中國鎳資源
CHINA NICKEL RESOURCES

# China Nickel Resources Holdings Company Limited
# 中國鎳資源控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2889)**

# ANNUAL RESULTS
# FOR THE YEAR ENDED 31 DECEMBER 2014

## FINANCIAL HIGHLIGHTS

| | For the year ended 31 December | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| Revenue | **336,403** | 1,635,170 |
| Gross Loss | **(165,494)** | (29,450) |
| Loss before Interest, Tax, Depreciation and Amortisation# | **(329,069)** | (80,049) |
| Loss before Tax | **(1,465,418)** | (1,340,463) |
| Loss Attributable to Equity Holders of the Company | **(1,453,133)** | (1,366,411) |
| Gross Loss Margin | **(49.2%)** | (1.8%) |
| LBITDA Margin | **(97.8%)** | (4.9%) |

# Loss before Interest, Tax, Depreciation and Amortisation ("LBITDA") also excluded impairment losses of property, plant and equipment and prepaid land lease payments of HK$597.4 million (2013: HK$746.9 million).

The board of directors (the "Board" or the "Directors") of China Nickel Resources Holdings Company Limited (the "Company") would like to announce the audited results of the Company and its subsidiaries (collectively referred as to the "Group") for the year ended 31 December 2014 together with the comparative figures for the corresponding year in 2013:

## BOARD'S CONSIDERATION — MITIGATION MEASURES TO GOING CONCERN ISSUE

The Board has given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

(1) the Group has been actively negotiating a syndicated loan with a syndicate of banks in the People's Republic of China ("PRC") to (i) replace certain bank borrowings and notes payable of the Group with revised terms including the extension of loan period to more than 1 year; and (ii) provide additional loan facilities to the Group as working capital;

(2) the Company has been actively negotiating with a bank in Hong Kong for the borrowings that had become due as at 31 December 2014 as a result of cross-default and subsequently overdue after the year end. Such borrowings are fully secured by bank deposits of the Group;

(3) to finalise the proposed disposal of up to 30% equity interest in S.E.A. Mineral Limited ("SEAM"), a wholly-owned subsidiary of the Group. On 21 January 2013, the Group entered into a non-binding framework agreement with Beijing Wincapital Management Co., Ltd. in relation to the disposal of a 30% equity interest in SEAM. The aggregate disposal consideration is expected to be approximately RMB900 million (approximately HK$1.1 billion). The proposed transaction is yet to complete and no formal sales and purchase agreement has been entered into up to the date of this announcement. Longer than expected time has been spent on negotiation of the detailed terms and conditions because of the rapid change in operating and regulatory environment of SEAM since the framework agreement was signed. Management is currently negotiating with the relevant parties to facilitate the completion of the proposed disposal despite longer than expected time that was spent as a result of the rapid changes in environment that SEAM operates in. The proposed transaction can significantly strengthen the liquidity position of the Group as a whole in the near future;

(4) apart from the points (1), (2) and (3) above, the Group had other borrowings became overdue subsequent to 31 December 2014. The Group has been actively negotiating with the lenders for the renewal and extension of these borrowings;

(5) the Group has been actively negotiating with the holders of the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds for further extension of the repayment of principal and interest;

(6) the Company has appointed Somerley Capital Limited ("Somerley") as the financial advisor to advise the Board in respect of possible financing arrangements including but not limited to group re-organisation and debt restructuring. The Company intends, via Somerley, to enter into discussions with its bankers, bondholders and creditors as necessary with a view to agreeing arrangements to facilitate the Group meeting its obligations;

(7) the Group is negotiating with various potential investors, financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future, including identification of potential investors to invest in various projects undertaken by the Group;

(8) the Group is maximising its sales effort, including speeding up of sales of its existing inventories and seeking new orders from overseas markets or new customers on developed new products, and implementing more stringent cost control measures with a view to improving operating cash flows; and

(9) the Group has engaged legal advisors to handle all major litigation matters and seek for an appropriate solution to the best interest of the Group.

## REASON FOR DELAY IN PUBLICATION OF THE 2014 ANNUAL RESULTS AND 2014 ANNUAL REPORT

Under Rules 13.46(2)(a) and 13.49(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, the Company is required to publish the announcement in relation to its preliminary annual results for the year ended 31 December 2014 (the "2014 Annual Results") on a date not later than three months after the end of the financial year of the Company, i.e. on or before 31 March 2015; and despatch its annual report for the year ended 31 December 2014 (the "2014 Annual Report") on a date not more than four months after the end of the financial year of the Company, i.e. on or before 30 April 2015; The delay in publication of the annual results and report had constituted a non-compliance with Rules 13.46(2)(a) and 13.49(1) of the Listing Rules.

As set out in the announcements of the Company dated 19 March 2015, 31 March 2015, 20 April 2015, 5 May 2015, 18 May 2015, 26 June 2015, 21 July 2015 and 4 August 2015, additional time is required by the Company to gather further information to enable its auditor to perform and complete their audit procedures. Consequently, the publication of the 2014 Annual Results and 2014 Annual Report was delayed.

### Mitigation measures

In order to avoid delay in the compilation and provision of information in connection with the Group's financial information, the Board plans to implement the following measures:

- enhance the documentation system to strengthen the information retrieval process;
- involve additional personnel in the preparation of the Group's management accounts and financial projections to avoid delay; and
- hold more regular meetings with its auditor to facilitate the communication flow and to update the auditor of the Group's financial position regularly.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2014*

| | Note | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Revenue** | 4 | **336,403** | 1,635,170 |
| Cost of sales | | **(501,897)** | (1,664,620) |
| Gross loss | | **(165,494)** | (29,450) |
| Other gains, net | 4 | **18,855** | 49,477 |
| Selling and distribution expenses | | **(10,036)** | (5,196) |
| Administrative expenses | | **(176,980)** | (284,672) |
| Finance income | 6 | **145,079** | 17,735 |
| Finance costs | 6 | **(559,261)** | (280,927) |
| Other expenses | 5 | **(36,740)** | (67,737) |
| Impairment losses on property, plant and equipment | 5 | **(597,392)** | (726,185) |
| Provision for impairment of loan to an associate | 5 | **(56,975)** | – |
| Share of loss of an associate | | **(26,474)** | (13,508) |
| **Loss before income tax** | 5 | **(1,465,418)** | (1,340,463) |
| Income tax credit/(expense) | 7 | **11,205** | (25,043) |
| **Loss for the year** | | **(1,454,213)** | (1,365,506) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(1,453,133)** | (1,366,411) |
| Non-controlling interests | | **(1,080)** | 905 |
| | | **(1,454,213)** | (1,365,506) |
| **Loss per share attributable to equity holders of the Company** | | | |
| — Basic (HK dollar) | 9 | **(0.57)** | (0.54) |
| — Diluted (HK dollar) | 9 | **(0.57)** | (0.54) |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2014*

| | 2014<br>*HK$'000* | 2013<br>*HK$'000* |
|---|---|---|
| **Loss for the year** | **(1,454,213)** | (1,365,506) |
| **Other comprehensive (loss)/income** | | |
| *Items that have been reclassified or may be subsequently reclassified to profit or loss* | | |
| Exchange differences on translation of foreign operations | **(9,022)** | 69,457 |
| **Other comprehensive (loss)/income for the year, net of tax** | **(9,022)** | 69,457 |
| **Total comprehensive loss for the year** | **(1,463,235)** | (1,296,049) |
| **Attributable to:** | | |
| Equity holders of the Company | **(1,462,250)** | (1,296,964) |
| Non-controlling interests | **(985)** | 915 |
| | **(1,463,235)** | (1,296,049) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2014*

| | Note | As at 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,178,003** | 1,928,122 |
| Prepaid land lease payments | | **196,418** | 202,093 |
| Intangible asset | | **2,384,543** | 2,387,786 |
| Interest in an associate | | **–** | 83,449 |
| Deferred tax assets | | **1,115** | 1,932 |
| Other non-current assets | | **3,846** | 3,987 |
| Pledged time deposits | | **–** | 495,021 |
| | | **3,763,925** | 5,102,390 |
| **Current assets** | | | |
| Inventories | | **307,035** | 474,600 |
| Trade and notes receivables | *10* | **23,248** | 108,388 |
| Prepayments, deposits and other receivables | | **254,565** | 213,546 |
| Pledged time deposits | | **1,007,304** | 363,929 |
| Cash and cash equivalents | | **11,520** | 54,065 |
| | | **1,603,672** | 1,214,528 |
| **Total assets** | | **5,367,597** | 6,316,918 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Share capital | | **267,854** | 255,304 |
| Reserves | | **1,118,058** | 2,553,223 |
| | | **1,385,912** | 2,808,527 |
| **Non-controlling interests** | | **8,465** | 9,450 |
| **Total equity** | | **1,394,377** | 2,817,977 |

| | Note | As at 31 December 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Bank and other borrowings | | **–** | 880,221 |
| Convertible bonds | | **–** | 129,182 |
| Derivative financial instruments | | **–** | 21,652 |
| Other long term payables | | **9,886** | 8,751 |
| Deferred tax liabilities | | **1,365** | 1,369 |
| | | **11,251** | 1,041,175 |
| **Current liabilities** | | | |
| Trade payables | *11* | **124,286** | 184,566 |
| Notes payables | *11* | **797,528** | 587,614 |
| Other payables and accruals | | **500,477** | 445,081 |
| Bank and other borrowings | | **2,273,465** | 1,201,404 |
| Convertible bonds | | **143,925** | – |
| Derivative financial instruments | | **84,373** | – |
| Tax payable | | **37,915** | 39,101 |
| | | **3,961,969** | 2,457,766 |
| **Total liabilities** | | **3,973,220** | 3,498,941 |
| **Total equity and liabilities** | | **5,367,597** | 6,316,918 |
| **Net current liabilities** | | **(2,358,297)** | (1,243,238) |
| **Total assets less current liabilities** | | **1,405,628** | 3,859,152 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2004 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the "Group") is located at No. 7, Block F, Runhua Business Garden, No. 24, Jinshui Road, Jinshui District, Zhengzhou City, Henan Province, the People's Republic of China (the "PRC"), 450012. The principal place of business of the Company is located at Room 3501, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The principal activities of the Company are investment holdings and the trading of ore. The Group is principally engaged in the manufacture and sale of iron and steel products in the PRC and the trading of ore. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors of the Company (the "Directors"), Easyman Assets Management Limited ("Easyman"), a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Dong Shutong ("Mr. Dong"), is the ultimate holding company of the Group. Mr. Dong is regarded as the ultimate controlling party.

