Written down of inventories | (8,416) | – |
| Gain on disposal of contingent assets | 60,755 | – |
| | (822,932) | (308,188) |

## 7. SEGMENT INFORMATION

Operating segments has been identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and to assessing their performance.

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

(a) Mining operation: — Exploration of mineral mines
— Exploitation of molybdenum mines
— Trading of mineral resources

(b) Property leasing operation: The leasing of commercial premises

(c) Property management operation: Provision of management service to commercial premises

The management monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or loss and is measured consistently with operating profit or loss in the consolidated financial statements. Information regarding the above segment is reported below.

## 7. SEGMENT INFORMATION (Continued)

### 7.1 Operating segment information

**Segment revenue and results**

**For the year ended 31 December 2015**

| | | | Mining operation | | | |
|---|---|---|---|---|---|---|
| | Property leasing[2] HK$'000 | Property management HK$'000 | Mining exploitation[3] HK$'000 | Mining exploration[4] HK$'000 | Trading of mineral resources HK$'000 | Total HK$'000 |
| **Revenue** | | | | | | |
| Segment turnover | – | 7,744 | 238,225 | – | – | 245,969 |
| **Results[1]** | | | | | | |
| Segment results | – | 66 | (784,629) | – | – | (784,563) |
| Unallocated corporate income | | | | | | 85,439 |
| Unallocated corporate expenses | | | | | | (10,822) |
| Loss before income tax | | | | | | (709,946) |
| Income tax | | | | | | (16) |
| Loss for the year | | | | | | (709,962) |

## 7. SEGMENT INFORMATION (Continued)

### 7.1 Operating segment information (Continued)

**Segment revenue and results (Continued)**

For the year ended 31 December 2014

| | | | Mining operation | | | |
|---|---|---|---|---|---|---|
| | Property leasing[2] HK$'000 | Property management HK$'000 | Mining exploitation[3] HK$'000 | Mining exploration[4] HK$'000 | Trading of mineral resources HK$'000 | Total HK$'000 |
| Revenue | | | | | | |
| Segment turnover | – | 7,315 | 447,633 | – | – | 454,948 |
| Results[1] | | | | | | |
| Segment results | – | 27 | (138,031) | – | (3,532) | (141,536) |
| Unallocated corporate income | | | | | | 84,429 |
| Unallocated corporate expenses | | | | | | (151,878) |
| Loss before income tax | | | | | | (208,985) |
| Income tax | | | | | | (6,945) |
| Loss for the year | | | | | | (215,930) |

1. Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment result represents the profit earned by each segment without allocation of corporate income and expenses, central administrative expenses, directors' salaries and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

2. For the year ended 31 December 2015 and 2014 there is no segment result for property leasing operation.

3. For the year ended 31 December 2015, segment results for mining exploitation included impairment loss on mining rights of approximately HK$465,033,000 (2014: Nil), amortisation of mining rights of approximately HK$130,852,000 (2014: HK$173,347,000), impairment loss on property, plant and equipment of approximately HK$253,772,000 (2014: Nil) and reversal of deferred tax liabilities of approximately HK$125,706,000 (2014: HK$43,337,000) and operating expenses which are directly related to the reportable segment.

4. For the years ended 31 December 2015 and 2014, there are no segment results for mining exploration.

## 7. SEGMENT INFORMATION (Continued)

### 7.1 Operating segment information (Continued)

**Segment assets and liabilities**

| | | | Mining operation | | | | |
|---|---|---|---|---|---|---|---|
| | Property leasing HK$'000 | Property management HK$'000 | Mining exploitation HK$'000 | Mining exploration HK$'000 | Trading of mineral resources HK$'000 | Others HK$'000 | Total HK$'000 |
| **As at 31 December 2015** | | | | | | | |
| **Segment assets** | **–** | **460** | **1,288,140** | **–** | **–** | **3,173,782** | **4,462,382** |
| **Segment liabilities** | **–** | **799** | **781,149** | **–** | **–** | **5,204** | **787,152** |
| As at 31 December 2014 | | | | | | | |
| Segment assets | – | 734 | 2,617,335 | – | 45,926 | 2,705,016 | 5,369,011 |
| Segment liabilities | – | 1,146 | 1,041,766 | – | 82 | 2,043 | 1,045,037 |

For the purposes of monitoring segment performances and allocating resources between segments:

— all assets are allocated to reportable segments other than goodwill, intangible assets and assets used jointly reportable segments which are classified as "Others" in segment assets.

— all liabilities are allocated to reportable segments other than liabilities for which reportable segments are jointly liable and classified as "Others" in segment liabilities.

## 7. SEGMENT INFORMATION (Continued)

### 7.1 Operating segment information (Continued)

**Other segment information**

| | | | Mining operation | | | | |
|---|---|---|---|---|---|---|---|
| | Property leasing HK$'000 | Property management HK$'000 | Mining exploitation HK$'000 | Mining exploration HK$'000 | Trading of mineral resources HK$'000 | Others HK$'000 | Total HK$'000 |
| **As at 31 December 2015** | | | | | | | |
| **Depreciation and amortisation** | **–** | **6** | **150,077** | **–** | **–** | **5,835** | **155,918** |
| **Impairment loss recognised during the year** | **–** | **–** | **727,044** | **–** | **–** | **11,422** | **738,466** |
| **Capital expenditures** | **–** | **–** | **35,854** | **–** | **–** | **–** | **35,854** |
| As at 31 December 2014 | | | | | | | |
| Depreciation and amortisation | – | 4 | 191,632 | – | – | 5,993 | 197,629 |
| Capital expenditures | – | – | 267,799 | – | – | 8 | 267,807 |

### 7.2 Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's current and non-current assets. The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the segment assets is based on the physical location of the asset, in the case of mining rights, the location of the operation to which they are allocated.

