NORTH MINING SHARES COMPANY LIMITED

北方礦業股份有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 433)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the "Board") of North Mining Shares Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	*3(a)*	**967,071**	468,601
Cost of sales		**(893,075)**	(362,506)
Gross profit		**73,996**	106,095
Other income	*3(b)*	**14,293**	4,672
Impairment of financial assets	*4*	**(46,046)**	–
Research and development costs		**(24,542)**	–
Other gains and losses	*5*	**(211,152)**	(88,435)
Administrative expenses		**(137,825)**	(95,489)
Loss from operations		**(331,276)**	(73,157)
Finance costs	*7*	**(276,722)**	(121,366)
Loss before income tax	*8*	**(607,998)**	(194,523)
Taxation	*9*	**37,219**	13,317
Loss for the year		**(570,779)**	(181,206)

	Notes	2018 HK$'000	2017 HK$'000
Attributable to:			
Owners of the Company		**(484,008)**	(145,774)
Non-controlling interests		**(86,771)**	(35,432)
		(570,779)	(181,206)
Loss for the year		**(570,779)**	(181,206)
Other comprehensive loss (Net of tax effect):			
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences arising from translation of foreign subsidiaries		**(136,972)**	(62,845)
Other comprehensive loss for the year		**(136,972)**	(62,845)
Total comprehensive loss for the year		**(707,751)**	(244,051)
Attributable to:			
Owners of the Company		**(601,612)**	(226,980)
Non-controlling interests		**(106,139)**	(17,071)
		(707,751)	(244,051)
Loss per share			
– Basic, HK cents	*11*	**(2.25)**	(0.68)
– Diluted, HK cents	*11*	**(2.25)**	(0.68)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 HK$'000	31 December 2017 HK$'000
ASSETS			
Non-Current Assets			
Property, plant and equipment		**894,155**	977,120
Prepaid lease payments		**63,076**	72,974
Mining rights		**3,296,318**	3,402,590
Investment deposits	*12*	**–**	600,000
Long-term receivable	*12*	**466,664**	–
Goodwill		**56,192**	69,131
Intangible assets		**337,625**	454,787
Finance lease receivables		**3,706**	5,077
		5,117,736	5,581,679
Current Assets			
Finance lease receivables		**1,091**	1,314
Inventories		**520,772**	472,640
Trade and bill receivables	*13*	**23,435**	66,660
Prepayments, deposits and other receivables		**586,765**	252,408
Tax recoverables		**1,998**	–
Cash and cash equivalents		**122,533**	162,317
		1,256,594	955,339
Total Assets		**6,374,330**	6,537,018
CAPITAL AND RESERVES			
Share capital		**343,926**	343,926
Reserves		**2,153,689**	2,776,752
Equity attributable to owners of the Company		**2,497,615**	3,120,678
Non-controlling interests		**1,397,690**	1,486,364
Total Equity		**3,895,305**	4,607,042

	Notes	**31 December 2018** **HK$'000**	31 December 2017 HK$'000
LIABILITIES			
Non-Current Liabilities			
Bank loans and other borrowings		**637,396**	251,321
Deferred tax liabilities		**336,943**	394,227
Other payables		**38,204**	–
		1,012,543	645,548
Current Liabilities			
Trade and bill payables	*14*	**135,313**	184,859
Other payables and accruals		**188,649**	148,775
Contract liabilities		**32,873**	–
Bank loans and other borrowings		**710,524**	596,343
Provision for environmental and resources tax		**124,123**	–
Convertible bonds		**–**	344,686
Corporate bond		**275,000**	–
Tax payables		**–**	9,765
		1,466,482	1,284,428
Total Liabilities		**2,479,025**	1,929,976
Total Equity and Liabilities		**6,374,330**	6,537,018
Net Current Liabilities		**(209,888)**	(329,089)
Total Assets Less Current Liabilities		**4,907,848**	5,252,590
Net Assets		**3,895,305**	4,607,042

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

North Mining Shares Company Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liabilities. The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The principal place of business is located at Rooms 2009-18, 20/F., Shui On Centre, 6–8 Harbour Road, Wanchai, Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The principal activities of the Company are investment holding and property investment. The principal activities of the Company and its subsidiaries (the "Group") are mining operation, property management operation, manufacture and sales of chemical products and sales of security technologies.