The consolidated financial statements are presented in Hong Kong dollar ("HK$"), unless otherwise stated, and have been approved for issue by the Board on 31 August 2015.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and liabilities (including derivative financial instruments) are measured at fair value, as appropriate.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

### *(a) Going concern*

During the year ended 31 December 2014, the Group incurred a net loss of approximately HK$1,454,213,000 due to the continuing market downturn and significant change in operating and regulatory environment of the Group's subsidiaries. As at 31 December 2014, the current liabilities of the Company and the Group exceeded their current assets by HK$1,167,241,000 and HK$2,358,297,000, respectively. The Group's total borrowings increased to HK$3,214,918,000 as at 31 December 2014 from HK$2,798,421,000 as at 31 December 2013. The Group's borrowings comprised of bank and other borrowings, convertible bonds and notes payables of HK$2,273,465,000 (2013: HK$2,081,625,000), HK$143,925,000 (2013: HK$129,182,000) and HK$797,528,000 (2013: HK$587,614,000), respectively as at 31 December 2014. Cash and cash equivalents reduced to HK$11,520,000 as at 31 December 2014 from HK$54,065,000 as at 31 December 2013.

As at 31 December 2014, all the Group's borrowings were due within twelve months despite the original contractual repayment dates of some of these borrowings are beyond twelve months after 31 December 2014. This is mainly because:

(ai) on 19 December 2014, the Group failed to make interest payment totalling HK$16,108,000 under the relevant terms and conditions of its Modified 10% Coupon Bonds, 12% Coupon Senior Bonds and 8% Coupon Convertible Bonds (together the "Bonds"). This constituted an event of default under the respective terms of the Bonds. As a result, the outstanding principal amounts of the Bonds totalling HK$563,315,000 became immediately due and payable, out of which the 12% Coupon Senior Bonds and 8% Coupon Convertible Bonds of HK$390,990,000 and HK$143,925,000, respectively have been reclassified as current liabilities as at 31 December 2014. As at 31 December 2014, the Modified 10% Coupon Bonds of HK$28,400,000 was scheduled to be repaid within one year based on the original agreement and therefore the overdue has not resulted in its reclassification;

(aii) as at 31 December 2014, certain other loans and other borrowings of HK$315,883,000 and HK$10,140,000, respectively which have original contractual repayment dates of within one year from 31 December 2014, were overdue; and

(aiii) the above event constituted an event of cross-default for (i) certain secured bank loans totalling HK$307,538,000, which became immediately due and payable. However, as these borrowings were all due for repayment within one year, the event of cross-default has not resulted in their reclassification; and (ii) certain secured short-term bank loans and certain unsecured bank loans of HK$63,379,000 and HK$88,731,000 respectively. It has resulted in the reclassification of a non-current unsecured bank loan of HK$63,379,000 as current liabilities as at 31 December 2014, whereas the remaining HK$88,731,000 were all scheduled for repayment within one year and therefore has not resulted in their reclassification.

The above events have resulted in the reclassification of long-term borrowings totalling HK$598,294,000 under current liabilities as at 31 December 2014.

Furthermore, subsequent to 31 December 2014 and up to the date of approval of the consolidated financial statements, the Group failed to:

(i) make further interest payment on the Bonds totalling HK$29,048,000;

(ii) make principal payment on the Modified 10% Coupon Bonds of HK$28,400,000;

(iii) repay the principal amount of other loans and other unsecured borrowings of HK$571,428,000 and HK$65,024,000 respectively, when the amounts became due;

(iv) settle notes payables to the extent of HK$240,971,000 upon maturity; and

(v) make interest payment on certain secured bank loans with principal amount of HK$198,708,000 as at 31 December 2014, which constituted an event of default and those bank loans totalling HK$307,538,000 that became immediately due and payable as at 31 December 2014 as a result of the event of cross-default as mentioned in (aiii) above. These banks issued demand letters to the Group requesting immediate repayment of these secured bank loans with principal amounts totalling HK$506,246,000, together with their related interest up to date.

Up to the date of approval of the consolidated financial statements, a substantial amount of the Group's borrowings and notes payable totalling HK$1,990,714,000 were in default or became overdue.

In addition, the Company and a subsidiary are parties to various legal claims.

The aforementioned conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

(1) The Group has been actively negotiating with a syndicated of banks for a syndicated loan in the PRC (i) to replace certain outstanding bank borrowings and notes payable of the Group as at 31 December 2014 to the extent of HK$215,490,000 and HK$204,211,000, respectively (out of which HK$152,111,000 and HK$204,211,000 had been overdue prior to and after 31 December 2014 respectively) with a 3-year loan of the same amount; and (ii) to provide additional loan facilities to the Group as working capital for an amount of not exceeding RMB150 million for a 3-year term.

(2) The Group has been actively negotiating with the holders of the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds with carrying amounts of HK$390,990,000 and HK$143,925,000 respectively, at 31 December 2014 for further extension of the repayment of principal and interest, and the execution of a debt restructuring scheme, if needed.

(3) In relation to the secured bank loans that became due as at 31 December 2014 as a result of cross-default and those subsequently became overdue after 31 December 2014 amounting to HK$307,538,000 and HK$198,708,000, respectively (in total HK$506,246,000 as referring to in (v) above), a total of HK$404,616,000 had been settled after 31 December 2014 by utilising the Group's pledged time deposits to the extent of HK$428,698,000. No action had been taken by the bank on the overdue bank borrowings with principal amount of HK$101,630,000 as at 31 December 2014. In addition, such unsettled overdue borrowings of HK$101,630,000 are fully secured by the pledged time deposits of the Group to the extent of HK$106,351,000.

(4) On 21 January 2013, the Group entered into a non-binding framework agreement with Beijing Wincapital Management Co., Ltd. ("Beijing Wincapital") in relation to the disposal of a 30% equity interest in S.E.A. Mineral Limited ("SEAM"), a wholly-owned subsidiary of the Group. The aggregate disposal consideration is expected to be approximately RMB900 million (approximately HK$1.1 billion). The proposed transaction is yet to complete and no formal sales and purchase agreement has been entered into up to the date of approval of the consolidated financial statements. Longer than expected time was spent on negotiation of the detailed terms and conditions because of the rapid change in operating and regulatory environment of SEAM since the framework agreement was signed. In connection with the proposed disposal, Beijing Wincapital arranged certain loan finance to the Group in the aggregate amount of RMB700 million (equivalent to approximately HK$887 million) as at 31 December 2014. Such borrowings can be settled by offsetting against the disposal consideration should the proposed disposal be completed. As at 31 December 2014, certain of these loans amounting to RMB249,200,000 (equivalent to HK$315,883,000) were overdue for repayment and as at the date of approval of these consolidated financial statements, all these loans totalling HK$887,311,000 were overdue. Up to the date of approval of the consolidated financial statements, the Group has not received any letter from these lenders demanding for repayment of these loans. Management is currently negotiating with the relevant parties to formally extend the repayment of these loans to facilitate the completion of the proposed disposal despite longer than expected time was spent as a result of the rapid changes in environment that SEAM operates in. Management believes that with bona fide intention for both parties, the proposed disposal will be completed and the Group will be able to offset all these borrowing against the disposal consideration.

(5) Apart from the borrowings mentioned in (1) to (4) above, the Group had other borrowings of HK$175,312,000 as at 31 December 2014, out of which approximately HK$10,140,000 were overdue as at 31 December 2014, while the remaining HK$71,362,000 became overdue subsequent to 31 December 2014. The Group has been actively negotiating with the lenders for the renewal and extension of the repayment dates of these borrowings.

(6) The Group is negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future, including identification of potential investors to invest in various projects undertaken by the Group.

(7) The Group is also maximising its sales effort, including speeding up of sales of its existing inventories and seeking new orders from overseas markets or new customers on developed new products, and implementing more stringent cost control measures with a view to improving operating cash flows.

(8) The Group has engaged legal advisors to handle all outstanding claims and disputes. In preparing these consolidated financial statements, the directors have also obtained advice from legal advisors on these matters and, based upon which, are of the view that the Group will be able to resolve these matters with no significant cash outflows in the next twelve months.

The directors have reviewed the Group's cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from the end of the reporting period. They are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Notwithstanding the above, significant multiple uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through:

(1) successful negotiation with the syndicate of banks in the PRC for a long-term syndicated loan and obtaining necessary financing from the banks at appropriate time;

(2) successful negotiation with the holders of its 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds for extension of the repayment dates of principal and interest and the successful execution of a debt restructuring scheme, if needed;

(3) successful negotiation with the financiers to extend the repayment dates of their loans to the Group until completion of the proposed disposal of the 30% interest in SEAM, at a disposal consideration of RMB900 million, and be able to collect the remaining disposal consideration of approximately RMB200 million in full immediately upon completion of the transaction after properly offsetting the remaining consideration of RMB700 million in aggregate against the above-mentioned borrowings;

(4) successfully maintaining relationship with the relevant banks/lenders such that no action will be taken by these lenders to demand immediate repayment of the overdue loans under negotiation;

(5) successful negotiation with the lenders for the renewal or extension of all the existing current and other borrowings or obtaining additional new financing and other sources of funding as and when required;

(6) successful implementation of its operation plans described above to control costs and generate adequate operating cash flows; and

(7) successful resolution of the outstanding claims and disputes without significant cash outflows in the next twelve months.

