

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



NORTH MINING SHARES COMPANY LIMITED

北方礦業股份有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 433)

CLARIFICATION ANNOUNCEMENT

Reference is made to the annual results announcement as at 31 December 2015 published on 16 March 2016 (the “**Announcement**”) and the corresponding annual report as at 31 December 2015 published on 19 April 2016 (the “**Annual Report**”) of North Mining Shares Company Limited (the “**Company**”). This clarification announcement is supplemental and shall be read in conjunction with the Annual Report and Announcement. Unless otherwise stated, term used in this announcement shall have the same definition as there were in the Annual Report and Announcement.

The board of directors (the “**Board**”) of the Company would like to draw shareholders’ and stakeholders’ attention to the following content.

Based on the management discussion and analysis of the Announcement, the Company had mentioned of having recognized impairment on mining right and property, plant and equipment which were approximately HK\$465 million and HK\$253.8 million respectively for the year ended 31 December 2015 (the “**Impairment**”) and the Board were of the opinion the Impairment was mainly due to decrease in molybdenum selling price and increase in production cost. The Announcement had also mentioned the Board considered the prospect of the domestic market as exhibiting “a rising price trajectory amid a declining trading volume in recent months”. It might have been seen as somehow contradictory to shareholders and the following are the explanation and additional information.

The Board considered it is reasonable to form their views that the price of molybdenum concentrate will be rising based on considering a long horizon of molybdenum price data obtained from London Metal Exchange (the “**LME**”). The Board was in consensus opinion that the price will revert to its long term mean despite of current market turmoil which caused the fact that the Board did also intended to reflect such short-term market price risk into the result and thus the Impairment had been provided to reflect such recent market condition in contrary to their said conviction on long term molybdenum price.

The expected revenue for the first year under projection represents 8,760 tons of molybdenum concentrate will be sold at the estimated price of RMB193,000; such level is adopted based on:

- (i) Five years historical average of molybdenum price from 2010 to 2014 of RMB178,000 per ton while the five years average had excluded 2015 figures because the Board believed that the price of molybdenum in 2015 was exceptionally low due to abnormal economic condition and it had been considered as an abnormal short-term decrease (which will be further explained in one of the paragraphs below). Thus they were inappropriate to be included in the five years average, in order to forecast the normal price trend of molybdenum concentrate. The Board considered the forecasted revenue based on the five years historical average was a reasonable estimate as it reflected the actual price trend of molybdenum concentrate. Furthermore, the molybdenum price was derived from market data which the Board genuinely believed they were representing the fair value of molybdenum price;
- (ii) The five year historical average of molybdenum price was projected at a 16.5% annual growth derived from the above which was the 10 years annualized growth rate of molybdenum concentrate from 2001 to 2010. It was considered representative of the long term growth rate; and
- (iii) The expected revenue was then deducted by an annualized decreasing rate of 7% on molybdenum price which was the 5 years annualized rate of the molybdenum concentrate from 2010 to 2014 (again, the annualized decreasing rate has excluded 2015 data as explained above).

Moreover, the Board were in the opinion that the price of molybdenum concentrate in 2015 was exceptionally low due to abnormal economic condition and statistics from past molybdenum price based on the consideration that:

- (i) There was approximately 41% annual decrease in the average price of molybdenum concentrate in 2015 as compared to that of previous year. The Board considered that the price of molybdenum should not experience such significant decrease or fluctuation under a normal economic condition given that (a) molybdenum concentrate is a mature market; (b) there was no technology obsolete in the market; and (c) no market substitute to molybdenum concentrate;
- (ii) The price of molybdenum concentrate had been almost decreased to its exploitation costs in 2015 which was considered as abnormal market condition; and
- (iii) Based on 2010–2015 molybdenum closing price data listed on the LME, the mean was RMB160,342.85, the sigma was 50,960.98 and the total number of observation was 1,466; and to conclude based on statistics, the test statistics of each day's molybdenum price happened during 2015 had been compared to the entire population of daily molybdenum price transacted from 2010 to 2015 and benchmarked against various confidence level. The results was 32% of the price data in 2015 had been rejected at a 90% confidence level; 26% of the data would be rejected at an 80% confidence level and 42% of them would be rejected at a 50% confidence level. Thus the said descriptive statistics has also substantiate the basis of disregarding 2015's price data into the forecast.

To provide more information on the basis of projecting the above mentioned five years historical average price of 16.5% annual growth rate and discounted by 7% decreasing rate, the Board had formed the following opinion. The basis of projected price of molybdenum was based on ten year's historical average although these averages had already captured the increase and decrease factors during the average period, it would be more prudent by incorporating the effect of upward and downward trend factors in the forecast. During the historical average period, the first five years of the ten years' historical average, it was a continuous increasing trend in molybdenum price year by year, the 16.5% represents the continuous average growth rate for these five years. However, the next five years of the ten years' average period, the 7% decreasing rate represents the continuous decreasing rate. As a result, by incorporating these factors to determine the price of molybdenum was more accurate in reflecting estimated price of molybdenum in a reasonable manner.

The assumptions and basis used were consistent with the valuations prepared in prior year. The impairment of current year could be attributable to mainly macro-environmental changes which were (i) WACC has increased from approximately 12.5% of 2014 to 13% in 2015 due to increase in beta (equity market turmoil from August to December 2015 in China); (ii) working capital requirement increased especially for inventories as compared with last year's; and (iii) as stated in the above that 7% decreasing rate has been incorporated into the forecast which represents the continuous decreasing rate for current trend.

There is no consequence of the above clarification to any financial information contained in the Annual Report but just to clarify some contradiction that might have be seen by some of our existing and potential shareholders or stakeholders.

By order of the Board of
North Mining Shares Company Limited
Yang Ying Min
Chairman

Hong Kong, 9 August 2016

As at the date of this announcement, the Board of the Company comprises Mr. Yang Ying Min, Mr. Qian Yi Dong, Mr. Zhang Jia Kun and Ms. Li Li Juan as Executive Directors; and Mr. William Fong, Mr. Leung Kar Fai and Dr. Cheng Chak Ho as Independent Non-executive Directors.