# NORTH MINING SHARES COMPANY LIMITED

# 北方礦業股份有限公司

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 433)**

## ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The board of directors (the "Board") of North Mining Shares Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2010, together with the comparative figures for the year ended 31 December 2009, as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2010*

| | Notes | **2010**<br>***HK$'000*** | 2009<br>*HK$'000* |
|---|---|---|---|
| **Turnover** | *3(a)* | **384,543** | 85,498 |
| Cost of sales | | **(254,413)** | (48,966) |
| **Gross profit** | | **130,130** | 36,532 |
| Other income and gains | *3(b)* | **5,330** | 1,031,890 |
| Administrative expenses | | **(77,396)** | (37,126) |
| Other operating expenses | | **(986,965)** | (277,300) |

| | Notes | **2010** | 2009 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **(Loss)/Profit from operations** | | **(928,901)** | 753,996 |
| Finance costs | *5* | **(1,157)** | (324) |
| Share of results of associates | | **—** | (652) |
| **(Loss)/Profit before income tax** | *6* | **(930,058)** | 753,020 |
| Taxation | *7* | **83,017** | 22,981 |
| **(Loss)/Profit for the year** | | **(847,041)** | 776,001 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(688,783)** | 781,694 |
| Minority interests | | **(158,258)** | (5,693) |
| | | **(847,041)** | 776,001 |
| **Dividends** | *8* | **—** | — |
| **(Loss)/Earning per share for (loss)/profit attribute to the equity holders of the Company** | | | |
| Basic, HK cents | *9(a)* | **(5.76)** | 8.06 |
| Diluted, HK cents | *9(b)* | **(5.76)** | 7.97 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2010*

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss)/Profit for the year** | **(847,041)** | 776,001 |
| **Other comprehensive income (Net of tax effect):** | | |
| Surplus on revaluation of exploration and evaluation assets | **—** | 1,788,024 |
| Exchange differences arising from: translation of foreign subsidiaries | **181,048** | (271) |
| **Other comprehensive income for the year** | **181,048** | 1,787,753 |
| **Total comprehensive (loss)/income for the year** | **(665,993)** | 2,563,754 |
| **Attributable to:** | | |
| Equity holders of the Company | **(535,758)** | 1,693,304 |
| Minority interests | **(130,235)** | 870,450 |
| | **(665,993)** | 2,563,754 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
*As at 31 December 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | | **239,516** | 251,520 |
| Investment properties | | **153,501** | 263,128 |
| Interests in associates | | **—** | 32,633 |
| Prepaid lease payments | | **89,423** | 87,817 |
| Exploration and evaluation assets | | **3,340,576** | 3,314,575 |
| Mining rights | | **3,318,288** | 3,149,583 |
| | | **7,141,304** | 7,099,256 |
| **Current Assets** | | | |
| Inventories | | **193,879** | 69,475 |
| Trade receivables | *10* | **—** | 2,525 |
| Prepayments, deposits and other receivables | | **166,909** | 130,557 |
| Tax recoverable | | **11,349** | 3,464 |
| Cash and cash equivalents | | **138,381** | 94,698 |
| | | **510,518** | 300,719 |
| **Total assets** | | **7,651,822** | 7,399,975 |
| **EQUITY** | | | |
| **Equity attributable to Company's equity holders** | | | |
| Share capital | | **200,961** | 155,129 |
| Reserves | | **3,509,187** | 3,516,463 |
| | | **3,710,148** | 3,671,592 |
| Minority interests | | **2,144,985** | 2,202,083 |
| **Total equity** | | **5,855,133** | 5,873,675 |
| **LIABILITIES** | | | |
| **Non-Current Liabilities** | | | |
| Deferred tax liabilities | | **1,429,389** | 1,391,174 |
| Provision for environmental and resources tax | | **118,078** | — |
| Bank borrowings | | **—** | 10,565 |
| | | **1,547,467** | 1,401,739 |
| **Current Liabilities** | | | |
| Trade payables | *11* | **22,610** | 18,740 |
| Other payables and accruals | | **121,124** | 50,910 |
| Bank borrowings | | **105,254** | 32,381 |
| Amounts due to related parties | | **—** | 22,530 |
| Tax payable | | **234** | — |
| | | **249,222** | 124,561 |
| **Total liabilities** | | **1,796,689** | 1,526,300 |
| **Total equity and liabilities** | | **7,651,822** | 7,399,975 |
| **Net current assets** | | **261,296** | 176,158 |
| **Total assets less current liabilities** | | **7,402,600** | 7,275,414 |
| **Net assets** | | **5,855,133** | 5,873,675 |

# NOTES

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of investment properties and exploration and evaluation assets which are stated at fair values.