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

***(b) Changes in accounting policies and disclosures***

*Effect of adopting new accounting standards, and amendments and interpretation to existing standards*

The following amended standards and interpretation to existing standards are also mandatory to the Group for the financial year beginning on or after 1 January 2014 but they did not result in any significant impact on the results and financial position of the Group.

| | |
|---|---|
| IAS 32 (amendment) | Offsetting Financial Assets and Financial liabilities |
| IAS 36 (amendment) | Recoverable Amount Disclosures for Non-Financial Assets |
| IAS 39 (amendment) | Novation of Derivatives and Continuation of Hedge Accounting |
| IFRS 10, IFRS 12 and IAS 27 (2011) (amendment) | Consolidation for Investment Entities |
| IFRIC-Int 21 | Levies |

*(c)* ***New standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted***

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2014 and have not been early adopted by the Group:

| | |
|---|---|
| IAS 1 (amendment) | Disclosure initiative[2] |
| IAS 16 and 38 (amendment) | Clarification of Acceptable Methods of Depreciation and Amortisation[2] |
| IAS 16 and 41 (amendment) | Agriculture: Bearer Plants[2] |
| IAS 19 (2011) (amendment) | Defined Benefit Plants: Employee Contributions[1] |
| IAS 27 (2011) (amendment) | Equity Method in Separate Financial Statements[2] |
| IAS 28 and IFRS 10 (amendment) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2] |
| IAS 28, IFRS 10 and IFRS 12 (amendment) | Investment entities: applying the consolidation exception[2] |
| IFRS 11 (amendment) | Acquisitions of Interests in Joint Operations[2] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 14 | Regulatory Deferral Accounts[2] |
| IFRS 15 | Revenue from Contracts with Customers[3] |
| IFRSs (amendment) | Annual Improvements 2010–2012 cycle and 2011–2013 cycle[1] |
| IFRSs (amendment) | Annual Improvements 2012–2014[2] |

1 Effective for annual periods beginning on or after 1 January 2015
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2018

The Directors are in the process of assessing the impact of the adoption of the above new standards and amendments to standards on the results and financial position of the Group.

*New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after March 3, 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

## 3 SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment: the trading of ore and the manufacturing and sale of iron and special steel products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resources allocation and performance assessment.

### Geographical information

*(a) Revenue from external customers*

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **288,203** | 1,437,490 |
| Singapore | **32,413** | 94,735 |
| Hong Kong | **–** | 102,556 |
| Taiwan | **15,787** | – |
| Others | **–** | 389 |
| | **336,403** | 1,635,170 |

The revenue information above is based on the locations of the customers.

*(b) Non-current assets*

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **1,375,396** | 2,583,979 |
| Indonesia | **2,385,048** | 2,472,079 |
| Others | **2,366** | 44,400 |
| | **3,762,810** | 5,100,458 |

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets.

### Information about major customers

Revenue of approximately HK$189,666,000 (2013: HK$1,033,787,000) and HK$154,305,000 (2013: HK$863,270,000) was derived from sales to the Group's three largest customers and the Group's largest customer, respectively.

## 4 REVENUE AND OTHER GAINS, NET

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Revenue** | | |
| Sale of goods: | | |
| Limonitic ores | **52,111** | 1,493,930 |
| Stainless steel products | **171,913** | 19,446 |
| Ni-Cr alloy steel ingot | **50,335** | 79,517 |
| Ferro-nickel alloys and others | **62,044** | 42,277 |
| | **336,403** | 1,635,170 |
| **Other gains, net** | | |
| Changes in fair value of derivative financial instruments | **19,832** | 46,688 |
| Loss on disposal of property, plant and equipment, net | **(702)** | (5,723) |
| Foreign exchange (losses)/gains, net | **(2,357)** | 3,725 |
| Others | **2,082** | 4,787 |
| | **18,855** | 49,477 |

## 5 LOSS BEFORE INCOME TAX

The Group's loss before income tax is stated at after charging the following:

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Costs of inventories sold | **480,485** | 1,509,493 |
| Employee benefits expense | **69,603** | 88,140 |
| Research expenses | **2,801** | 28,262 |
| Auditors' remuneration | | |
| — Current year | **3,950** | 3,800 |
| — Under-provision in prior year | **1,113** | – |
| Depreciation | **116,454** | 133,836 |
| Amortisation of prepaid land lease payments | **5,078** | 5,374 |
| Amortisation of intangible asset | **3,243** | 111,114 |
| Minimum lease payments under operating leases in respect of buildings and equipment | **7,969** | 7,818 |
| Provision for impairment losses of inventories | **19,481** | 88,765 |
| Provision for impairment of properly, plant and equipment | **597,392** | 726,185 |
| Provision for impairment of prepaid land lease payments* | **–** | 20,713 |
| Provision for impairment of trade receivables* | **16,405** | 16,298 |
| Provision for impairment of prepayments and other receivables* | **7,306** | 11,592 |
| Provision for legal claims* | **13,029** | – |
| Provision for impairment of loan to an associate | **56,975** | – |

* *Included in other expenses*

## 6 FINANCE COSTS, NET

| | 2014 | 2013 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Finance income** | | |
| Interest income on time deposits | **21,193** | 5,242 |
| Gain on restructure of convertible bonds and senior bonds | **123,886** | – |
| Unwinding of discount on receivables arising from disposal of a subsidiary | **–** | 12,493 |
| | **145,079** | 17,735 |
| **Finance cost** | | |
| Interest on bank and other borrowings, wholly repayable within five years | **(311,962)** | (238,594) |
| Interest on convertible bonds | **(36,628)** | (42,333) |
| Acceleration of unwinding interest on convertible bonds and senior bonds due to event of default | **(210,671)** | – |
| | **(559,261)** | (280,927) |
| Finance costs, net | **(414,182)** | (263,192) |

## 7 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which the Group's entities are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The applicable Hong Kong profits tax rate of the Company, and its subsidiaries, which operate in Hong Kong, is 16.5 % (2013: 16.5%).

The applicable income tax rate of the Group's Singaporean subsidiary, CNR Group Holding Pte Ltd ("CNR Singapore"), is 17% (2013:17%). Effective 1 July 2013, CNR Singapore has been granted to a tax concessionary rate of 10% as it was awarded Global Trader Programme ("GTP") Status by International Enterprise Singapore for a period of five and a half years from 1 July 2013 to 31 December 2018. Subsequent to the year end, in February 2015 CNR Singapore withdrew its GTP status to minimise its compliance costs.

The subsidiaries of the Company incorporated in Indonesia are subject to a single income tax rate of 25% (2013: 25%).

According to the PRC Corporate Income Tax Law, the applicable income tax rate of the Group's PRC subsidiaries is 25% for the year (2013: 25%).

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income tax: | | |
| — Singapore | **–** | 27,875 |
| — Others | **–** | 44 |
| (Over)/under-provision in prior years | | |
| — Mainland China | **(13,872)** | (145) |
| — Singapore | **1,856** | – |
| Deferred income tax | **811** | (2,731) |
| Income tax (credit)/expense | **(11,205)** | 25,043 |

## 8 DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

## 9 LOSS PER SHARE

### Basic

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares of 2,568,086,775 (2013: 2,527,602,083) in issue during the year.

### Diluted

The calculation of the diluted loss per share for the year ended 31 December 2014 is based on the loss for the year attributable to equity holders of the Company, adjusted to reflect the interest on and change in fair value of the derivative component of the convertible bonds and share options. The weighted average number of ordinary shares used in the calculation is the weighted average number of the ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted loss per share is the same as basic loss per share for the years ended 31 December 2014 and 2013 because the impact of dilution of the convertible bonds and share options is anti-dilutive.

## 10 TRADE AND NOTES RECEIVABLES

| | | Group | |
|---|---|---|---|
| | | **2014** | 2013 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| Trade receivables | *(a)* | **59,697** | 107,440 |
| Notes receivables | *(b)* | **3,245** | 24,262 |
| | | **62,942** | 131,702 |
| Less: provision for impairment losses | | **(39,694)** | (23,314) |
| | | **23,248** | 108,388 |

The Group's trading terms with its customers are mainly on credit, except for new customers and customers of limonitic ores, where payment in advance is normally required. The credit period is generally one to two months. During the year, the Group generated its revenue from sales of ore and special steel products to other steel producers, thereby exposing the Group to concentration of credit risk in the steel industry. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing. The carrying amounts of trade and notes receivables approximate their fair values.

*Notes:*

**(a) Trade receivables**

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **6,038** | 29,807 |
| 91 to 180 days | **1,649** | 9,785 |
| 181 to 365 days | **12,208** | 37,117 |
| Over 1 year | **39,802** | 30,731 |
| | **59,697** | 107,440 |

**(b) Notes receivables**

As at the end of the reporting period, the maturity period of the Group's notes receivables is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **2,841** | 22,994 |
| 91 to 180 days | **404** | 1,204 |
| 181 to 365 days | **–** | 64 |
| | **3,245** | 24,262 |

## 11 TRADE AND NOTES PAYABLES

| | Notes | **2014** | 2013 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Trade payables | *(a)* | **124,286** | 184,566 |
| Notes payables | *(b)* | **797,528** | 587,614 |
| | | **921,814** | 772,180 |

*Note:*

### (a) Trade payables

An ageing analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **7,377** | 40,681 |
| 91 to 180 days | **15,584** | 14,931 |
| 181 to 365 days | **18,530** | 25,114 |
| 1 to 2 years | **29,628** | 48,744 |
| 2 to 3 years | **29,182** | 43,277 |
| Over 3 years | **23,985** | 11,819 |
| | **124,286** | 184,566 |

The trade payables are unsecured, interest-free and are normally settled on terms of 60 to 180 days.