The Group's operations are located in the following geographical areas. The following table provides an analysis of the Group's revenue from external customers and assets by geographical location:

| | Segment revenue from external customers | | Segment assets | |
|---|---|---|---|---|
| | **2015 HK$'000** | 2014 HK$'000 | **2015 HK$'000** | 2014 HK$'000 |
| Hong Kong | **–** | – | **1,363,503** | 1,340,758 |
| The PRC | **245,969** | 454,948 | **3,098,879** | 4,028,253 |
| | **245,969** | 454,948 | **4,462,382** | 5,369,011 |

## 7. SEGMENT INFORMATION (Continued)

### 7.3 Information about major customers

Included in revenue of approximately HK$245,969,000 (2014: HK$454,948,000), a total of approximately HK$52,197,000 (2014: HK$171,654,000) was derived from sales to the Group's largest customer. The Group's five largest customers account for approximately HK$143,301,000 (2014: HK$385,384,000). Two customers have contributed 10% or more to the Group's revenue for the years ended 31 December 2015 (2014: Nil).

## 8. FINANCE COSTS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Interest on bank loans and other borrowings wholly repayable within five years | 16,949 | 19,619 |

## 9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Auditors' remuneration | 900 | 900 |
| Cost of inventories expensed | 219,556 | 399,130 |
| Depreciation of property, plant and equipment | 19,113 | 18,240 |
| Staff costs (including directors' remuneration) | | |
| — Wages and salaries | 16,213 | 13,061 |
| — Retirement benefits contributions | 889 | 1,201 |
| Operating lease payments in respect of offices premises | 2,200 | 4,533 |

## 10. DIRECTORS' REMUNERATION

Remuneration of the directors disclosed pursuant to the Listing Rules and Section 383(1) of the Hong Kong Companies Ordinance, is as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Fees:** | | |
| Executive directors | – | – |
| Independent non-executive directors | 342 | 300 |
| | 342 | 300 |
| **Other emoluments:** | | |
| Executive directors: | | |
| Salaries, allowances and benefits in kind | 1,463 | 1,051 |
| Contributions to pension schemes | 33 | 31 |
| Independent non-executive directors: | | |
| Salaries, allowances and benefits in kind | – | – |
| | 1,496 | 1,082 |
| | 1,838 | 1,382 |

## 10. DIRECTORS' REMUNERATION (Continued)

For the years ended 31 December 2015 and 2014, no emolument was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Director has waived any emolument during the year (2014: Nil).

| | Fees | | Salaries and other benefits | | Retirement benefit scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2015 HK$'000 | 2014 HK$'000 | 2015 HK$'000 | 2014 HK$'000 | 2015 HK$'000 | 2014 HK$'000 | 2015 HK$'000 | 2014 HK$'000 |
| **Executive directors** | | | | | | | | |
| Gao Yuan Xing | – | – | 655 | 588 | 19 | 17 | 674 | 605 |
| Qian Yi Dong | – | – | 328 | 294 | 14 | 13 | 342 | 307 |
| Zhang Jia Kun | – | – | – | – | – | – | – | – |
| Yang Ying Min[1] | – | – | 240 | 85 | – | – | 240 | 85 |
| Li Li Juan[1] | – | – | 240 | 85 | – | – | 240 | 85 |
| Chen Jian Bao[2] | – | – | – | – | – | – | – | – |
| | – | – | 1,463 | 1,052 | 33 | 30 | 1,496 | 1,082 |
| **Independent non-executive directors** | | | | | | | | |
| Mu Xiangming[3] | 100 | 100 | – | – | – | – | 100 | 100 |
| Cheng Chak Ho | 100 | 100 | – | – | – | – | 100 | 100 |
| Lo Wa Kei Roy[3] | 142 | 100 | – | – | – | – | 142 | 100 |
| William Fong[4] | – | – | – | – | – | – | – | – |
| Leung Kar Fai[5] | – | – | – | – | – | – | – | – |
| | 342 | 300 | – | – | – | – | 342 | 300 |

1. Yang Ying Min and Li Li Juan were appointed as executive directors on 25 August 2014.
2. Chen Jian Bao was appointed as executive director on 28 April 2015 and resigned on 31 August 2015.
3. Mu Xiangming and Lo Wa Kei Roy resigned as independent non-executive directors on 24 November 2015.
4. William Fong was appointed as independent non-executive director on 15 October 2015.
5. Leung Kar Fai was appointed as independent non-executive director on 24 November 2015.

For the years ended 31 December 2015 and 2014, remunerations of all directors of the Company fall within HK$Nil to HK$1,000,000.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

## 11. EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included two (2014: two) directors, details for whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining three (2014: three) highest paid, non-director employees are as follows:

| | **2015** | 2014 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other benefits | **1,854** | 2,542 |
| Mandatory provident fund contribution | **51** | 77 |
| | **1,905** | 2,619 |

For the years ended 31 December 2015 and 2014, remunerations of highest paid, non-director employees fall within HK$Nil to HK$1,000,000.

### Retirement benefit scheme

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the scheme vest immediately.

The employees of the Company's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or postretirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent for the entire pension obligations payable to retired employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC. In the opinion of the Directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2015 (2014: Nil) in respect of the retirement of its employees.

### Share-based payment transactions

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 25 May 2011 and will remain in force for a period of 10 years from that date. The purpose of the Scheme is to enable the Company to grant options to the Eligible Persons (as defined under the Scheme) as incentive or reward for their contribution to the growth of the Group or Invested Entities (as defined under the Scheme) and to provide the Group with a more flexible means to reward, remunerate, compensate and/or provide benefits to the Eligible Persons.

No share option had been granted, exercised, lapsed or was cancelled during the year ended 31 December 2015 (2014: Nil).