The preparation of consolidated financial statements in accordance with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

### 2.1 Standards and Interpretations adopted in the current period

In the current year, the Group has adopted the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are relevant to and effective for the Group's financial period beginning on 1 January 2010:

| | |
|---|---|
| HKFRSs (Amendments) | Amendment to HKFRS 5 as part of Improvements to HKFRS 2008 |
| HKFRSs (Amendments) | Improvements to HKFRS 2009 |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 1 (Revised) | First-time Adoption of HKFRSs |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (Revised) | Business Combinations |
| HK-Int 5 | Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |
| HK(IFRIC)-Int 17 | Distributions of Non-cash assets to Owners |

Except as described below, the adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

*HKFRS 3 (as revised in 2008) — Business Combination*

HKFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

The impact of the application of HKFRS 3 (as revised in 2008) is as follows:

(a) HKFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' shares of recognised identifiable net assets of the acquire.

(b) HKFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or liability are recognised in profit or loss.

(c) HKFRS 3 (as revised in 2008) requires the recognition of a settlement gain or loss when the business combination in effect settles a pre-existing relationship between the Group and the acquiree.

(d) HKFRS 3 (as revised in 2008) requires acquisition-related cost to be accounted for separately from the business combination, generally leading to those costs being recognised as an expenses in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

The impact of adoption of HKFRS 3 (as revised in 2008) on the acquisition during the current period has been related to the acquisition-related costs. It requires acquisition-related costs to be accounted for separately from the business combination. As a result, the Group has recognised these costs as expenses in profit or loss. The acquisition costs in the current period were insignificant.

*Amendment to HKAS 17 Leases*

As part of Improvements to HKFRSs issued in 2009, HKAS 17 Leases has been amended in relation to the classification of leasehold land. Before the amendment to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendment to HKAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases. The application of amendment to HKAS 17 had no material effect on the consolidated financial statements.

## 2.2 Standards and Interpretations in issued but not yet adopted

The Group has not early applied any of the following new and revised standards, amendments and interpretations which have been issued but are not yet effective for annual periods beginning on 1 January 2010:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 except for the amendments to HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28[1] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for Firs-time Adopters[3] |
| HKFRS 1 (Amendment) | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[5] |
| HKFRS 7 Amendments) | Disclosures — Transfers of Financial Assets[5] |
| HKFRS 9 | Financial Instruments[7] |
| HKAS 12 (Amendment) | Deferred Tax: Recovery of Underlying Assets[6] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 2 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 July 2011
6 Effective for annual periods beginning on or after 1 January 2012
7 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition. Specifically, under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of HKFRS 9 will have no significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities.

The directors of the Company anticipate that the application of the other new and revised standards or interpretations will have no material impact on the Group's results and the financial position of the Group.

## 3. TURNOVER

For the year ended 31 December 2010, turnover for the Group was composed of rental income, sales of molybdenum concentrate and property management fee income. An analysis of the Group's turnover and other income and gains is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| **(a) Turnover** | | |
| Sales of molybdenum concentrate | **373,093** | 70,671 |
| Sales of sulfuric acid | **7,706** | — |
| Rental income | **—** | 11,067 |
| Property management fee income | **3,744** | 3,760 |
| | **384,543** | 85,498 |
| **(b) Other income and gains** | | |
| Royalty income | **—** | 1,678 |
| Compensation income | **4,723** | 34,024 |
| Bank interest income | **163** | 86 |
| Negative goodwill arising from business combinations | **—** | 993,555 |
| Gain on disposal of associates | **—** | 2,261 |
| Sundry income | **444** | 286 |
| | **5,330** | 1,031,890 |