The carrying amounts of trade payables approximate their fair values at the end of the reporting period.

### (b) Notes payables

An ageing analysis of the notes payables of the Group at 31 December 2014 is as follows:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 90 days | **459,082** | 419,725 |
| 91 to 180 days | **338,446** | 167,889 |
| | **797,528** | 587,614 |

At 31 December 2014, notes payables of HK$797,528,000 (2013: HK$587,614,000) were secured by time deposits of HK$471,994,000 (2013: HK$350,644,000). As at 31 December 2013, certain notes payables were also secured by a parcel of leasehold land in Mainland China with net carrying amount of HK$3,548,000. The carrying amounts of notes payables approximate their fair values at the end of the reporting period.

## 12 CONTINGENT LIABILITIES

The Group follows the guidance of IAS37 "Provisions, Contingent Liabilities and Contingent Assets" to determine when contingent liabilities should be recognised, which requires significant judgement.

A contingent liability will be disclosed when a possible obligation has arisen, but its existence has to be confirmed by future events outside the Group's control, or when it is not possible to calculate the amount. Realisation of any contingent liabilities not currently recognised or disclosed could have a material impact on the Group's financial position.

The Group reviews significant outstanding litigations in order to assess the need for provisions. Among the factors considered are the nature of the litigation, legal processes and potential level of damages, the opinions and views of the legal counsels and advisors, and the management's intentions to respond to the litigations. To the extent the estimates and judgements do not reflect the actual outcome, this could materially affect the results for the period and the financial position.

### (i) Litigation with Rock Resources Limited ("RR") and United Mineral Limited ("UM") (collectively referred to as the "Buyers")

In March 2014, the Company received certain legal letters (the "Letters") from the Buyers dated 20 March 2014, which purported to be statutory demands serviced to the Company pursuant to section 178(1)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) ("Statutory Demand").

The Letters concern disputes between the Group and the Buyers relating to certain primary contracts for the sale and purchase of Indonesian iron ores, and contain claims for (i) an amount of US$10,347,698 (equivalent to approximately HK$80,242,000) which comprises the demand for return of an advance payment made by RR to the Group of US$3,000,000 (equivalent to approximately HK$23,264,000) and interest thereon to the extent of US$7,347,698 (equivalent to approximately HK$56,978,000) payable up to 20 March 2014; and (ii) an amount of RMB70,355,783 (equivalent to approximately HK$89,488,000) which comprises the demand for return of an advance payment made by UM to the Group of RMB20,000,000 (equivalent to approximately HK$25,438,000) and interest thereon to the extent of RMB50,355,783 (equivalent to approximately HK$64,050,000) payable up to 20 March 2014. The Company as guarantor to the abovementioned primary contracts is therefore also a party to these litigations.

On 4 April 2014, the Group issued a legal letter to the legal representative of the Buyers requesting them to withdraw the Statutory Demand as the Group considers that it has bona fide defences on substantial grounds to the claims asserted from the Buyers, and the Group also considers it has very substantial counterclaims against the Buyers as a result of their non-performance of the relevant contracts.

On 7 April 2014, the Group received another legal letter from the legal representative of the Buyers informing that the Buyers will not present their winding up petition against the Company without serving a 3-day notice.

On 11 April 2014, the Company received another statutory demand from the legal representative of UM to claim for certain interest charge ("Interest Charge") on certain loans provided by UM to the Group (the principal of which had been fully repaid before 31 December 2013) calculated up to 11 April 2014 (as supplemented by another legal letter dated 15 April 2014), together with the related penalty, to the extent of US$3,839,000 (equivalent to approximately HK$29,770,000). The Group has subsequently replied, through its legal representative, that most of the claimed Interest Charge are unenforceable at law but agreed to pay the relevant interest charge (after tax) calculated under normal contract terms in the amount of US$345,000 (equivalent to approximately HK$2,675,000) which has been provided for during the year ended 31 December 2013.

On 9 May 2014, the Group received another legal letter from the legal representative of UM informing that UM will not present its winding up petition against the Company without serving a 3-day notice.

In October 2014, the legal representative of UM issued a letter to the Group requesting payment for the amount of US$345,000 and the Group fully settled the amount in November 2014.

On 18 November 2014, a subsidiary of the Group received a legal letter from RR, which purported to be statutory demand serviced to the subsidiary pursuant to section 254(2)(a) of the Singapore Companies Act (Cap.50), requesting for settlement of a payable of US$1,726,000 (equivalent to approximately HK$13,387,000) (the "Unpaid Invoices"), which has been included as current liabilities of the Group in the consolidated financial statements.

On 8 December 2014, the Group issued a legal letter to RR requesting RR to withdraw such statutory demand and confirm that RR will not commence winding up of the aforementioned subsidiary as the Group considers it has bona fide defences on substantial grounds to the claims asserted in RR's letter dated 18 November 2014 and the significant cross-claims against RR and therefore the Unpaid Invoices should not be settled at this stage since the Group would be entitled to set these sums off against its very substantial counterclaims for RR and/or UM.

There has been no further correspondence between the Group and the Buyers since then and up to the date of approval of the consolidated financial statements. The Directors, after seeking legal advice on the above claims, consider that the Group has bona fide defences on substantial grounds to the claims asserted from the Buyers such that (i) the aforementioned advance payments received to the extent of approximately HK$48,702,000 in aggregate are presently not due for repayment by the Group; (ii) the resulting interest so calculated are therefore miscalculated and grossly inflated; (iii) other than an amount of HK$2,675,000 relating to the Interest Charge which has already been settled by the Group, the remaining sums of the claims are without merit; and (iv) the Unpaid Invoices should not be settled at this stage. The Directors are also of the opinion that the Group has significant ground for very substantial counterclaims and cross-claims against each of the Buyers as a result of their non-performance of the relevant contracts as mentioned in the Letters. Consequently, no provision has been made for these claims on these consolidated financial statements as the Directors consider that it is not probable that the above legal claims would result in any material outflow of economic benefits from the Group.

**(ii) Dispute on Contracts of Affreightment ("COAs")**

The Group entered into certain COAs with various marine vessel owners committing certain minimum number of cargoes per calendar month for exporting iron ores from Indonesia. As a result of the unfavourable economic environment and the various changes in rules and regulations stipulated by the Indonesian government authorities since year 2012, the Group's ores export was adversely affected and therefore unable to fulfil the minimum cargoes commitments as stipulated by some of these COAs.

During the year ended 31 December 2014, the Group received various legal letters from TORM A/S ("TORM"), a marine vessel owner, to (i) claim for an outstanding freight charges payable by the Group to TORM of approximately US$1,834,000 (equivalent to approximately HK$14,268,000) ("Outstanding Freight Charges"); and (ii) notify the commencement of arbitration proceedings pursuant to the terms of the relevant COAs to claim for loss and damage suffered by TORM ("Other Losses") with respect to approximately 51 unfulfilled cargoes under the terms of the relevant COAs which is estimated by TORM to be approximately US$11,828,000 (equivalent to approximately HK$91,721,000) up to 27 March 2014 (the amount stated in the latest claim submissions from TORM).

The relevant freight charges payable by the Group to TORM have been fully accounted for in the consolidated financial statements of the Group for the year ended 31 December 2013. The dispute with TORM in respect of the Outstanding Freight Charges has been settled at an amount of US$419,000 (equivalent to HK$3,253,000) during the year ended 31 December 2014 and the claim has been fully discharged in June 2014.

In connection with the claims on Other Losses, the Group has engaged legal advisors to commence arbitration procedures with TORM in February 2014. The said arbitration procedures are still in progress as at the date of approval of the consolidated financial statements.

In preparing these consolidated financial statements, the directors have obtained legal advice in this respect and, based upon which, consider that as the arbitration is still ongoing, they are not currently in a position to estimate the financial effect (if any) relating to the arbitration and it may take a substantial time to complete the arbitration process.

Accordingly, no provision in respect of such legal dispute was made in the consolidated financial statements.

As at 31 December 2014 and up to the date of approval of the consolidated financial statements, based on the best knowledge and information of the directors, there are no further claims in relation to any COAs that the Group has entered into.

Should the resolution of these legal claims and dispute turn out to be unfavourable to the Group, the Group may need to record additional losses in respect of these claims and disputes in future reporting periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING ENVIRONMENT ANALYSIS

### Impact of Export Ban

The business of the Group has been severely affected by an export ban since 12 January 2014.

Pursuant to the relevant regulations promulgated in Indonesia, unprocessed ore export by mining business licence holders in Indonesia ("IUP Holders") has been banned from 12 January 2014 onwards unless the IUP Holders have carried out processing and refining domestically according to Government Regulation No. 23 of 2010 regarding implementation of activities of business of minerals and coal mining and have conducted refining and smelting in accordance with Law No. 4 of 2009 regarding minerals and coal mining ("Export Ban").

The Group purchases ores for both trading of limonitic ore business and self-use manufacturing of iron and steel products. In the past few years, the Group enjoyed fixed price in ore supply through an exclusive offtake agreement ("EOA").