## 12. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made since the Group incurred taxation losses for the year. Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Current tax: | | |
| PRC corporate income tax | **16** | 6,945 |
| Hong Kong Profits Tax | **–** | – |
| Deferred tax | **(125,706)** | (43,337) |
| | **(125,690)** | (36,392) |

A reconciliation of the tax expense applicable to loss before income tax using the statutory rates for the tax jurisdictions in which the Company and its subsidiaries are domiciled is as follows:

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Loss before income tax | **(835,652)** | (252,322) |
| Tax at the statutory tax rates | **(207,496)** | (55,300) |
| Tax effect of income not taxable for tax purpose | **(33,543)** | 4,482 |
| Tax effect of expense not deductible for tax purpose | **230,004** | 63,872 |
| Tax effect of temporary difference | **(125,706)** | (43,337) |
| Tax effect of unrecognised tax losses | **11,051** | – |
| Over provision in prior years | **–** | (6,109) |
| Tax credit for the year | **(125,690)** | (36,392) |

## 13. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2015 (2014: Nil).

## 14. LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share amount is based on the net loss for the year of approximately HK$436,220,000 (2014: net loss of HK$165,189,000) attributable to equity holders of the Company, and weighted average of 17,497,137,256 (2014: 15,223,246,846) ordinary shares in issue during the year.

### (b) Diluted loss per share

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2015 (2014: Nil).

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Mining structure and buildings | Plant and machinery | Leasehold improvement | Furniture, fixture and motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At cost:** | | | | | | |
| At 1 January 2014 | 218,576 | 139,408 | 536 | 25,161 | 126,061 | 509,742 |
| Additions | 2,619 | 6,292 | – | 49 | 258,847 | 267,807 |
| Disposals | – | (725) | – | (786) | – | (1,511) |
| Transfer | – | 1,946 | – | – | (1,946) | – |
| Written off | – | – | – | (1,548) | – | (1,548) |
| Exchange adjustments | (922) | (584) | – | (73) | (239) | (1,818) |
| At 31 December 2014 and at 1 January 2015 | 220,273 | 146,337 | 536 | 22,803 | 382,723 | 772,672 |
| Additions | 211 | 31 | – | 24 | 237,583 | 237,849 |
| Acquisition of subsidiary | – | 39,074 | – | – | – | 39,074 |
| Exchange adjustments | (12,135) | (9,616) | – | (891) | (30,545) | (53,187) |
| **At 31 December 2015** | 208,349 | 175,826 | 536 | 21,936 | 589,761 | 996,408 |
| **Accumulated depreciation and impairment:** | | | | | | |
| At 1 January 2014 | 55,919 | 108,561 | 536 | 19,899 | – | 184,915 |
| Charge for the year | 10,436 | 6,477 | – | 1,327 | – | 18,240 |
| Disposals | – | (688) | – | (590) | – | (1,278) |
| Written off | – | – | – | (1,335) | – | (1,335) |
| Exchange adjustments | (225) | (453) | – | (50) | – | (728) |
| At 31 December 2014 and at 1 January 2015 | 66,130 | 113,897 | 536 | 19,251 | – | 199,814 |
| Charge for the year | 10,414 | 7,640 | – | 1,059 | – | 19,113 |
| Impairment loss recognised | 29,962 | 19,816 | – | 1,998 | 201,996 | 253,772 |
| Exchange adjustments | (5,250) | (7,365) | – | (816) | (8,058) | (21,489) |
| **At 31 December 2015** | 101,256 | 133,988 | 536 | 21,492 | 193,938 | 451,210 |
| **Net carrying value:** | | | | | | |
| **At 31 December 2015** | **107,093** | **41,838** | **–** | **444** | **395,823** | **545,198** |
| At 31 December 2014 | 154,143 | 32,440 | – | 3,552 | 382,723 | 572,858 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) As at 31 December 2015, the Group had property, plant and equipment located at Xi Ban Cha Gou, Huanglongpu Village, Shimen Town, Luonan County, Shaanxi Province, the PRC ("Shaanxi Molybdenum Mine").

As at 31 December 2015, the Group determined the recoverable amounts of cash generating unit ("CGU") for Shaanxi Molybdenum Mine based on value in use calculation. That calculation used cash flows projections based on financial budgets as approved by management covering a 5-year period, and at a discount rate of 13% (2014: 10.17%) for Shannxi Molybdenum Mine with reference to the valuation performed by an independent professional valuer as at 31 December 2015. As the recoverable amount of the CGU of Shaanxi Molybdenum Mine below the carrying amount, an impairment loss of approximately HK$253,772,000 (2014: Nil) has been recognised in profit or loss and included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

(b) As at 31 December 2015, no property, plant and equipment were pledged to an independent guarantee company for securing a loan granted by a bank in the PRC (2014: HK$68,699,000).

## 16. PREPAID LEASE PAYMENTS

As at 31 December 2015 and 2014, prepaid lease payments represent cost paid for medium-term leasehold land in the PRC that is classified as an operating lease. The costs are amortised over the leasehold period of 15 years and 45 years respectively.

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| **Net carrying amount** | | |
| At 1 January | **71,796** | 78,176 |
| Amortisation | **(5,953)** | (6,042) |
| Exchange adjustments | **(3,715)** | (338) |
| **At 31 December** | **62,128** | 71,796 |

Prepaid lease payments of the Group are held under the following lease terms:

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Land outside Hong Kong | | |
| — Medium-term lease | **62,128** | 71,796 |

## 17. MINING RIGHTS

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| **Costs:** | | |
| At 1 January | **3,504,302** | 3,519,201 |
| Exchange adjustments | **(192,916)** | (14,899) |
| At 31 December | **3,311,386** | 3,504,302 |
| **Accumulated amortisation and impairment loss:** | | |
| At 1 January | **1,730,127** | 1,563,201 |
| Amortisation provided for the year | **130,852** | 173,347 |
| Impairment loss provided for the year | **465,033** | – |
| Exchange adjustments | **(119,013)** | (6,421) |
| At 31 December | **2,206,999** | 1,730,127 |
| **Carrying amount:** | | |
| At 31 December | **1,104,387** | 1,774,175 |

As at 31 December 2014 and 2015, the Group had an exploitation rights in respect of a molybdenum mine located at Xi Ban Cha Gou, Huanglongpu Village, Shimen Town, Luonan County, Shaanxi Province, the PRC ("Shaanxi Molybdenum Mine") issued by Land and Resources Bureau of Shaanxi Province, the PRC.