## 4. 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

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

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

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

## 4.1 Operating segment information

### For the year ended 31 December 2010

*Segment revenue and results*

| | Property leasing HK$'000 | Property management HK$'000 | Mining operation: Mining exploitation HK$'000 | Mining operation: Mining exploration HK$'000 | Other HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| Segment turnover | — | 3,744 | 380,799 | — | — | 384,543 |
| **Result** | | | | | | |
| Segment result | (137,019) | 4 | (511,426) | (189,593) | — | (838,034) |
| Unallocated income | | | | | | 5,330 |
| Unallocated corporate expenses | | | | | | (97,354) |
| Share of result of associates | | | | | | — |
| Loss before tax | | | | | | (930,058) |
| Income tax | | | | | | 83,017 |
| Loss for the year | | | | | | (847,041) |

*Segment assets and liabilities*

| | Property leasing HK$'000 | Property management HK$'000 | Mining operation: Mining exploitation HK$'000 | Mining operation: Mining exploration HK$'000 | Other HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Segment assets** | 187,852 | 1,146 | 3,468,752 | 3,789,575 | 204,497 | 7,651,822 |
| **Segment liabilities** | 21 | 834 | 1,079,280 | 711,782 | 4,772 | 1,796,689 |

For the year ended 31 December 2009

*Segment revenue and results*

| | | | Mining operation | | | |
|---|---|---|---|---|---|---|
| | Property leasing | Property management | Mining exploitation | Mining exploration | Other | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Revenue** | | | | | | |
| Segment turnover | 11,067 | 3,760 | 70,671 | — | — | 85,498 |
| **Result** | | | | | | |
| Segment result | (179,239) | 86 | 1,003,272 | — | (67,175) | 756,944 |
| Unallocated income | | | | | | 4,311 |
| Unallocated corporate expenses | | | | | | (7,259) |
| Share of result of associates | | | | | | (652) |
| Finance costs | | | | | | (324) |
| Profit before tax | | | | | | 753,020 |
| Income tax | | | | | | 22,981 |
| Profit for the year | | | | | | 776,001 |

*Segment assets and liabilities*

| | | | Mining operation | | | |
|---|---|---|---|---|---|---|
| | Property leasing | Property management | Mining exploitation | Mining exploration | Other | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Segment assets** | 288,632 | 5,411 | 3,315,740 | 3,549,054 | 241,138 | 7,399,975 |
| **Segment liabilities** | 1,422 | 240 | 595,886 | 918,725 | 10,027 | 1,526,300 |

1. Segment result represents the profit earned by each segment without allocation of corporate income and expenses, central administrative expenses, directors' salaries and finance cost. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

2. 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.

— all liabilities are allocated to reportable segments other than derivative financial instruments, bank borrowings, deferred tax liabilities and liabilities for which reportable segments are jointly liable.

### 4.2 Geographical information

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** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **—** | — | **2,149** | 8,896 |
| The PRC | **384,543** | 85,498 | **7,649,673** | 7,391,079 |
| | **384,543** | 85,498 | **7,651,822** | 7,399,975 |

## 5. FINANCE COSTS

| | **Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank loans wholly repayable within five years | **1,157** | 324 |

## 6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/profit before income tax is arrived at after charging:

| | **Group** | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Amortisation of intangible assets | **—** | 1,696 |
| Amortisation of prepaid lease payments | **2,243** | 1,967 |
| Amortisation of mining rights | **54,253** | 6,744 |
| Fair value loss on investment properties | **145,236** | 118,588 |
| Impairment loss on property under development | **—** | 84,794 |
| Impairment loss on mining rights | **343,678** | — |
| Impairment loss on inventories | **744** | — |
| Impairment loss on associates | **33,312** | 13,237 |
| Impairment loss on intangible assets | **—** | 30,723 |
| Impairment loss on prepayments, deposits and other receivables | **114** | 2,681 |
| Impairment loss on property, plant and equipment | **16,386** | 4,280 |
| Impairment loss on goodwill | **189,593** | 12,591 |

## 7. TAXATION

No provision for Hong Kong profit tax has been made in the consolidated financial statements as the Company and its subsidiaries operated in Hong Kong either incurred taxation loss or had no assessable profit for the year (2009: Nil).

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| PRC | **22,029** | 1,859 |
| Under provision in prior years | **—** | 15 |
| Deferred tax | **(105,046)** | (24,855) |
| | **(83,017)** | (22,981) |

Hong Kong profit tax has been provided at the rate of 16.5% (2009: 16.5%). The PRC enterprise income tax has been provided at the rate of 25% (2009: 25%).