After the Export Ban, the ore trading business, which contributed 91% of revenue to the Group in 2013, was completely suspended. The turnover from ore trading business shrank 96.5% from HK$1,493.9 million in 2013 to HK$52.1 million in 2014.

Besides the direct impact on the ore trading business, the Export Ban also adversely affected the manufacturing of iron and steel products. Without ore supply in stable price under the EOA, the Group had to purchase the ores from the PRC market with volatile ore price fluctuation which affected the cost of manufacturing of the iron and steel products.

### Operating environment in 2014

In 2014, the PRC's steel market continued to be negatively affected by the over-supply and the persisting weak steel price under fierce competition in the steel market. As a result, the sales of iron and steel products recorded gross loss during the year.

We remain pessimistic about the steel market in the PRC in the short term due to the continuation of over-supply and the persisting weak steel price under fierce competition in the steel market. We expect the prices of iron and steel products will not have significant rebound in the near future. However, in the long term, we expect the global economy will gradually recover and the economy of the PRC will maintain its healthy growth trend. Going forward, domestic market in the PRC will become quality-oriented, which will impose higher requirements on products in terms of environmental-friendliness, safety and durability, sustainability and recycling. We expect that the quantitative demand for high quality steel products will increase significantly in the long run, and product development will incline to the high-end market.

To capture these business opportunities, the Group has shifted to the production of high quality iron and steel products through the application of more environmental-friendly production method. Moreover, the Group had completed the innovation on the new "high-strength steel" product in the second half of the year 2014 which can be applied to bridge construction, offshore oil platform construction, marine construction, ship construction, power transmission engineering and marine transport facilities. Despite the new "high-strength steel" products launching to the market is at very beginning stage, the Directors believe that the "high-strength steel" product can contribute substantially to the Group's future operating profits upon the successful exploration and development of the new "high-strength steel" products in the PRC's steel market in the near future.

However, as the current operating environment as a whole remains weak, the Directors have reviewed the recoverable amounts of the property, plant and equipment in the Group's plants in Zhengzhou and made an impairment loss of HK$312.9 million in 2014.

## BUSINESS REVIEW

### Project Progress

*In the PRC*

Lianyungang City East Harvest Mining Company Limited, a wholly-owned subsidiary of the Company, has constructed a production plant to produce nickel fine powder. The first production line of the production plant started trial production in the second half year of 2012. The nickel fine powder can be treated as finished product for direct sales; alternatively, it can be treated in a blast furnace and possessed into nickel-iron alloy fluid, which becomes a high-quality raw material for the production of stainless steel. The Lianyungang plant applies low carbon metallurgical technology developed by the Group. Ordinary coal, rather than coke used in traditional process, is used in the reduction purification process, under which the consumption of carbon may decrease by up to 40%. In addition, the plant can utilise low grade nickel ore for production, the cost of which is much lower than that used in traditional production process. The project is highly recognised by the local government. Moreover, the plant is situated at the Lianyungang port and benefits from geographical advantages. Ores and other raw materials from overseas can be conveniently transported to the plant, largely reducing the inland transportation costs and logistics pressure.

Due to the Export Ban, the production of iron ores related products was affected substantially. The management has decided to suspend the production plan to a later period. Because of the Export Ban, the expected recoverable amount of the plant continually decreased since last year. As a result, the Directors made a provision for impairment of the property, plant and equipment of the plant amounted to HK$249.7 million in 2014.

*In Indonesia*

PT. Mandan Steel, our wholly-owned subsidiary incorporated in Indonesia, is our future processing and manufacturing arm in overseas. PT. Mandan Steel is also recognised as a key iron and steel mill construction project of Indonesia with strong support from Indonesia central government, and offers manufacturing capability that is valuable considering the new mining regulations in Indonesia. The steel mill project will produce steel bar for concrete reinforcement to capture the market opportunities in Indonesia. This processing facility can save shipping fee, loading and unloading charges and inland port charges. The Stage 1 development is facilitated and based on the overall relocation of the equipment from Yongan Special Steel, a former wholly owned subsidiary of the Company. To ensure high quality, environmental protection, energy efficiency and low production cost, new equipment will be added to existing equipment and some existing facilities will be modified. After the Export Ban which affected our cash flow position together with the delay in disposal of 30% equity interest of SEAM, a wholly-owned subsidiary of the Company, the Group is seeking other financing sources to facilitate the development of the project. Management is currently negotiating with the relevant parties to facilitate the completion of the proposed disposal despite longer than expected time was spent as a result of the rapid changes in environment the SEAM operates in.

**Business Development**

*Ore trading business*

The Group purchases ores from Indonesia through the EOA at fixed price for self-use or for sale, and has started selling ores to third parties since the end of 2009. The ore trading business had a remarkable contribution to our profitability and cash flows in the past few years due to strong demand from the PRC customers.

After to the Export Ban, the ore trading business of the Group has been suspended and it is anticipated that this will have a continuous significant negative impact on the financial and operating results of the Group.

It is possible that the relevant mining regulations in Indonesia may be amended but there is no guarantee that the Export Ban will be uplifted in near future.

The Directors are considering any possible alternatives, including but not limited to, co-operation with local enterprises for building up steel mills in Indonesia.

*Steel-making operations*

For the steel-making operations of the Group, both the sales volume and profit margins of stainless steel products and Ni-Cr alloy steel ingot continued to be low during the year as a result of over-supply under the intense competition on steel products market in the PRC. In addition, due to the Export Ban, the production plant of our Yongtong Special Steel Company Limited suspended production during January 2014 to April 2014. This also led to low production and sales volume in 2014. Since early of May 2014, the Group's steel-making operations had resumed its production gradually. Also, due to the continuing weak demand in iron and steel market, the production suspended after long Chinese New Year holiday in the year of 2015. Since early July 2015, the Group's steel-making operations has been resumed gradually.

While we expect the keen competition in the PRC's steel market will continue in 2015, the demand for steel products will gradually pick up. The Group is actively developing new high value-added steel products and identifying PRC and overseas markets with growth potentials to strengthen our product portfolio and reduce market concentration risk.

**Financing Arrangement**

As at 31 December 2014, the Group had net current liabilities of approximately HK$2,358.3 million. The Group has been actively negotiating with PRC and overseas banks and institutional investors for new borrowings and renewal of existing borrowings when they fall due. During the year, the Group had successfully obtained bank and other borrowings of HK$1,067.8 million to finance our operation and for repayment of our borrowings when they fall due.

In addition, based on the framework agreement with a potential investor for the disposal of 30% equity interest of SEAM, a wholly-owned subsidiary of the Group, the aggregate consideration will be approximately RMB900 million (equivalent to approximately HK$1.1 billion). The transaction is still in progress due to the rapid change in operating and regulatory environment of our subsidiary, and the potential investor needs more time for conducting due diligence work.

**Event of Default and Cross-Default**

*Bonds*

During the year and subsequent to the year end, the Group had default in payment of due interest and principal under the terms and conditions of the bonds, the default may trigger a cross-default in accordance with respective terms and conditions of the bonds. In such an event, DB Trustees (Hong Kong) Limited, in its respective capacities as trustee for the holders of the bonds is entitled to, amongst other things, accelerate the Company's obligations under the bonds and declare the outstanding principal amounts of the bonds to be immediately due and payable, together with outstanding interest and all other sums payable. As at the date of this announcement, DB Trustees (Hong Kong) Limited has not made any demand for immediate repayment of the 12% Coupon Senior Bonds, the 8% Coupon Convertible Bonds or the Modified 10% Coupon Bonds. As at the date of this announcement, (i) the principal amount of the 12% Coupon Senior Bonds of HK$390,990,000 and the accrued interest of HK$47,807,000 are outstanding; (ii) the principal amount of the 8% Coupon Convertible Bonds of HK$117,525,000 and the accrued interest of HK$10,407,000 are outstanding; and (iii) the principal amount of the Modified 10% Coupon Bonds of HK$28,400,000 and the accrued interest of HK$3,604,000 are outstanding.

*Bank Loans*

CITIC Loan

Under the terms and conditions of the bank loan from China CITIC Bank International Limited ("CITIC Bank") to the Company (the "CITIC Loan"), payment of the interest in respect of one of the CITIC Loan in the amount of US$96,000 (equivalent to approximately HK$745,000) has fallen due and was payable on 12 January 2015. The Company did not repay the above interest.

On 14 January 2015, the Company received a demand letter from the CITIC Bank demanding settlement of all the outstanding principal amount of US$25,616,000 (equivalent to approximately HK$198,708,000) together with accrued interests, other charges and any amount due to the CITIC Bank ("Full Outstanding Amount of CITIC Loan") thereon in full on or before 22 January 2015. Since the Company did not repay the Full Outstanding Amount of CITIC Loan by 22 January 2015, the CITIC Bank is entitled to lodge their claims against the covering standby letters of credit issued by China CITIC Bank Corporation Limited, as a security of the CITIC Loan.

Under the terms and conditions of the CITIC Bank, the principal in the amount of US$12,516,000 (equivalent to approximately HK$97,078,000) has fallen due and was payable on 6 July 2015. Since the Company did not repay the above principal, on 6 July 2015, the CITIC Bank lodged and has completed its claims against the covering standby letter of credit issued by China CITIC Bank Corporation Limited, as a security of the CITIC Loan fully backed up by the pledged deposit of the Group, for the outstanding principal amount of US$12,516,000 (equivalent to approximately HK$97,078,000) together with accrued interests, other charges and any amount due to the CITIC Bank thereon in full.

Up to the date of this announcement, CITIC Bank has not lodged its claims against the securities in respect of the remaining outstanding CITIC Loan with principal amount of US$13,100,000 (equivalent to approximately HK$101,630,000), that is, the stand-by letters of credit issued by China CITIC Bank Corporation Limited fully backed up by the pledged deposit of the Group. The remaining outstanding principal has not been settled and the interest rate swap contracts entered between CITIC Bank and the Company remain effective with no loss incurred.