As at 31 December 2014 and 2015, the Group determined the recoverable amounts of CGU for Shaanxi Molybdenum Mine based on value in use calculation. That calculation used cash flows projections based on financial budgets as approved by management covering a 5-year period, and at a discount rate of 13% (2014: 10.17%) for Shannxi Molybdenum Mine with reference to the valuation performed by an independent professional valuer as at 31 December 2015. As the recoverable amount of the CGU of Shaanxi Molybdenum Mine below the carrying amount, an impairment loss of approximately HK$465,033,000 (2014: Nil) has been recognised in profit or loss and included in other gains and losses in the consolidated statement of profit or loss and other comprehensive income.

## 18. GOODWILL

| | HK$'000 |
|---|---|
| **Cost:** | |
| At 1 January 2014, at 31 December 2014 and at 1 January 2015 | – |
| Acquisition of a subsidiary | 13,403 |
| At 31 December 2015 | 13,403 |
| **Net carrying value:** | |
| At 31 December 2015 | 13,403 |

During the year ended 31 December 2015, the Group acquired a subsidiary from independent third party at total cash consideration of RMB70,000,000 (approximately HK$89,172,000). The principal activities of the acquirees are mainly engaged in processing of molybdenum minerals services. Details of related acquisitions are disclosed in note 36.

Goodwill acquired in business combinations is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from those business combinations.

The Group carried out impairment testing of the goodwill at the end of each reporting period. In assessing the impairment of goodwill, the recoverable amount of the CGU was determined. The directors determined that no impairment of goodwill is necessary as at 31 December 2015 (2014: Nil).

## 19. OTHER FINANCIAL ASSETS

| | **2015 HK$'000** | 2014 HK$'000 |
|---|---|---|
| Analysed as | | |
| Promissory notes receivable — non-current portion | **–** | 992,985 |
| Promissory notes receivable — current portion | **1,045,628** | 805,376 |
| | **1,045,628** | 1,798,361 |

Other financial assets represent present value of promissory notes receivables, details of which are set out below:

### Ding Jin Promissory Note

During the year ended 31 December 2011, the Group entered into a subscription agreement with Shaanxi Ding Jin Mining Company Limited ("Ding Jin"), the Issuer, pursuant to which the Group is eligible to subscribe for the promissory notes issued by Ding Jin. The principal amount of the promissory notes was HK$500 million and carried at interest of HK$100 million, payable on the maturity date, which is 5 years from subscription.

## 19. OTHER FINANCIAL ASSETS (Continued)

### Bai Shan Promissory Note

During the year ended 31 December 2013, the Group has disposed 25% equity interest in Rui Sui Kuang Ye Company Limited in return for a promissory note receivable with a face value of HK$500 million. The maturity date is 3 years from the issue date of the promissory notes.

### Rui Sui Promissory Note

During the year ended 31 December 2012, the Group disposed of 26% equity interests in Rui Sui Kuang Ye Company Limited, for an aggregate consideration of HK$600 million, which was satisfied by a promissory note which are carried at a total interest of HK$36 million wholly payable on the maturity date, issued by the purchaser. The maturity date is 3 years from the issue date of the promissory notes. During the year ended 31 December 2015, the promissory notes were fully settled.

### Yi Tong Promissory Note

During the year ended 31 December 2012, the Group disposed of 70% equity interests in Heilongjiang Yi Tong Mining Company Limited at a consideration of HK$230 million, of which approximately HK$46 million was settled by cash and approximately HK$184 million was settled by issuance of the promissory note issued by the purchaser. The maturity date is 3 years from the issue date of the promissory notes. During the year ended 31 December 2015, the promissory notes were fully settled.

## 20. LOAN RECEIVABLE

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Non-current fixed rate loan receivable | **191,068** | 202,199 |

During the year ended 31 December 2014, the Group entered into a loan agreement with 上海華豚金融信息服務有限公司 ("華豚") to provide a loan with the principle amount of RMB160,000,000, carried at interest rate of 5% per annum, payable semi-annually and matures in 2 years on 1 December 2016. On 1 December 2015, the Group and 華豚 mutually agreed to extend the maturity date of the loan for further 2 years to 1 December 2018. The effective rate for the loan receivable is 5% for both years ended 31 December 2015 and 2014.

## 21. INVESTMENT DEPOSITS

As at 31 December 2015, balance of investment deposits comprise of:

(i) Refundable investment deposits of approximately HK$358,252,000 (RMB:300,000,000) (2014: HK$379,123,000 (RMB300,000,000)) in respect of a possible acquisition of a potassium mine located in Shangluo City, Luo Nan Xian, Shaanxi Province, the PRC. The Group has initially announced a letter of intent for such possible acquisition on 22 April 2013 and a framework agreement has been entered into between the potential vendor and the Group thereafter. On 31 August 2015, the Group has terminated the acquisition. Subsequent to the reporting period, the vendor has refunded the investment deposit in the amount of RMB 300,000,000 to the Group.

(ii) During the year ended 31 December 2015, the Group paid an investment deposit of HK$100,000,000 in relation to the acquisition of 65% equity interest of Shanghai Hua Tun Financial Information Service Company Limited. On 15 December 2015, the Group has terminated the acquisition. Pursuant to the termination agreement, Shanghai Hua Tun Financial Information Service Company Limited shall refund the deposit in the amount of HK$100,000,000 (i.e. equivalent to the cash value of the Consideration Shares) in full.

## 22. INVENTORIES

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Finished goods | **411,032** | 173,081 |

The cost of inventories recognised as expense during the year in respect of mining operation was approximately HK$218,758,000 (2014: HK$ 392,899,000). Written down of inventories of approximately HK$8,416,000 was recognised in profit or loss for the year ended 31 December 2015 (2014: Nil).