## 8. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2010 (2009: Nil).

## 9. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share amount is based on the net loss for the year of HK$688,783,000 (2009: profit of HK$781,694,000) attributable to equity holders of the Company, and weighted average of 11,952,149,325 (2009: 9,695,585,425) ordinary shares in issue during the year.

### (b) Diluted (loss)/earnings per share

The calculation of diluted earnings per share is based on the loss attributable to ordinary equity holders of the Company of approximately HK$688,783,000 (2009: profit of HK$781,694,000) and the weighted average number of ordinary shares of 11,952,149,325 (2009: 9,804,191,616) shares, calculated as follows:

*Weighted average number of ordinary shares (diluted)*

| | **2010** | 2009 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares at 31 December 2010/2009 | **11,952,149** | 9,695,586 |
| Effect of deemed issue of share for acquisition of a subsidiary | **—** | 108,606 |
| Weighted average number of ordinary shares (diluted) at 31 December 2010/2009 | **11,952,149** | 9,804,192 |

## 10. TRADE RECEIVABLES

An ageing analysis of the account receivables as at the end of the reporting year, based on invoice date and net of provisions, is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| 0 – 30 days | **—** | 2,525 |

The directors of the Group consider that the fair value of account receivables are not materially different from their amounts because these amounts have short maturity period on their inception.

## 11. TRADE PAYABLES

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Due within 1 month or on demand | **22,610** | 18,740 |

The amounts of account payables are short term and hence the carrying values of account payables are considered to be a reasonable approximation of fair value.

# MANAGEMENT DISCUSSION AND ANALYSIS

# OVERALL FINANCIAL PERFORMANCE

During the year under review, the Group recorded a turnover of approximately HK$384,543,000, representing an increase of 3.5 times over 2009 (2009: approximately HK$85,498,000). Such increase is mainly due to the increase in turnover from the Group's mining business operations during the year. The turnover attributable to mining business operations amounted to HK$380,799,000 for the year ended 31 December 2010 (2009: approximately HK$70,671,000).

For the year ended 31 December 2010, the Group recorded a loss attributable to equity holders of the Company of approximately HK$688,783,000 (2009: profit of approximately HK$781,694,000), representing a significant decrease as compared to the year 2009. The substantial reduction in profit is mainly due to the negative goodwill of approximately HK$993,555,000 arising from the acquisition of Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited ("Jiu Long Kuang Ye") during 2009 and the impairment loss on mining rights of Jiu Long Kuang Ye of approximately HK$343,678,000.

## BUSINESS REVIEW

The principal activities of the Group are (i) mining operations — exploitation and exploration; (ii) property leasing operations; and (iii) property management operations. An analysis of each of these business segments is presented below:

### Mining Operations — Exploitation and Exploration

** Shaanxi Province Luo Nan Xian Jiu Long Kuang Ye Company Limited (陝西省洛南縣九龍礦業有限公司)*

During the year under review, the volume of molybdenum concentrate produced by the molybdenum mine operated by Jiu Long Kuang Ye was about 3,770 tonnes. The sales volume of molybdenum concentrate was about 3,730 tonnes, whereas the grade of molybdenum concentrate was approximately 42–45%. The average selling price of molybdenum concentrate was about HK$100,012 per tonne. During the year under review, Jiu Long Kuang Ye contributed a revenue of approximately HK$380,799,000 (2009: approximately HK$70,671,000) for the Group. The cost of sales was about HK$251,449,000 (2009: approximately HK$42,927,000). Gross profit amounted to HK$129,350,000 (2009: approximately HK$27,744,000). Net loss was HK$701,019,000 (2009: Profit of approximately HK$1,003,272,000). The substantial reduction in profit is mainly due to the negative goodwill of approximately HK$993,555,000 arising from the acquisition of Jiu Long Kuang Ye during 2009, the amortization of mining rights of approximately HK$54,253,000 and impairment loss on mining rights of approximately HK$343,678,000. On the assumption of taking no account of the effect of the amortization of mining rights and impairment loss on mining rights, Jiu Long Kuang Ye should have provided a profit contribution of about HK$88,379,000.