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

In the opinion of the directors of the Company ("Directors"), the ultimate holding company of the Company is China Wan Tai Group Limited, which was incorporated in Hong Kong.

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

2.1 Statement of compliance and basis for preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared in accordance with HKFRSs under the historical cost convention. In addition, the consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2.2 Going concern

In preparing these consolidated financial statements, the Directors have considered the future liquidity of the Group. As at 31 December 2018, the Group had net current liabilities of approximately HK$209,888,000 and incurred net loss of approximately HK$570,779,000 for the year ended 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the aforesaid conditions, these consolidated financial statements have been prepared on a going concern basis on the assumption that the Group will be able to operate as a going concern for the foreseeable future. In the opinion of the Directors, the Group can meet its financial obligations as and when they fall due within the next year from the date of the consolidated financial statements, after taking into consideration of the following measures and arrangements made subsequent to the reporting date:

(i) On 28 March 2019, the Group entered into a sale and purchase agreement ("Agreement") to put back the entire equity interests of Full Empire Investment Holding Limited and its subsidiaries to the former shareholders of Xinjiang Group at a consideration of HK$430,000,000. Pursuant to the Agreement, the consideration will be received by the Group in two years from the date of Agreement as to HK$230,000,000 due on 28 March 2020; and HK$200,000,000 due on 28 March 2021;

(ii) The Directors will strengthen to implement measures aiming of improving the working capital and cash flow of the Group including closely monitoring the general administrative expenses and operating costs; and

(iii) The Directors will continue to source for additional funding and negotiate with certain bankers to obtain additional banking facilities and/or extend the borrowings when they fall due.

On the basis of the foregoing, and after assessing the Group's current and forecasted cash positions, the Directors are satisfied that the Group will be able to meet in full the Group's financial obligations as they fall due for the period of twelve months from the date of consolidated financial statements. Accordingly, the consolidated financial statements of the Group have been prepared on the going concern basis.

2.3 Application of new and revised HKFRSs

In the current year, the Group has applied the following new and amendments to HKFRSs for the first time:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HKFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the mining, property management, sales of chemical products and sales of security technologies products which arise from contracts with customers information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 3 and 7 respectively.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts Previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018***
	HKD'000	*HKD'000*	*HKD'000*
Current liabilities			
Trade and other payables			
Other payables and accruals	148,775	(37,409)	111,366
Contract liabilities (Note)	–	37,409	37,409
	148,775	–	148,775

Note:

As at 1 January 2018, advances from customers of HK$37,409,000 in respect of sales of goods previously included in other payables and accruals were reclassified to contract liabilities.

Excepts as described above, the application of HKFRS 15 has no impact on the Group's consolidated financial statements.

HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, financial guarantee contracts) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

Summary of effects arising from initial application of HKFRS 9

Classification and measurement of financial assets

The Group's financial assets are classified into loan and receivables which subsequently measured at amortised cost previously. Upon the initial application of HKFRS 9, the Group's financial assets are classified as financial assets at amortised costs based on the business model under which the financial assets are managed and its contractual cash flow characteristics. Accordingly, there was no impact on the amounts recognised in relation to financial assets from the application of HKFRS 9.

Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on past due analysis.

ECL for other financial assets at amortised cost, including restricted bank balances, other receivables, pledged bank deposits, bank balances, are assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts Previously reported at 31 December 2017	**Remeasurement**	**Carrying amounts under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Current assets			
Trade and bill receivables *(Note)*	66,660	(4,769)	61,891
Other receivables *(Note)*	56,293	(5,100)	51,193
	122,953	(9,869)	113,084
Equity			
Accumulated losses *(Note)*	(888,551)	(8,972)	(897,523)
Attributable to non-controlling interests	1,504,726	(897)	1,503,829
	616,175	(9,869)	606,306

Note:

As at 1 January 2018, the amount of approximately HK$9,869,000 represented the additional impairment loss based on the new expected credit loss model under HKFRS 9.