## 23. TRADE AND BILL RECEIVABLES

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Trade and bill receivables | **16,318** | 8,688 |

## 23. TRADE AND BILL RECEIVABLES (Continued)

An aging analysis of the trade and bill receivables at the end of the reporting period, based on invoice date is as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| 0–30 days | 9,133 | 4,343 |
| 31–60 days | 479 | 1,264 |
| 61–90 days | – | 1,137 |
| 91–180 days | 1,927 | 127 |
| Over 180 days but within one year | 4,779 | 1,817 |
| | 16,318 | 8,688 |

The aging of trade and bill receivables which are past due but not impaired are as follows:

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| 31–60 days | 479 | 1,264 |
| 61–90 days | – | 1,137 |
| 91–180 days | 1,927 | 127 |
| Over 180 days but within one year | 4,779 | 1,817 |
| | 7,185 | 4,345 |

For the year ended 31 December 2015, trade debtors that were not impaired nor past due related to customers for whom there was no recent history of default. Based on historical experience, management believe that no impairment loss shall be recognised as there has not been a significant change in credit quality and the balances are still considered recoverable (2014: Nil).

The directors consider that the fair values of trade receivables were not materially different from their carrying value because these amounts have short maturity period on their inception.

For the Group's mining operation, sales of molybdenum concentrates are largely on cash basis with no credit terms being granted to customers, except for sizable customers with good credit history, the Group will allow a credit term not more than 30 days.

## 24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2015, included in balance of prepayments, deposits and other receivables were loan receivables amounted to approximately HK$173,154,000 (RMB145,000,000) (2014: HK$183,243,000 (RMB145,000,000)) granted to the non-controlling shareholders of Jiu Long Kuang Ye, a principal subsidiary of the Group operating in exploitation of molybdenum mine. The loan receivables were secured by the non-controlling shareholders' respective shareholdings in Jiu Long Kuang Ye, carried at an interest rate of 3% per annum and recoverable in one year.

## 25. SHARE CAPITAL

| | Notes | Number of shares '000 | Nominal value HK$'000 |
|---|---|---|---|
| ***Authorised:*** | | | |
| Ordinary shares of HK$0.016 each | | | |
| At 1 January 2014, at 31 December 2014, at 1 January 2015 and 31 December 2015 | | 31,250,000 | 500,000 |
| ***Issued and fully paid:*** | | | |
| At 1 January 2014 | | 14,432,616 | 230,921 |
| Conversion of convertible notes | (a) | 2,170,000 | 34,720 |
| At 31 December 2014 and at 1 January 2015 | | 16,602,616 | 265,641 |
| Issuance of consideration shares | (b) | 400,000 | 6,400 |
| Placing of shares | (c) | 2,900,000 | 46,400 |
| At 31 December 2015 | | 19,902,616 | 318,441 |

The movements in the Company's share capital are summarised as follows:

(a) On 13 June 2014, the holder of the CN Option has subscribed and exercised part of the CN Option at the exercise price of HK$0.29 for a total number of 150,000,000 ordinary shares. The proceeds amounted to approximately HK$43,500,000 was intended to be used for general working capital purpose;

On 2 July 2014, the holder of the CN Option has subscribed and exercised part of the CN Option at the exercise price of HK$0.29 for a total number of 150,000,000 ordinary shares. The proceeds amounted to approximately HK$43,500,000 was intended to be used for funding the proposed investment in 100% equity of China Potassium Shares Company Limited;

On 18 July 2014, the holder of the CN Option has subscribed and exercised part of the CN Option at the exercise price of HK$0.29 for a total number of 1,870,000,000 ordinary shares. The proceeds amounted to approximately HK$542,300,000 was intended to be used for funding the proposed investment in 100% equity of China Potassium Shares Company Limited. All new shares issued ranked pari passu with the existing shares.

## 25. SHARE CAPITAL (Continued)

(b) The Board announced that on 24 July 2015, the Company entered into an acquisition agreement with the vendor, pursuant to which the Company conditionally agreed to acquire 65% equity interest of a target company from vendor at a total consideration of HK$949,800,000.

The consideration shall be satisfied by the Company in the following manner:

(i) HK$100,000,000 shall be paid by way of issue and allotment of 400,000,000 consideration shares at the issue price within 10 business days upon the signing of the acquisition agreement; and

(ii) HK$849,800,000 shall be paid by way of issue of the promissory note upon the completion.

On 31 July 2015, 400,000,000 consideration shares at the issue price HK$0.25 were issued to the vendor.

The proposed acquisition was terminated by the parties on 15 December 2015. Pursuant to the termination agreement, the vendor shall refund the deposit in the amount of HK$100,000,000 (i.e. equivalent to the cash value of the consideration shares) in full to the Company on or before 15 March 2016.

(c) On 2 September 2015, the Company and Driven Innovation Limited, the placee, entered into the placing agreement pursuant to which the Company has conditionally agreed to allot and issue, and the placee has conditionally agreed to subscribe for 2,900,000,000 placing shares at a price of HK$0.08 each. The Placing was completed on 17 September 2015.

All new shares issued ranked pari passu with the existing shares in all respects.

## 26. RESERVES

### The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 32 of the annual report.

## 27. DEFERRED TAX LIABILITIES

| | Mining rights HK$'000 |
|---|---|
| At 1 January 2014 | 492,579 |
| Credit to profit or loss | (43,337) |
| Exchange adjustments | (2,135) |
| At 31 December 2014 and 1 January 2015 | 447,107 |
| Credit to profit or loss | (125,706) |
| Exchange adjustments | (19,600) |
| At 31 December 2015 | 301,801 |

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2015 (2014: Nil).

## 28. TRADE AND BILL PAYABLES

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| 0–30 days | 6,699 | 17,979 |
| 31–60 days | 396 | 3,141 |
| 61–90 days | 103 | 4,487 |
| 91–180 days | 1,076 | 18,827 |
| Over 180 days but within one year | 68,389 | 19,220 |
| | 76,663 | 63,654 |

The directors consider that the carrying amounts of trade and bill payables approximate to their fair values at the end of reporting period.