SCB Loan

Under the terms and conditions of the bank loan facility letters from Shanghai Commercial Bank Limited (the "SCB") to the Company (the "SCB Loan"), payment of the interest in respect of one of the SCB Loan in the amount of US$100,000 (equivalent to approximately HK$775,000) has fallen due and was payable on 12 January 2015. The Company did not to repay the above interest.

On 14 January 2015, the Company received a demand letter from the SCB demanding settlement of all the outstanding principal amount of US$15,650,000 (equivalent to approximately HK$121,386,000) together with accrued interests, other charges and any amount due to the SCB ("Full Outstanding Amount of SCB Loan") thereon in full on or before 22 January 2015. Otherwise the SCB would be entitled to lodge their claims against the covering standby letters of credit issued by Bank of Jiangsu Company Limited, as a security of the SCB Loan.

The Company did not repay SCB the Full Outstanding Amount of SCB Loan by 22 January 2015. As a result, on 26 January 2015, the SCB lodged and has completed its claims against the securities, and the Full Outstanding Amount of SCB Loan has been fully offset by the pledged deposit of the Group.

SPD Loan

On 26 January 2015, the Company received a demand letter from Shanghai Pudong Development Bank Co., Ltd. ("SPD") in relation to the bank loan facility and interest rate swap facility granted to the Company by SPD.

On 5 February 2015, the Company did not repay SPD all the outstanding principal, accrued interests and the break funding cost due by the Company to SPD ("Full Outstanding Amount of SPD Loan"). As a result, the SPD lodged and has completed its claims for the Full Outstanding Amount of SPD Loan against the securities, that is, the irrevocable and unconditional letters of guarantee issued by the SPD Zhengzhou Branch fully backed up by the pledged deposit of the Group. The Full Outstanding Amount of SPD Loan has been fully offset by the pledged deposit of the Group.

The transactions under the interest rate swap contracts entered between the SPD and the Company was terminated immediately.

## SUBSEQUENT EVENT

### Winding up petition against a subsidiary

CNR Group Holdings Pte. Limited ("CNR Singapore"), a wholly-owned subsidiary of the Company, was notified by the legal advisers acting for Shinewarm Resources (HK) Group Limited ("Shinewarm") that an application was presented on 27 August 2015 to the High Court of the Republic of Singapore seeking the winding up of CNR Singapore at the hearing on 18 September 2015. The application was based on a claim by Shinewarm for US$443,808.02 and future interest that continues to accrue under an arbitral award dated 1 April 2015 and a statutory demand under section 254(2)(a) of the Singapore Companies Act (Cap 50) dated 5 May 2015 which had been handed down in respect of refundable trading prepayment made by Shinewarm to CNR Singapore and certain costs and interest. More details were contained in the Company announcement dated 28 August 2015. The Directors believe that this claim will be settled in the short term and will have no material adverse impact to the financial performance and operation of the Group.

## FINANCIAL REVIEW

### Turnover and sales volume

Major products of the Group were stainless steel products, Ni-Cr alloy steel ingot, ferro-nickel alloys and limonitic ores. The table below sets out the turnover and sales volume of our products for the years indicated:

*Turnover*

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | ***HK$'000*** | *%* | *HK$'000* | *%* |
| **Mineral Resources:** | | | | |
| Limonitic ores | **52,111** | **16%** | 1,493,930 | 91% |
| **Iron and Steel Products:** | | | | |
| Stainless steel products | **171,913** | **51%** | 19,446 | 1% |
| Ferro-nickel alloy steel ingot and others | **62,044** | **18%** | 42,277 | 3% |
| Ni-Cr alloy steel ingot | **50,335** | **15%** | 79,517 | 5% |
| **Total** | **336,403** | **100%** | 1,635,170 | 100% |

*Sales volume*

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | ***(tonnes)*** | *%* | *(tonnes)* | *%* |
| **Mineral Resources:** | | | | |
| Limonitic ores | **142,125** | **75%** | 3,532,417 | 100% |
| **Iron and Steel Products:** | | | | |
| Stainless steel products | **24,355** | **13%** | 3,808 | 0% |
| Ferro-nickel alloy steel ingot and others | **15,179** | **8%** | 10,371 | 0% |
| Ni-Cr alloy steel ingot | **8,849** | **4%** | 8,281 | 0% |
| **Total** | **190,508** | **100%** | 3,554,877 | 100% |

The Group's turnover in 2014 decreased by HK$1,298.8 million, or 79.4%, to approximately HK$336.4 million (2013: HK$1,635.2 million). The decrease was primarily due to the decrease in sales of limonitic ores after the Export Ban since January 2014.

Pursuant to the Export Ban, unprocessed iron ore export from PT. Yiwan Mining ("Yiwan") to our Group has been suspended from 12 January 2014 onwards. The ore trading business of the Group was suspended and there was a significant negative impact on the financial and operating results of the Group in 2014. It is possible that the relevant mining regulations in Indonesia may be amended but there is no guarantee that the Export Ban will be uplifted in near future.

During 2014, the Group's ore trading business, which was the key revenue and cash flows contributor of the Group in 2013, has decreased sharply that the Group sold 142,125 dry tonnes of ores (2013: 3,532,417 dry tonnes) and achieved a turnover of HK$52.1 million (2013: HK$1,493.9 million).

In addition, as a result of the weak demand and intense market competition in the PRC, the sales volume of our steel products remained low during the year.

The Group's sales volume of stainless steel products and Ni-Cr alloy steel ingot in 2014 increased by approximately 20,547 tonnes and 568 tonnes, or 539.6% and 6.9%, to approximately 24,355 tonnes and 8,849 tonnes respectively (2013: 3,808 tonnes and 8,281 tonnes). The Group's sales volume of limonitic ores in 2014 decreased by approximately 3.4 million dry tonnes, or 96.0% to approximately 0.1 million dry tonnes (2013: 3.5 million dry tonnes). During the year ended 31 December 2014, the Group's average selling price per tonne for stainless steel products and Ni-Cr alloy steel ingot were HK$7,059 (2013: HK$5,107) and HK$5,688 (2013: HK$9,602) respectively while the average unit selling price per dry tonne for limonitic ores was HK$367 (2013: HK$423).

**Cost of sales**

The cost of sales in 2014 decreased by HK$1,162.7 million, or 69.8%, to approximately HK$501.9 million (2013: HK$1,664.6 million). The decrease in cost of sales was mainly due to decrease in sales.

The unit costs of sales for stainless steel products and Ni-Cr alloy steel ingot were HK$8,470 and HK$14,183 per tonne respectively in 2014 (2013: HK$6,684 and HK$12,138 per tonne respectively). The unit cost of limonitic ores in 2014 decreased by HK$15 per dry tonne, or 3.7%, to HK$382 per dry tonne (2013: HK$397 per dry tonne).

The table below shows a breakdown of our costs of sales for the year:

| | For the year ended 31 December | | | |
|---|---|---|---|---|
| | **2014** | | 2013 | |
| | ***HK$'000*** | *%* | *HK$'000* | *%* |
| Raw materials | **256,351** | **51%** | 1,333,415 | 80% |
| Fuel and Freight | **101,010** | **20%** | 163,230 | 10% |
| Utilities | **37,685** | **8%** | 21,223 | 1% |
| Depreciation | **61,168** | **12%** | 41,865 | 3% |
| Staff costs | **24,228** | **5%** | 10,060 | 1% |
| Provision for impairment losses of inventories | **19,481** | **4%** | 88,765 | 5% |
| Others | **1,974** | **0%** | 6,062 | 0% |
| Total | **501,897** | **100%** | 1,664,620 | 100% |

**Gross (loss)/profit**

The unit gross loss for stainless steel products in 2014 was HK$1,411 per tonne (2013: HK$1,578 per tonne). The increase in gross loss margin was mainly due to increase in cost of sales and weak demand in steel market.

The unit gross loss for Ni-Cr alloy steel ingot in 2014 was HK$8,494 per tonne (2013: HK$2,536 per tonne). The unit gross loss margin of Ni-Cr alloy steel ingot was mainly due to decrease in selling price as a result of weak steel demand in the PRC.

The unit gross loss for limonitic ores in 2014 was HK$15 per dry tonne (2013: unit gross profit of HK$26 per dry tonne). The unit gross loss for limonitic ores in 2014 was primarily due to decrease in selling price.

As a result of the above factors, the Group's recorded the gross loss amounted to HK$165.5 million in 2014 (2013: HK$29.5 million).

**Other gains, net**

Other gains in 2014 was HK$18.9 million (2013: HK$49.5 million). The decrease was mainly due to less gain in fair value of derivative financial instruments.

**Selling and distribution expenses**

Selling and distribution expenses in 2014 increased by HK$4.8 million, or 93.1%, to HK$10.0 million (2013: HK$5.2 million), representing 3.0% of turnover (2013: 0.3%). Increase in selling and distribution expenses was mainly due to the increase in sale of iron and steel products.

**Administrative expenses**

Administrative expenses in 2014 decreased by HK$107.7 million, or 37.8%, to HK$177.0 million (2013: HK$284.7 million), representing 52.6% of turnover (2013: 17.4%). The decrease in administrative expenses was mainly due to the implementation of cost control plans as well as temporary suspension of manufacturing operation during the year.

**Finance income**

Finance income increased by HK$127.4 million, or 718.0% to HK$145.1 million (2013: HK$17.7 million). Finance income increase was mainly due to gain on restructuring of bonds.