Excepts as described above, the application of HKFRS 9 has no impact on the Group's consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HKFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Materials[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

[1] *Effective for annual periods beginning on or after 1 January 2019.*

[2] *Effective for annual periods beginning on or after 1 January 2021.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for business combination and assets acquisition for which the acquisition date is on or after the first annual period beginning on or after 1 January 2020.*

[5] *Effective for annual period beginning on or after 1 January 2020.*

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date.

Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$32,506,000. In addition, the Group currently considers refundable rental deposits paid of approximately HK$1,806,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of–use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

HKFRS 17 Insurance Contracts

HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4 Insurance Contracts. The standard is effective for annual periods beginning on or after 1 January 2021.

HKFRIC-Int 23 Uncertainty over Income Tax Treatments

HKFRIC-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

Amendments to HKFRS 9 Prepayment Features with Negative Compensation

The amendments clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason i.e. prepayment features with negative compensation do not automatically fail SPPI.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). The change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is recognised in other comprehensive income.

In addition, an entity is required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under paragraph 99 of HKAS 19 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures

The amendments clarify that an entity applies HKFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied that form part of the net investment in the investee. Furthermore, in applying HKFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by HKAS 28.

Amendments to HKFRSs Annual Improvements to HKFRSs 2015-2017 Cycle

The annual improvement packages amended the following four standards.

HKAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

HKAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

HKFRS 3 Business Combinations

The amendments clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation at fair value. The previously held interest to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

HKFRS 11 Joint Arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.

3. REVENUE AND OTHER INCOME

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

		2018	2017
		HK$'000	*HK$'000*
(a)	**Revenue:**		
	Sales of molybdenum concentrate	**242,232**	202,928
	Property management fee income	**7,607**	7,487
	Sales of chemical products	**703,543**	199,694
	Sales of security technologies products	**13,689**	58,492
		967,071	468,601
(b)	**Other income:**		
	Bank interest income	**726**	174
	Loan interest income	**6,540**	–
	Government grant	**5,741**	–
	Sales of by-products	**1,286**	4,498
		14,293	4,672

4. IMPAIRMENT OF FINANCIAL ASSETS

	2018	2017
	HK$'000	*HK$'000*
Reversal of impairment of other receivables	**2,416**	–
Impairment of trade and other receivables under ECL	**(48,462)**	–
	(46,046)	–

5. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments	**(6,156)**	(5,524)
Amortisation of mining rights	**(52,494)**	(50,569)
Amortisation of intangible assets	**(96,505)**	(32,485)
Impairment loss on goodwill	**(12,939)**	–
Impairment loss on property, plant and equipment	**(6,572)**	–
Provision of obsolete inventories	**(34,263)**	–
Gain on de-registration of subsidiaries	**–**	143
Loss on disposal of property, plant and equipment	**(2,223)**	–
	(211,152)	(88,435)

6. SEGMENT INFORMATION

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

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

(a)	Mining operation:	– Exploration of mineral mines – Exploitation of molybdenum mines – Trading of mineral resources
(b)	Property management operation:	Provision of management service to commercial premises
(c)	Chemical trading operation:	Manufacturing and sale of chemical products
(d)	Security technologies operation:	Research, development and sale of security technologies products

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

6.1 Operating segment information

Segment revenue and results

For the year ended 31 December 2018

		Mining operation				
	Property management	Mining exploitation	Trading of mineral resources	Trading of chemical products	Sale of security technologies	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
Segment revenue	7,607	233,882	8,350	703,543	13,689	967,071
Results[1]						
Segment results	296	67,132	(1,785)	(49,805)	(4,883)	10,955
Unallocated corporate income						16,229
Finance costs						(276,721)
Other gains or losses						(211,151)
Unallocated corporate expenses						(147,310)
Loss before income tax						(607,998)
Income tax						37,219
Loss for the year						(570,779)

For the year ended 31 December 2017

		Mining operation				
	Property management	Mining exploitation	Trading of mineral resources	Trading of chemical products	Sale of security technologies	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
Segment revenue	7,487	189,540	13,388	199,694	58,492	468,601
Results[1]						
Segment results	(301)	(25,739)	(767)	(22,404)	4,116	(45,095)
Unallocated corporate income						4,672
Unallocated corporate expenses						(154,100)
Loss before income tax						(194,523)
Income tax						13,317
Loss for the year						(181,206)