## 29. PROVISION FOR ENVIRONMENTAL AND RESOURCES TAX

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| Environmental and resources tax | 95,534 | 101,099 |

As at 31 December 2015, a subsidiary of the Group was subject to immediate payment of the environmental and resources tax imposed by the local authorities in the amount of approximately HK$95,534,000 (RMB80,000,000) (2014: HK$101,099,000 (RMB80,000,000)) arising upon renewal of its mining license.

## 30. OTHER PAYABLES AND ACCRUALS

All of the Group's and the Company's other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

The directors consider that the carrying amounts of other payables and accruals approximate to their fair values at the end of reporting period.

## 31. BANK LOANS AND OTHER BORROWINGS

| | **2015**<br>**HK$'000** | 2014<br>HK$'000 |
|---|---|---|
| Interest bearing bank loans, secured and other borrowings | **100,908** | 171,248 |

As at 31 December 2015, the Group's interest bearing bank loans were carried at effective interest rates from 7.2% to 9.5% per annum and were secured by (i) a guarantee from an independent insurance company; (ii) the molybdenum concentrate as included in inventories; (iii) guarantees from a subsidiary of the Group and the subsidiary's minority shareholders; and (iv) personal guarantee from the subsidiary's minority shareholders.

## 32. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, carried at interest rate of 12% per annum and repayment on demand. The related parties are those minority shareholders and directors of the Group's subsidiary.

## 33. CONTINGENT LIABILITIES AND ASSETS AND CAPITAL COMMITMENTS

### Contingent liabilities:

The Group had no other material contingent liabilities as at 31 December 2015 (2014: Nil).

### Contingent assets:

During the year ended 31 December 2015, the Group disposed of the land and property rights of Xian Communication University Second Affiliated Middle School Southern District ("Middle School") at a cash consideration of RMB50 million. The Middle School was a compensation asset receivable by the Group resulting from a fraud transaction taken by a minority shareholder of the Group's subsidiary who had surrendered a property development project held by the Group to Xian Government without the Company's knowledge or consent in previous years.

### Capital commitments:

As at 31 December 2015, the Group does not have any material capital commitments (2014: Nil).

## 34. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Within one year | **5,531** | 5,171 |
| In the second to fifth years inclusive | **13,315** | 15,303 |
| After fifth years inclusive | **21,404** | 25,623 |
| | **40,250** | 46,097 |

## 35. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these consolidated financial statements, the Group has the following balances and transactions with related parties:

**(a)** At the end of the reporting period, the Group entered into the following balances with related parties:

| | **Amounts due from related parties** | | **Amounts due to related parties** | |
|---|---|---|---|---|
| | **2015** **HK$'000** | 2014 HK$'000 | **2015** **HK$'000** | 2014 HK$'000 |
| Related parties | **–** | – | **52,527** | 54,266 |

The amounts outstanding are unsecured and will be settled in cash. No guarantee has been given or received. No expenses have been recognised in the period for bad or doubtful debts in respect of the amounts due from related parties.

### (b) Compensation of key management personnel

Remuneration for key management personnel, including amount paid to the Company's directors and certain of the highest paid employees, as disclosed in notes 10 and 11 to the consolidated financial statements is follows:

| | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|
| Short-term employee benefits | **3,659** | 1,351 |
| Mandatory Provident Fund contribution | **84** | 30 |
| | **3,743** | 1,381 |

## 36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2015, the Group has entered into an acquisition agreement with a vendor, including in the consideration, the amount of HK$100,000,000 was paid by way of issue and allotment of 400,000,000 consideration shares. The proposed acquisition was terminated by the parties. Please refer to the announcement dated on 15 December 2015 for further details.

## 37. ACQUISITION OF A SUBSIDIARY

On 31 July 2015, the Group acquired 100% equity interest in Luo Nan Xian Rong Sen Kuang Ye Company Limited ("Rong Sen") from an independent third party at a cash consideration of RMB70,000,000 (approximately equivalent to HK$89,172,000).

The fair value of the identifiable assets and liabilities of Rong Sen as at date of acquisition were as follows:

| | HK$'000 |
|---|---|
| Property, plant and equipment | 39,074 |
| Cash and bank balances | 277 |
| Inventories | 10,976 |
| Other receivables | 58,623 |
| Trade payables | (2,650) |
| Other payables | (30,531) |
| | 75,769 |
| Goodwill | 13,403 |
| Total consideration | 89,172 |
| Cash consideration | 89,172 |
| Cash and bank balances | (277) |
| Net cash outflow arising on acquisition | 88,895 |

Included in the loss for the year was approximately HK$2,507,000 attributable to Rong Sen. Had the acquisition been completed on 1 January 2015, total group revenue for the year would have been approximately HK$262,978,000, and loss for the year would have been approximately HK$710,260,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations, of the Group that actually would have been achieved had the acquisition been completed on 1 January 2015, nor is it intended to be a projection of future results.

## 38. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **2,001,505** | 2,567,298 |
| **Financial liabilities** | | |
| Amortised cost | **365,688** | 471,389 |

## 39. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's treasury department, including the board of directors meets periodically to analyse and formulate strategies to manage and monitor the Group's exposure to variety of risk associate with financial instruments which arise from the Group's operating and investing activities. Generally, the Group employs conservative strategies regarding its risk management to ensure appropriate measures are implemented on a timely and effective manner. The risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

### (a) Market risk

#### (i) Foreign exchange risk

The business transactions of the Group conducted during the year were mainly denominated and settled in either RMB or HKD. The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the needs arise.