**Finance costs**

Finance costs in 2014 increased by HK$278.4 million, or 99.1% to HK$559.3 million (2013: HK$280.9 million). Increase was mainly due to acceleration of unwinding interest on bonds.

**Other expenses**

Other expenses in 2014 decreased by HK$31.0 million, or 45.8%, to HK$36.7 million (2013: HK$67.7 million).

**Impairment losses on property, plant and equipment**

In 2014, the Group recorded an impairment loss on its property, plant and equipment totalling HK$597.4 million (2013: HK$726.2 million). Details of the background of the impairment was discussed above.

**Loss before tax**

As a result of the factors discussed above, the loss before tax for the year ended 31 December 2014 was HK$1,465.4 million (2013: HK$1,340.5 million). The Group's loss before tax margin was 435.6% (2013: 82.0%). The loss before interest, tax, depreciation and amortisation (LBITDA) margin was 97.8% (2013: 4.9%).

**Income tax expense**

The applicable Hong Kong profits tax rate of the Company and its subsidiaries which operate in Hong Kong is 16.5% based on existing legislation. The entities within the Group which operate in the PRC, Singapore and Indonesia are subject to corporate income tax at rates of 10% to 25% for the year ended 31 December 2014. The income tax credit of HK$11.2 million (2013: HK$25.0 million) was mainly due to overprovision in prior years.

**Loss for the year and loss attributable to shareholders**

As a result of the factors discussed above, the Group's 2014 loss for the year was HK$1,454.2 million (2013: HK$1,365.5 million) and the 2014 loss attributable to shareholders was HK$1,453.1 million (2013: HK$1,366.4 million).

*Key financial ratios*

| | *Notes* | **For the year ended 31 December 2014** | 2013 |
|---|---|---|---|
| Current ratio | *1* | **40%** | 49% |
| Inventory turnover days | *2* | **223 days** | 104 days |
| Debtor turnover days | *3* | **25 days** | 24 days |
| Creditor turnover days | *4* | **670 days** | 169 days |
| Interest cover | *5* | **–2.5 times** | –4.1 times |
| Interest-bearing gearing ratio | *6* | **174%** | 79% |
| Debt to LBITDA ratio | *7* | **–7.3 times** | –27.6 times |
| Net debt/Capital and net debt ratio | *8* | **67%** | 47% |

*Notes:*

1. Current assets/Current liabilities x 100%

2. $\frac{\text{Inventories}}{\text{Cost of sales}} \times 365$ days

3. $\frac{\text{Trade and notes receivables}}{\text{Turnover}} \times 365$ days

4. $\frac{\text{Trade and notes payables}}{\text{Cost of sales}} \times 365$ days

5. $\frac{\text{Loss before interest and tax}}{\text{Net interest expense}}$

6. $\frac{\text{Interest-bearing loans and other borrowings (including convertible bonds)}}{\text{Equity attributable to the owners of the parent}} \times 100\%$

7. $\frac{\text{Interest-bearing loans and other borrowings (including convertible bonds)}}{\text{LBITDA}}$

8. $\frac{\text{Net debt*}}{\text{Capital and net debt}} \times 100\%$

* Net debt included bank and other borrowings, convertible bonds (the liability component), trade and notes payables and other payables and accruals less cash and cash equivalents and pledged time deposits.

## Property, plant and equipment

Property, plant and equipment as at 31 December 2014 mainly comprised plant and machinery, buildings and construction in progress. The decrease in balance to HK$1,178.0 million (2013: HK$1,928.1 million) was mainly due to the depreciation charges for the year of HK$116.5 million and impairment of property, plant and equipment of HK$597.4 million.

**Intangible asset**

The intangible asset solely represents the unamortised amount of the EOA from PT. Yiwan Mining secured by the Group in May 2007. The decrease in balance to HK$2,384.5 million (2013: HK$2,387.8 million) during the year was mainly due to amortisation for the year.

**Inventories**

The inventory turnover days increased from 104 days in 2013 to 223 days in 2014. As at 31 December 2014, inventories balance decreased by HK$167.6 million, or 35.3%, to HK$307.0 million (2013: HK$474.6 million). Decrease in inventory balance was mainly due to the management's effort to reduction of inventory level to improve the Group's working capital.

**Trade and notes receivables**

The debtor turnover days slightly increased from 24 days in 2013 to 25 days in 2014. As at 31 December 2014, trade and notes receivables balance decreased by HK$85.2 million, or 78.6%, to HK$23.2 million (2013: HK$108.4 million) mainly due to decrease in sales.

**Prepayments and other receivables**

As at 31 December 2014, prepayments and other receivables balance increased by HK$41.1 million, or 19.2%, to HK$254.6 million (2013: HK$213.5 million).

**Cash and cash equivalents and pledged time deposits**

The aggregate amount of cash and cash equivalents and pledged time deposits increased by approximately HK$105.8 million, or 11.6%, to approximately HK$1,018.8 million as at 31 December 2014 when compared to that as at 31 December 2013.

**Trade and notes payables**

The creditor turnover days increased from 169 days in 2013 to 670 days in 2014. As at 31 December 2014, trade and notes payables balance increased by HK$149.6 million, or 19.4%, to HK$921.8 million (2013: HK$772.2 million). The increase in trade and notes payables balance was mainly due to delay in settlement of payables by the Group in 2014. The trade payables are unsecured, interest-free and are normally settled on terms of 60 to 180 days while the bank bills are generally on terms of 90 to 180 days.

**Convertible bonds**

Increase in the convertible bonds balance from HK$129.2 million as at 31 December 2013 to HK$143.9 million as at 31 December 2014 was mainly attributable to bond restructuring in June 2014 and the acceleration of unwinding interests on the convertible bonds.

**Bank and other borrowings**

As at 31 December 2014, total bank and other borrowings balance increased by HK$191.9 million, or 9.2%, to HK$2,273.5 million (2013: HK$2,081.6 million). Increase in the bank and other borrowings was mainly because new bank loans drawn from various banks.

**Liquidity, going concern and capital resources**

During the year ended 31 December 2014, the Group incurred a loss of approximately HK$1,454.2 million and had a net operating cash inflow of approximately HK$150.4 million. As at 31 December 2014, the Group's current liabilities exceeded its current assets by HK$2,358.3 million. Its total bank and other borrowings amounted to HK$2,273.5 million will be due within 12 months. The cash and cash equivalents of the Group amounted to HK$11.5 million as at 31 December 2014.

Following the Export Ban which has substantially affected the Group's cash generating ability from operations, the Group's working capital may further be affected and may have foreseeable financial difficulties in the coming 12 months period.

However, following the Export Ban, a series of remedial measures to mitigate the liquidity pressure were taken in 2014 to improve its financial and liquidity position of the Group, details of which are set out in the Board's consideration — Mitigation measures to going concern issue of this announcement. Please also refer to the details regarding uncertainties on the going concern of the Group as stipulated in the section headed "Going Concern" in note 2.1(a) to the consolidated financial statements.

The Group's working capital has been principally sourced from cash generated from operations and from long-term and short-term borrowings. The Group also utilised advances received from our customers to finance part of our working capital requirements. As at 31 December 2014, the advances from customers amounted to HK$115.6 million.

As at 31 December 2014, the Group had current liabilities of HK$3,962.0 million, of which HK$2,273.5 million were bank and other borrowings repayable within one year and HK$921.8 million were trade and notes payables in respect of purchase of raw materials.

**Foreign currency risk**

Since 2004, the Group has begun the purchase of iron ore from overseas suppliers. The Group's purchase and sales contracts of ore trading business are principally denominated in United States dollar ("USD") and purchase and sales of iron and steel products are mainly denominated in Renminbi ("RMB"). As at 31 December 2014, the bonds were denominated in Hong Kong dollar ("HK$") while bank and other borrowings were mainly denominated in RMB, HK$ and USD, and other assets and liabilities of the Group are mainly denominated in RMB.

As at 31 December 2014, the Group did not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors considered the Group had no significant foreign currency risk. However, the Group will closely monitor the foreign currency risk and consider using necessary financial instruments for hedging purposes if they foresee the foreign currency risk is significant.

## CONCLUSION AND PROSPECTS

2014 continues a challenging year full of uncertainties for both the PRC's steel market and the Group. The over-supply situation had not fundamentally improved amid the increasingly fierce competition from similar products in the steel market. During the year, the steel price was persistently weak. Together with the Export Ban which was implemented in early 2014 by the relevant governmental authorities of Indonesia has continuously casted significant doubt on the Group's financial performance and cash flows in 2015.

We expect the economy of China will continue its healthy growth trend and the demand and profitability of our steel products will rebound in the future.

In the longer term, we expect China will continue its modernisation and urbanisation that the demand of high quality steel products for public infrastructure and equipment manufacturing will increase steadily. This definitely will bring enormous business opportunities for our Group.

We believe that after the technology industrialisation and modernisation of steel products, the Group will have a stronger competitive advantage in the industry.

## EMPLOYEES REMUNERATION POLICY

As at 31 December 2014, the Group had approximately 1,000 employees, of whom 30 were management personnel. The remuneration policy of the Group to reward its employees and Executive Directors is based on their performance, qualifications, competence displayed, market comparable and the performance of the Group. Remuneration packages typically comprise salary, housing allowances, discretionary bonus, other fringe benefits and the Group's contribution to retirement benefits schemes. The remuneration of Executive Directors/senior management are determined by the Remuneration Committee which will review them regularly. The Company has adopted a share option scheme to provide incentive to the relevant participants, including the Directors and eligible employees.

## FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

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

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

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Directors recognise the importance of good corporate governance in the management of the Group. During the year ended 31 December 2014, the Company has complied with the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules, except for the following deviations:

### (1) Code Provision A.1.1

During the year, the Board convened a total of nine meetings (two of which were regular meetings), performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the articles of association of the Company. Only two regular board meetings were held as the Company does not announce its quarterly results and hence does not consider the holding of quarterly meetings as necessary.

### (2) Code Provision A.2.1

The Executive Director, Mr. Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with both internal rules and statutory requirements, and promoting the corporate governance of the Company. The Company did not appoint another individual to act as the Chief Executive Officer for the year ended 31 December 2014. This constitutes a deviation from code provision A.2.1. The Board believes that it is in the best interests of the Company and the shareholders as a whole since Mr. Dong Shutong is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board. Important decision-making and the day-to-day management of the Company are carried out by all of the Executive Directors. Although the roles of the Chairman and the Chief Executive Officer of the Company are not segregated, the functions of the chief executive were carried out by all of the Executive Directors collectively.

The Board considered that the Group's prevailing structures and systems met the code provisions in the CG Code. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

### (3) Code Provision A.4.1

Under code provision A.4.1, Non-executive Directors should be appointed for a specific term. Except for Mr. Fahmi Idris, Independent Non-executive Director, who was appointed for a term of three years, Mr. Yang Tianjun, Non-executive Director and the remaining Independent Non-executive Directors including Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung were not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, according to the articles of association of the Company, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice in this respect is in line with that provided in the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors. Having made specific enquiries, the Company has confirmed that all Directors have compiled with the requirements set out in the Model Code.

## REVIEW OF ANNUAL RESULTS

The consolidated financial statements of the Group for the year ended 31 December 2014 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2014.

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2014 as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2014:

### Basis for Disclaimer of Opinion

*Impairment losses of intangible asset*

As at 31 December 2014, the carrying amount of the Group's intangible asset amounted to HK$2,384,543,000. As detailed in Note 16 to the consolidated financial statements, such intangible asset represents an exclusive offtake right secured from PT. Yiwan Mining ("Yiwan"), a limited company incorporated in Indonesia, whereby Yiwan agreed to exclusively sell the limonitic ores produced by Yiwan to the Group at pre-determined prices within a specific period of time.

During the year 2012, certain Indonesian governmental authorities promulgated several new rules and regulations regarding ores export approval and export tax. During the year 2013, the relevant Indonesian governmental authorities further promulgated that unprocessed ore export by mining business licence holders in Indonesia ("IUP Holders") will be banned from 12 January 2014 onwards unless the IUP Holders have carried out processing and refining domestically according to the relevant regulations regarding implementation of activities of business of minerals and coal mining and have conducted refining and smelting in accordance with those relevant laws. Consequently, the export of unprocessed iron ores from Yiwan to the Group ceased with effect from 12 January 2014.

As further explained in Note 16 to the consolidated financial statements, in determining the recoverable amount of the intangible asset as at 31 December 2014, the directors of the Company, amongst other considerations, made reference to the disposal consideration as stipulated in a non-binding framework agreement entered into between the Group and Beijing Wincapital Management Co., Ltd. ("Beijing Wincapital"), an independent third party, on 21 January 2013, pursuant to which the Group proposed to dispose of a 30% equity interest in S.E.A. Mineral Limited, a wholly-owned subsidiary of the Group, together with its subsidiaries (collectively, "SEAM Group"), which are engaged in the trading of ores and holding of the intangible asset of the Group, to Beijing Wincapital. As the proposed disposal consideration substantially exceeds the attributable carrying amount of the aforesaid intangible asset, the directors are of the opinion that there was no impairment of the intangible asset as at 31 December 2014.

However, as there are no formal sales and purchase agreement entered into for the proposed disposal up to the date of this audit report and the proposed disposal is yet to complete, we were unable to obtain sufficient appropriate audit evidence we consider necessary to assess the recoverable amount of the intangible asset. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amount of the intangible asset and whether any impairment charge should be made. Any adjustment to the carrying amount of the intangible asset found to be necessary would affect the Group's net assets as at 31 December 2014, the Group's loss for the year then ended and the related note disclosures to the consolidated financial statements.

*Impairment losses of property, plant and equipment and prepaid land lease payments*

As detailed in Note 14 to the consolidated financial statements, an impairment assessment was carried out by the directors of the Company on the Group's property, plant and equipment and prepaid land lease payments in respect of the cash generating unit for the manufacturing and sales of iron and steel products in Zhengzhou (the "Zhengzhou Plants").

As a result of the assessment, an impairment loss of HK$312,921,000 in respect of the property, plant and equipment of the Zhengzhou Plants has been recognised in the consolidated income statement for the year ended 31 December 2014. The impairment loss was arrived based on recoverable amount of the cash generating unit which has been determined by the directors based on value-in-use calculations. These calculations included applying certain assumptions in preparing cash flows projections for the cash generating unit. In preparing these projections, the directors assumed that, amongst other factors, business performance of the Zhengzhou Plants can be gradually improved noticeably during the projection period as a result of improving operating environment and by launching new products and seeking new orders from new customers with improved gross margins.

However, we were unable to obtain sufficient appropriate audit evidence we consider necessary as to the basis upon which the directors have formed in determining the recoverable amounts of these property, plant and equipment and prepaid land lease payments and thus to assess the valuation of these assets. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of these assets totalling HK$552,835,000 as at 31 December 2014 and whether the recognition of the impairment loss of HK$312,921,000 for the year ended 31 December 2014 is appropriate or adequate. Any adjustment to the carrying amounts of property, plant and equipment and prepaid land lease payments of the Zhengzhou Plants found to be necessary would affect the Group's net assets as at 31 December 2014, the Group's loss for the year then ended and the related notes disclosures to the consolidated financial statements.

*Impairment losses of the Company's interests in subsidiaries*

In addition, as the intangible asset, property, plant and equipment and prepaid land lease payments as stated above were held by various subsidiaries of the Company, any adjustment on the carrying amounts of these assets found to be necessary would also affect the carrying amount of the Company's interests in subsidiaries which amounted to HK$2,552,888,000 as at 31 December 2014, the Company's loss for the year then ended and the related note disclosures to the consolidated financial statements.

*Multiple uncertainties relating to going concern*

As described in Note 2.1(a) to the consolidated financial statements, the Group incurred a net loss of HK$1,454,213,000 during the year ended 31 December 2014 and, as of that date, its current liabilities exceeded its current assets by HK$2,358,297,000. In addition, up to the date of this report, a substantial amount of the Group's borrowings and notes payable totalling HK$1,990,714,000 were in default or became overdue. The Company and a subsidiary of the Group are also parties to various legal claims as detailed in Note 33 to the consolidated financial statements. These conditions, along with other matters as described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, which are set out in Note 2.1(a) to the consolidated financial statements, and to resolve the outstanding claims and disputes detailed in Note 33 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures and litigation matters, which are subject to multiple uncertainties, including (i) whether the Group is able to successfully obtain a long-term syndicated loan from a syndicate of banks in the People's Republic of China and other necessary financing from the banks at appropriate time; (ii) whether the Group is able to extend the repayment of principal and interest of its 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds (collectively the "Bonds") and to successfully execute a debt restructuring scheme with the holders of the Bonds, if needed; (iii) whether the Group is able to successfully negotiate for an extension of the repayment dates of certain loans until completion of the proposed disposal of the 30% interest in SEAM Group at the prescribed consideration and be able to collect the disposal consideration in full immediately upon completion of the transaction after properly offsetting the relevant borrowings; (iv) whether the Group is successful in maintaining relationship with certain banks/lenders such that no action will be taken by these lenders to demand immediate repayment in respect of the overdue loans under negotiation; (v) availability of financing from lenders through successful renewal or extension of the repayment dates of the existing current and other borrowings and availability of additional new financing and other sources of funding as and when required; (vi) whether the Group is able to implement its operation plans to control costs and to generate adequate cash flows from operations; and (vii) whether the Group is able to resolve the outstanding claims and disputes without significant cash outflows in the next twelve months.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

**Disclaimer of Opinion**

Because we have not been able to obtain sufficient appropriate audit evidence and due to the potential interaction of the uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion paragraphs, we do not express an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Other Matters**

This report has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards, or accept liability to any other person for the contents of this report.

## PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the Company's website (ir.cnrholdings.com) and Stock Exchange's website (www.hkexnews.hk). The 2014 Annual Report containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

## SUSPENSION OF TRADING

At the request of the Company, trading in its shares on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2015. Publication of 2014 Annual Results and 2014 Annual Report is not an indication that the trading of the Company's shares will be resumed. The Company is required to fulfil all the resumption conditions, as detailed in the announcement published by the Company on 24 July 2015, imposed by the Stock Exchange before resumption of trading in the Company's shares. The remaining resumption conditions include addressing the audit qualifications, demonstration sufficient working capital of its operation for at least 12 months from the expected resumption date, putting in place adequate financial reporting procedures and internal control systems and informing the market of all material information.

The Company is now taking appropriate steps to fulfil the resumption conditions as set out above. Should there be any material developments, the Company will update the shareholders as and when appropriate.

The trading in the shares of the Company will continue to be suspended until further notice.

By order of the Board
**China Nickel Resources Holdings Company Limited**
**Dong Shutong**
*Chairman*

Hong Kong, 31 August 2015

*As at the date of this announcement, the executive directors of the Company are Mr. Dong Shutong (Chairman), Mr. Dong Chengzhe, Mr. Wang Ping, Mr. Yin Sheping, Mr. Song Wenzhou and Mr. Yang Fei; the non-executive director of the Company is Mr. Yang Tianjun; and the independent non-executive directors of the Company are Mr. Bai Baohua, Mr. Huang Changhuai, Mr. Wong Chi Keung and Mr. Fahmi Idris.*