During the year under review, the Group was notified by the relevant government authorities that environmental and resources in the total amount of approximately HK$201,406,000 (approximately RMB170,571,000) should be payable for the renewal of the existing mining rights, such tax is related to future exploitation of molybdenum concentrate. During the year ended 31 December 2010, the Group had settled part of the abovementioned tax liability in the amount of approximately HK$83,328,000 (approximately RMB70,000,000).

** Jilin Province Rui Sui Kuang Ye Company Limited* (“Rui Sui Kuang Ye”) (吉林省瑞穗礦業有限公司)*

Rui Sui Kuang Ye has the exploitation rights of an iron mine covering approximately 4.17 km$^2$ in Da Nan Gou, Jin Dou Xiang, Tong Hua Xian, Jilin Province (吉林省通化縣金鬥鄉大南溝) of the PRC. It also holds the exploration rights of a molybdenum mine extending approximately 9.35 km$^2$ located in Fu Song Xian, Baishan City, Jilin Province (吉林省白山市撫松縣) of the PRC.

** Heilongjiang Yi Tong Mining Company Limited ("Yi Tong Mining")*
*(黑龍江伊通礦業有限公司)*

On 28 June 2010, the Group, through entering into an acquisition agreement with Yi Tong Mining, conditionally agreed to acquire 70% of the equity interests in Yi Tong Mining at an aggregate consideration of approximately HK$425,714,000, which has been settled by the payment of RMB240,000,000 (about HK$285,714,000) in cash and by the issue of 500,000,000 consideration shares at an issue price of HK$0.28 per consideration share respectively. The acquisition was completed on 21 July 2010. Yi Tong Mining is principally engaged in the business of exploration and exploitation, production and sales of gold and iron. Yi Tong Mining holds a mine exploitation permit and a mine exploration permit of Dong Feng Lin Gold Iron Mine which is located in Heilongjiang Province, the PRC. According to the "Geological General Exploration Report on Dong Feng Lin Gold Iron Mine, Tie Li City, Heilongjiang Province" (黑龍江省鐵力市東風林金鐵礦場之地質詳查報告) issued by the Yi Chun City Geology Exploration Team (伊春市地質勘查隊) in October 2009, the reserves of gold and iron in the said mine are about 18.19 tonnes and about 41,510,000 tonnes respectively.

**Property leasing operations**

*Changchun, the PRC*

The shopping mall in Changchun City needs to undergo renovation and reconstruction so as to improve its competitive strengths in the city. The upgrading works are scheduled to be completed by the first quarter in 2012. Accordingly, for the year ended 31 December 2010, there was no rental income generated from the shopping mall (2009: approximately HK$11,067,000). The Board expects that the shopping mall will bring stable rental income to the Group upon completion of the renovation and reconstruction works.

*Xian, the PRC*

During the year under review, the Group received a bonus of RMB4,000,000 from Xian Communication University Second Affiliated Middle School Southern District. The procedures for the transfer of land and property rights are still being processed.

**Property management operations**

For the year ended 31 December 2010, the Group recorded a turnover of approximately HK$3,744,000 attributable to its property management business, representing a decrease of about 0.4% as compared to approximately HK$3,760,000 for the year ended 31 December 2009.

* *For indication purposes only*

### Other Business

*Associates*

The Group has an associated company which is principally engaged in the business of manufacturing and trading of pharmaceutical products in the PRC. In year 2009, the associated company terminated its business operations to meet the transport infrastructure plans developed by the local government. As such, for the year ended 31 December 2010, the Group did not record any gain or loss from the associated company (2009: loss of HK$652,000). As this associated company will not resume its business in the future, the directors considered that this associated company would no longer bring economic benefit to the Group and therefore, an impairment of approximately HK$33,312,000 has been recognised during the year under review.

## PROSPECTS

In 2011, the Group will continue to focus on the development of the mining business, and in particular, it will endeavor to enhance its strength in the operation in this sector. At the same time, the Group will continue to keep abreast of the changing market conditions and will adjust its business and operation strategies so as to leverage on the economic growth and thus enlarge our market share. In addition, the Group will continue seeking for investment opportunities with potentials in the PRC or elsewhere with an aim to maximize the return to our shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations with internally generated cashflow. During the year under review, the Group recorded a net cash inflow of approximately HK$43,683,000 (2009: outflow of approximately HK$32,286,000) which was mainly due to the placing and operation from Jiu Long Kuang Ye mines during the year. With the significant amounts of cash on hand amounted to approximately HK$138,381,000 as at 31 December 2010 (2009: approximately HK$94,698,000), the Board considered that the Group's liquidity position is healthy.