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

Segment assets and liabilities

		Mining operation					
	Property management	**Mining exploitation**	**Trading of mineral resources**	**Trading of chemical products**	**Selling and service providing of security technologies**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018							
Segment assets	**585,520**	**4,006,322**	**368,123**	**489,739**	**145,390**	**779,236**	**6,374,330**
Segment liabilities	**367**	**817,397**	**–**	**565,552**	**10,434**	**1,085,275**	**2,479,025**
As at 31 December 2017							
Segment assets	601,832	4,192,563	392,708	593,618	159,313	597,074	6,537,108
Segment liabilities	1,323	832,449	–	261,303	198,014	636,887	1,929,976

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

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

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

Other segment information

	Property management	Mining operation: Mining exploitation	Mining operation: Trading of mineral resources	Trading of chemical products	Selling and service providing of security technologies	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018							
Depreciation and amortisation	**3**	**67,253**	**26**	**36,798**	**103,510**	**6,185**	**213,775**
Capital expenditures	**–**	**20,489**	**50**	**46,619**	**25**	**3,071**	**70,254**
As at 31 December 2017							
Depreciation and amortisation	3	65,775	7	8,537	3,818	5,411	83,551
Capital expenditures	5	450	–	–	1,285	10	1,750

6.2 Geographical information

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

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

	Segment revenue from external customers		Segment assets	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Overseas	**–**	3,928	**–**	–
Hong Kong	**–**	–	**426,186**	456,723
The PRC	**967,071**	464,673	**5,948,144**	6,080,295
	967,071	468,601	**6,374,330**	6,537,018

6.3 Information about major customers

The following is an analysis of revenue from customers contributing over 10% of total revenue.

	2018	2017
	HK$'000	*HK$'000*
Customer A (Mining operation)	**N/A**	55,537
Customer B (Sale of security technologies products)	**N/A**	48,749

There was no single customer contributing over 10% of total revenue during the year ended 31 December 2018.

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans and other borrowings wholly repayable within five years	**237,686**	82,267
Imputed interests on convertible bonds	**39,036**	39,099
	276,722	121,366

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Auditors' remuneration	**1,200**	1,080
Cost of inventories expensed	**886,957**	352,274
Depreciation of property, plant and equipment	**58,620**	27,458
Staff costs (including directors' remuneration)		
– Wages and salaries	**32,097**	27,602
– Retirement benefits contributions	**2,625**	2,188
Operating lease payments in respect of offices premises	**7,130**	8,247

9. INCOME TAX EXPENSE

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

	2018	2017
	HK$'000	*HK$'000*
Current tax:		
PRC corporate income tax	**31**	7,446
Deferred tax	**(37,250)**	(20,763)
	(37,219)	(13,317)

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

	2018	2017
	HK$'000	*HK$'000*
Loss before income tax	**(607,998)**	(194,523)
Tax at the statutory tax rates	**(135,835)**	(32,096)
Tax effect of income not taxable for tax purpose	**(2,088)**	(9,817)
Tax effect of expense not deductible for tax purpose	**153,595**	23,639
Tax effect of unrecognised tax losses	**589**	4,957
Tax effect of temporary difference	**(37,250)**	–
Utilisation of tax loss not recognised previously	**(16,230)**	–
Tax credit for the year	**(37,219)**	(13,317)

10. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2018 (2017: Nil).

11. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share amount is based on the net loss for the year of approximately HK$484,008,000 (2017: HK$145,774,000) attributable to equity holders of the Company, and weighted average of 21,495,386,286 (2017: 21,541,537,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2017 and 2018. For the year ended 31 December 2017, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds since their assumed exercise would result in a decrease in loss per share during the year ended 31 December 2017.