Based on the market condition at end of reporting period, the Group determined that it is reasonably possible for RMB to strengthen/weaken by 10% against HKD in the coming twelve months (2013: 10%). Hence, 10% are the sensitivity rates used in the current year when reporting foreign currency risk internally to key management personnel and represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and based on the assumption that other variables are held constant. A positive number below indicates an increase in profit or equity where RMB strengthens 10% against HKD. For a 10% weakening of RMB against HKD, there would be a comparable impact on the profit or equity, and the balances below would be negative.

## 39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (a) Market risk (Continued)

#### (i) Foreign exchange risk (Continued)

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Profit or loss[1] | 67,339 | 273,240 |
| Equity[2] | 185,496 | 744,222 |

Notes:

(1) This is mainly attributable to the exposure outstanding on receivable and payable denominated in RMB at the end of the reporting period.

(2) This is mainly attributable to the reserves which are denominated in RMB included in equity at the end of the reporting period.

(3) In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

#### (ii) Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amounts with floating interest rate except for bank borrowings. The sensitivity analysis below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points increase or decrease in interest rate is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2014: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2015 would decrease/increase by HK$504,538 (2014: HK$856,242). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings. Changes in interest rates have no impact on other comprehensive income for the year ended 31 December 2015 (2014: Nil).

#### (iii) Other price risk

As at 31 December 2015, the Group did not exposed to equity price risks as the Group did not have any equity investments at the end of the reporting period.

## 39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Credit risk on trade receivable is minimal because most of the transactions related to mining operation were made on cash basis with no credit term given to its customers, except for sizable customers and with good credit history with the Group.

Credit risk on cash and bank balances is mitigated as counterparties are banks or financial institutions with high credit rating which is issued by some international external rating agencies.

Credit risk of deposit and other receivables is significantly mitigated as the Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivables balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31 December 2015 and 2014, the Group has held collateral which are mining rights held by the counterparty, over its financial assets in respect of promissory notes receivables.

### (c) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term. The Group has net current assets of approximately HK$2,060,847,000 (2014: HK$1,157,068,000) and net assets of approximately HK$3,675,230,000 at 31 December 2015 (2014: HK$4,323,974,000). In the opinion of directors, the Group's exposure to liquidity risk is limited.

The following table details the remaining contractual maturities at each of end of reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rate or, if floating based on current rates at end of reporting period) and the earliest date the Group may be required to pay:

## 39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Liquidity risk (Continued)

**2015**

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | Over 1 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade and bill payables | – | 76,663 | – | – | – | 76,663 |
| Other payables and accruals | – | 135,590 | – | – | – | 135,590 |
| Bank loans and other borrowings | 7.2–9.5 | – | – | 100,908 | – | 100,908 |
| Amount due to related parties | 12 | – | 52,527 | – | – | 52,527 |
| | | 212,253 | 52,527 | 100,908 | – | 365,688 |

2014

| | Weighted average interest rate % | On demand or less than 1 month HK$'000 | 1–3 months HK$'000 | 3 months to 1 year HK$'000 | Over 1 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Trade and bill payables | – | 63,654 | – | – | – | 63,654 |
| Other payables and accruals | – | 182,221 | – | – | – | 182,221 |
| Bank loans and other borrowings | 7.2–9.53 | – | – | 171,248 | – | 171,248 |
| Amount due to related parties | 12 | – | 54,266 | – | – | 54,266 |
| | | 245,875 | 54,266 | 171,248 | – | 471,389 |

## 39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (d) Fair value of financial instruments

The directors of the Company consider the fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts as stated in the consolidated statement of financial position because of the immediate or short-term maturity of these financial instruments. Accordingly, the analysis on fair values of non-current financial assets and liabilities were not disclosed because these are not materially different from their carrying amount.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**2015**

| | **Level 1 HK$'000** | **Level 2 HK$'000** | **Level 3 HK$'000** | **Total HK$'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Other financial assets | **–** | **1,045,628** | **–** | **1,045,628** |
| **Financial liabilities** | | | | |
| Other financial liabilities | **–** | **–** | **–** | **–** |

2014

| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Financial assets | | | | |
| Other financial assets | – | 1,798,361 | – | 1,798,361 |
| Financial liabilities | | | | |
| Other financial liabilities | – | – | – | – |

## 40. CAPITAL MANAGEMENT

Capital includes equity attributable to the equity holders of the Company. The primary objectives of the Group's capital management are:

(a) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(b) To support the Group's stability and growth; and

(c) To provide capital for the purpose of the strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures, and projected strategic investment opportunities. The Group has not adopted any formal dividend policy.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's total capital comprises all components of equity and net debt includes bank borrowing, trade and bill payables, other payables and accruals and amounts due to related parties, less cash and cash equivalents:

The Group's gearing ratio at 31 December 2015 and 2014 was as follows:

| | Group | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| Debts | **365,688** | 471,389 |
| Cash and cash equivalents | **(225,362)** | (102,238) |
| Net debts | **140,326** | 369,151 |
| Equity | **3,675,230** | 4,323,974 |
| Gearing ratio | **3.82%** | 8.54% |

## 41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 31 December 2015 HK$'000 | 31 December 2014 HK$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-Current Assets** | | |
| Interests in subsidiaries | **2,149,829** | 2,594,414 |
| | **2,149,829** | 2,594,414 |
| **Current Assets** | | |
| Prepayments, deposits and other receivables | **744** | 48,639 |
| Investment deposit | **100,000** | – |
| Cash and cash equivalents | **1,305** | 7 |
| | **102,049** | 48,646 |
| **Total Assets** | **2,251,878** | 2,643,060 |
| **EQUITY** | | |
| **Equity attributable to owners of the Company** | | |
| Share capital | **318,441** | 265,641 |
| Reserves | **1,931,506** | 2,375,498 |
| **Total Equities** | **2,249,947** | 2,641,139 |
| **LIABILITIES** | | |
| **Current Liabilities** | | |
| Other payables and accruals | **1,931** | 1,921 |
| **Total Liabilities** | **1,931** | 1,921 |
| **Total Equities and Liabilities** | **2,251,878** | 2,643,060 |
| **Net Current Assets** | **100,118** | 46,725 |
| **Total Assets less Current Liabilities** | **2,249,947** | 2,641,139 |
| **Net Assets** | **2,249,947** | 2,641,139 |

Approved and authorised for issue by the board of directors on 16 March 2016.