As at 31 December 2010, the Group had outstanding bank borrowing in the amount of approximately HK$105,254,000 (2009: approximately HK$42,946,000). The Group's gearing ratio as at 31 December 2010 was 2.9% (2009: 1.2%). The increase in gearing ratio was mainly due to the increase in bank borrowing during the year. Nevertheless, the directors considered that the gearing ratio remains as low level compared to total equity.

The Group is of good liquidity and sufficient solvent ability. As at 31 December 2010, the Group's current ratio was approximately 2.01 (2009: approximately 2.41). The decrease in current ratio was mainly due to the increase in current liabilities in the Group's mining operation during the year under review.

As at 31 December 2010, the Group's debt to equity ratio was approximately 0.48 (2009: approximately 0.42). The increase in debt to equity ratio was mainly due to the increase in bank borrowings during the year under review. The ratio was calculated by dividing the total liabilities of approximately HK$1,796,689,000 (2009: approximately HK$1,526,300,000) by total shareholders' equity of approximately HK$3,710,148,000 (2009: approximately HK$3,671,592,000).

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 2010 mainly comprised of current assets of approximately HK$501,518,000 (2009: approximately HK$300,719,000), current liabilities of approximately HK$249,222,000 (2009: approximately HK$124,561,000) and shareholders' equity of approximately HK$3,710,148,000 (2009: approximately HK$3,671,592,000).

Current assets mainly comprised of cash and cash equivalent of approximately HK$138,381,000 (2009: approximately HK$94,698,000), inventories of approximately HK$193,879,000 (2009: approximately HK$69,475,000) and prepayments, deposits and other receivables of HK$166,909,000 (2009: approximately HK$130,557,000).

Current liabilities mainly comprised of current portion of bank borrowings of approximately HK$105,254,000 (2009: approximately HK$32,381,000), trade payables of HK$22,610,000 (2009: approximately HK$18,740,000) and accruals and other payables of approximately HK$121,124,000 (2009: approximately HK$50,910,000).

### Treasury Policies

During the year ended 31 December 2010, 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 its financial impact is material to the Group. For the year ended 31 December 2010, the Group did not employ any financial instruments for hedging purpose and did not engage in foreign currency speculative activities.

## BANK BORROWING AND CHARGES OF GROUP ASSETS

As at 31 December 2010, the Group had bank borrowings amounted to approximately HK$105,254,000 (2009: HK$42,946,000). The bank borrowings was secured by a collateral with term deposits of RMB20 million provided by two related companies and secured by the Group's property, plant and equipment and the Group's mining rights certificate held by Jiu Long Kuang Ye, being the subsidiary of the Company.

## CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no significant contingent liabilities (2009: Nil).

## MATERIAL TRANSACTIONS

During the year, the Group entered into the following transactions:

(1) On 5 July 2009, the Group entered into an acquisition agreement with independent third parties (the "Jiu Long Vendors") to acquire 65% equity interests of Jiu Long Kuang Ye for a total consideration of 1,366,940,000 consideration shares (the "Consideration Shares") at an issue price of HK$0.6 per Consideration Share. The acquisition agreement was completed on 2 December 2009. The Consideration Shares were issued by the Company to the Jiu Long Vendors on 12 January 2010, on which day the market price of the Company's share was HK$0.49, thus making up the total consideration of the acquisition to approximately HK$669,800,000

(2) On 16 April 2010, Universal Union Limited ("Universal Union") entered into the placing and subscription agreement with the placing agent and the Company, pursuant to which Universal Union agreed to place, through the placing agent, the placing shares owned by Universal Union to not less than six placees at a price of HK$0.395 each on a best effort basis; and the Company has conditionally agreed to allot and issue, and Universal Union has conditionally agreed to subscribe for the subscription shares at a price of HK$0.395 each. The placing completion and the subscription completion took place on 19 April 2010 and 27 April 2010 respectively in accordance with the terms of the placing and subscription agreement. An aggregate of 775,000,000 placing shares have been successfully placed to not less than six placees, who and whose ultimate beneficial owners are independent third parties, at the placing price of HK$0.395 per placing share, and an aggregate of 775,000,000 subscription shares, representing approximately 6.43% of the issued share capital of the Company as enlarged by the subscription, have been allotted and issued to Universal Union by the Company at the subscription price of HK$0.395 per subscription share.