12. INVESTMENT DEPOSITS AND LONG-TERM RECEIVABLES

As at 31 December 2018, balance of investment deposits and long-term receivables comprise of:

During the year ended 31 December 2011, the Group entered into a subscription agreement with Shaanxi Ding Jin Mining Company Limited ("Ding Jin"), pursuant to which the Group is eligible to subscribe for the promissory notes issued by Ding Jin. The principal amount of the promissory notes was HK$500 million and carried at interest of HK$100 million payable on the maturity date, which is 5 years from subscription. The promissory note is secured by an iron mine indirectly owned as to 96% by Ding Jin. Pursuant to the subscription agreement, the Group has the right to acquire an Iron Mine held by Ding Jin should the subscriber failed the settlement of the promissory note to the Group.

During the year ended 31 December 2016, the Group discussed with Ding Jin to consider the potential possibility to acquire the Iron Mine held by Ding Jin given the conditions that (i) Ding Jin obtained all the necessary approval documents to operate the Iron Mine, including but not limited to the exploitation right and environment approval issued by the relevant PRC authorities; and (ii) the satisfaction of due diligence performed by the Group's mining team, in particular the evaluation of reserve of the Iron Mine. Accordingly, the Group and Ding Jin agreed two years period for both parties to satisfy the conditions layout by the Group.

However, the result of above conditions was not satisfied. After negotiation between the Group and Ding Jin, both parties agreed to enter into a repayment agreement, pursuant to which, the receivable amounts of HK$600,000,000 would be carrying interest at 10% per annum, payable on annual basis in 5 years ("Receivable").

The Receivable recognised as Long-term receivable and other receivable in the consolidated statements of financial position were calculated as follows:

	2018	2017
	HK$'000	*HK$'000*
Cost	**600,000**	–
Less: Allowance for credit losses	**(14,498)**	–
	585,502	–
Non-current portion	**466,664**	–
Current portion	**118,838**	–
	585,502	–

13. TRADE AND BILL RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade and bill receivables	**44,864**	66,660
Less: Allowance for credit losses	**(21,429)**	–
	23,435	66,660

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$23,435,000 and HK$66,660,000 respectively.

The following is an aged analysis of trade receivables presented based on dates of delivery of goods and service rendered.

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**11,780**	3,065
31–60 days	**–**	4,772
61–90 days	**1,182**	–
91–180 days	**272**	44,596
Over 180 days but within one year	**10,201**	14,227
	23,435	66,660

For the year ended 31 December 2018, trade debtors that were not impaired nor past due related to customers for whom there was no recent history of default. Based on experience, management believe that no impairment loss shall be recognised as there has not been a significant change in credit quality and the balances are still considered recoverable (2017: Nil).

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

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

14. TRADE AND BILL PAYABLES

	2018	2017
	HK$'000	*HK$'000*
0–30 days	**28,889**	39,484
31–60 days	**9,715**	19,906
61–90 days	**4,858**	–
91–180 days	**43,097**	58,872
Over 180 days but within one year	**48,754**	66,597
	135,313	184,859

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

EXTRACTS OF INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

Material uncertainty related to going concern

In preparing these consolidated financial statements, the Directors have considered the future liquidity of the Group. As at 31 December 2018, the Group had net current liabilities of approximately HK$209,888,000 and incurred net loss of approximately HK$570,779,000 for the year ended 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Notwithstanding the aforesaid conditions, these consolidated financial statements have been prepared on a going concern basis on the assumption that the Group will be able to operate as a going concern for the foreseeable future. In the opinion of the Directors, the Group can meet its financial obligations as and when they fall due within the next year from the date of the consolidated financial statements, after taking into consideration of the following measures and arrangements made subsequent to the reporting date:

(i) On 28 March 2019, the Group entered into a sale and purchase agreement ("Agreement") to put back the entire equity interests of Full Empire Investment Holding Limited to the former shareholders of Xinjiang Group at a consideration of HK$430,000,000. Pursuant to the Agreement, the consideration will be received by the Group in two years from the date of Agreement as to HK$230,000,000 due on 28 March 2020; and HK$200,000,000 due on 28 March 2021;

(ii) The Directors will strengthen to implement measures aiming of improving the working capital and cash flow of the Group including closely monitoring the general administrative expenses and operating costs; and

(iii) The Directors will continue to source for additional funding and negotiate with certain bankers to obtain additional banking facilities and/or extend the borrowings when they fall due.