**Yang Ying Min**
*Director*

**Qian Yi Dong**
*Director*

## 41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

| | Share premium HK$'000 | Contribution surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2014 | 2,688,625 | 115,615 | (1,185,385) | 1,618,855 |
| Loss for the year | – | – | (143,537) | (143,537) |
| Conversion of convertible notes | 594,580 | – | 305,600 | 900,180 |
| At 31 December 2014 and 1 January 2015 | 3,283,205 | 115,615 | (1,023,322) | 2,375,498 |
| Loss for the year | – | – | (723,192) | (723,192) |
| Issuance of consideration shares | 93,600 | – | – | 93,600 |
| Placing of shares | 185,600 | – | – | 185,600 |
| At 31 December 2015 | 3,562,405 | 115,615 | (1,746,514) | 1,931,506 |

## 42. PRINCIPALS SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are as follows:

| Name of subsidiary | Place of incorporation/ establishment | Registered capital/ issued capital | Percentage of equity interests attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Sun Man Tai International (B.V.I.) Limited | British Virgin Islands | Ordinary HK$274,051 | 100% | – | Investment holding |
| Golden Finance Company Limited | Hong Kong | Ordinary HK$2,000,000 | – | 100% | Investment holding |
| Shanghai Yuan Bei Trading Limited | PRC | Registered capital RMB30,000,000 | – | 100% | Investment holding |
| BOC Mantai Property Management (Shanghai) Corporation Limited | PRC | Registered capital US$200,000 | – | 100% | Properties management |
| Shaanxi Province Luo Nan Xian Jiulong Kuangye Company Limited ("Jiulong Kuangye") | PRC | Registered capital RMB90,000,000 | – | 65% | Exploration and exploitation of molybdenum mines, sales of molybdenum concentrates |

The above list contains only particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

## 43. MATERIAL NON-CONTROLLING INTERESTS

Included in the consolidated statement of profit or loss and other comprehensive income, the loss attributed to the total non-controlling interest for the year ended 31 December 2015 was approximately HK$273,743,000 (2014: HK$50,740,000), which was totally attributed to Jiulong Kuangye. There are no transactions with non-controlling interests.

Details of the Jiulong Kuangye that have material non-controlling interests are set out below:

| | 2015<br>% | 2014<br>% |
|---|---|---|
| Percentage of equity interest held by non-controlling interests | **35** | 35 |

Summarised financial information for the subsidiary as set out below:

### Summarised statement of financial position of Jiulong Kuangye

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Non-current assets | **1,607,831** | 2,340,950 |
| Current assets | **713,592** | 276,385 |
| Total assets | **2,321,423** | 2,617,335 |
| Non-current liabilities | **301,801** | 447,107 |
| Current liabilities | **1,525,832** | 836,097 |
| Total liabilities | **1,827,633** | 1,283,204 |
| Equity | **493,790** | 1,334,131 |

## 43. MATERIAL NON-CONTROLLING INTERESTS (Continued)

### Summarised statement of profit or loss and other comprehensive income of Jiulong Kuangye

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Revenue | 238,225 | 447,633 |
| Loss before income tax | (907,828) | (181,368) |
| Taxation | 125,706 | 36,395 |
| Total comprehensive loss | (782,122) | (144,973) |
| Total comprehensive loss allocated to non-controlling interests | (273,743) | (50,740) |

### Summarised statement of cash flow of Jiulong Kuangye

| | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|
| Net cash generated from operating activities | 473,888 | 339,089 |
| Net cash used in investing activities | (237,583) | (265,969) |
| Net cash used in financing activities | (80,393) | (78,822) |
| Net increase/(decrease) in cash | 155,912 | (5,702) |
| Cash at beginning of the year | 4,369 | 5,603 |
| Effect of foreign exchange rate changes, net | (11,191) | 4,468 |
| Cash at end of the year | 149,090 | 4,369 |

## 44. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 16 March 2016.

# Summary of Financial Information

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **245,969** | 454,948 | 158,524 | 369,702 | 391,035 |
| (Loss)/Profit from operations | **(818,703)** | (232,703) | 150,200 | (1,046,833) | (859,459) |
| Finance costs | **(16,949)** | (19,619) | (22,708) | (12,071) | (11,722) |
| Share of results of an associate | **–** | – | (138) | (134) | – |
| (Loss)/Profit before tax | **(835,652)** | (252,322) | 127,354 | (1,059,038) | (871,181) |
| Taxation | **125,890** | 36,392 | 19,758 | 90,492 | 151,407 |
| (Loss)/Profit for the year | **(709,962)** | (215,930) | 147,112 | (968,546) | (719,774) |
| Attributable to: | | | | | |
| Owners of the Company | **(436,220)** | (165,189) | 194,012 | (852,471) | (487,522) |
| Non-controlling interests | **(273,742)** | (50,741) | (46,900) | (116,075) | (232,252) |
| (Loss)/Profit for the year | **(709,962)** | (215,930) | 147,112 | (968,546) | (719,774) |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total Assets | **4,462,382** | 5,369,011 | 4,894,754 | 4,926,155 | 6,129,099 |
| Total Liabilities | **(787,152)** | (1,045,037) | (1,290,414) | (1,652,615) | (1,089,226) |
| | **3,675,230** | 4,323,974 | 3,604,340 | 3,273,540 | 5,039,873 |
| Equity attributable to: | | | | | |
| Owners of the Company | **3,540,704** | 3,915,705 | 3,143,071 | 2,782,507 | 3,234,234 |
| Non-controlling interests | **134,526** | 408,269 | 461,269 | 491,033 | 1,805,639 |
| | **3,675,230** | 4,323,974 | 3,604,340 | 3,273,540 | 5,039,873 |