(3) On 28 June 2010, the Group entered into an acquisition agreement with independent third parties (the "Yi Tong Vendors") to acquire 70% equity interests of Yi Tong Mining for the aggregate consideration amounted to approximately HK$414,416,000 which would be satisfied by cash payment of RMB240,000,000 (approximately HK$274,416,000) and the allotment and issue of 500,000,000 consideration shares (the "Yi Tong Consideration Shares") at an issue price of HK$0.28 per Yi Tong Consideration Shares. The acquisition agreement was completed on 21 July 2010. The Yi Tong Consideration Shares were issued by the Company to the Yi Tong Vendors on 21 July 2010, on which day the market price of the Company's share was HK$0.26, thus making up the total consideration of the acquisition to approximately HK$404,416,000.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year under review.

## CORPORATE GOVERNANCE PRACTICES AND MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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. Throughout the year ended 31 December 2010, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules and complied with all the applicable code provisions of the Code, except the following:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year 2010, Mr. Chiu Yeung ("Mr. Chiu") served as Chairman and Chief Executive Officer of the Group. The Board considers that Mr. Chiu has accumulated extensive experience in the Group's business and can provide leadership for the senior management team and strategic planning of our business, so the vesting of two roles in the same person would provide the Group with stable and consistent leadership and allows for more effective and efficient planning and implementation of long term business strategies. The Board shall nevertheless review the structure from time to time and shall consider the appropriate adjustment should suitable circumstance arise.

For the year ended 31 December 2010, 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 2010, and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

## AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely Messrs. Mu Xiangming, Cheng Chak Ho and Lo Wa Kei Roy. The purpose of the establishment of the audit committee is for reviewing and supervising the financial reporting process and internal control of the Group. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2010.

## EXTRACTED FROM AUDITOR'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

### Basis for qualified opinion

— *Scope limitation — 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 2009, which formed the basis for the corresponding figures presented in the current period's consolidated financial statements, contained a qualification because of 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 has been surrendered to Xian Government without the Company's knowledge or consent. Details of the qualified opinion were set out in the independent auditor's report dated 29 March 2010 issued by the preceding auditor and was included in the Group's annual report for the year ended 31 December 2009. Any adjustments found to be necessary in respect of the carrying amount of the abovementioned property development project would have a significant and consequential effect on the consolidated financial position of the Group as at 31 December 2010, the results and cash flows for the year ended 31 December 2010 and the related disclosures thereof in the consolidated financial statements of the Group.

— *Scope limitation — provision for environmental and resources tax*

As stated in note 29 to the consolidated financial statements, an amount of HK$118,078,000 (approximately RMB100,000,000) related to the provision of environmental and resources tax (the "Provision") arising from the renewal of mining right held by a subsidiary of the Company has been recognised in the consolidated financial statements. We were unable to obtain sufficient appropriate evidence regarding the validity and completeness of the Provision as at 31 December 2010. Any adjustments found to be necessary in respect thereof would have a significant and consequential effect on the consolidated financial position of the Group as at 31 December 2010, the results and cash flows for the year ended 31 December 2010 and the related disclosures thereof in the consolidated financial statements of the Group.

### 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 Company and of the Group as at 31 December 2010 and of the Group's loss 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.

## APPRECIATION

Finally, I would like to thank our shareholders for their trust and support and gratitude to all the directors and staff members for their continuous hard work and loyalty over the years.

## PUBLICATION OF ANNUAL REPORT

A full text of the Company's 2010 Annual Report will be sent to the shareholders and published on the websites of the Stock Exchange and the Company in due course.

By order of the Board
**Gao Yuan Xing**
*Chairman*

Hong Kong, 28 March 2011

*As at the date of this announcement, the Board comprises Mr. Gao Yuan Xing, Mr. Jin Jiu Xin, Mr. Zhao Qing, Mr. Zhang Jia Kun, Mr. Chai Ming and Mr. Qian Yi Dong as executive directors; Mr. Mu Xiangming, Mr. Lo Wa Kei Roy and Dr. Cheng Chak Ho as independent non-executive directors.*