On the basis of the foregoing, and after assessing the Group's current and forecasted cash positions, the Directors are satisfied that the Group will be able to meet in full the Group's financial obligations as they fall due for the period of twelve months from the date of consolidated financial statements. Accordingly, the consolidated financial statements of the Group have been prepared on the going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the value of 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 potential adjustments have not been reflected in these consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL FINANCIAL PERFORMANCE

During the year under review, North Mining Shares Company Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a revenue of approximately HK$967,071,000, representing an increase of approximately 160.37% as compared with 2017 of approximately HK$468,601,000. Such increase was mainly attribute to due to (i) the financial performance of the Group's chemical trading operation has been accounted for full year while it was newly commenced through the acquisition of subsidiaries in last correspondence year; and (ii) increase in revenue from Group's mining operation which was benefited by the increase in the price of molybdenum concentrate as compared to last corresponding year.

For the year ended 31 December 2018, the Group recorded a loss attributable to owners of the Company of approximately HK$484,008,000 (2017: loss of approximately HK$145,774,000), representing a decrease of approximately 232.03% as compared with last year. Such increase in loss for the year was mainly due to (i) allowance for credit loss of HK$46,046,000 for trade and other receivables; (ii) interest incurred for bank and other borrowing of HK$276,722,000; (iii) amortisation of intangible assets of approximately HK$96,505,000.

BUSINESS REVIEW

The principal activities of the Group are: (i) mining operations – exploitation and trading of mineral resources; (ii) property management operations; (iii) chemical trading operations – manufacturing and sale of chemical products; and (iv) security technologies operations – research, development and sale of security technologies products. An analysis of each of these business segments is presented below:

Mining Operations – Exploitation and Trading of Mineral Resources

As at 31 December 2018, the Group has two mineral mines within its Mining Operation, namely (i) Molybdenum Mine; and (ii) Potassium Feldspar Mine.

Molybdenum Mine

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

During the year under review, the volume of molybdenum concentrate produced was approximately 2,931 tonnes (2017: 3,104 tonnes). The sales volume of molybdenum concentrate was approximately 2,841 tonnes (2017: 3,194 tonnes). The average selling price of molybdenum concentrate was approximately HK$74,266 per tonne (2017: HK$63,416). During the year under review, the Group's mining operation contributed revenue of approximately HK$233,882,000 (2017: approximately HK$189,540,000) to the Group. Gross profit was approximately HK$86,492,000 (2017: approximately HK$40,692,000) and the gross profit margin was 38% (2017: 20%), representing an increase of 18% as compared with last year. The increase in gross profit margin was mainly due to the increase in average selling price of molybdenum concentrate from about HK$63,416 per tonne in 2017 to HK$74,266 per tonne in 2018.

Potassium Feldspar Mine

The Group's potassium feldspar mine is located in Shaanxi Province, the PRC with in-pit indicated and inferred mineral resource estimates of potassium feldspar resources of approximately 63.2 million tonnes and approximately 40.5 million tonnes respectively. The estimated resources was estimated by the technical report issued by an international mining expert appointed by the Group. During the year under review, no revenue was generated by the potassium feldspar mine as the operation was still under development.

The Directors estimate that the potassium mine can commence its operation in 2020 and consider that the commencement of the operation depends on two major elements including exploitation technology and plant and machinery as explained below:

Subsequent to the acquisition of potassium feldspar mine, the Group engaged a mining technology research company to study and develop a new production technology for the exploitation of the potassium feldspar mine. The advantage of such production technology includes main feature for (i) increase efficiency of exploitation process; (ii) less waste would be produced in production process; and (iii) produce more different type of products from potassium ore.

The Group is currently constructing the production factories including the plant and machineries for the production of potassium. The main infrastructures were in place and the production line is constructing, however it needs to correspond with the production technology layout by the mining technology research company. Therefore, the management estimate that by completing the study of technology to be used in the production of potassium in 2019, the Group will complete all the necessary infrastructures and commence the operation in 2020.

Performance of mining operation

The overall performance of mining operation was encouraging and improved significantly as compared with last corresponding year. During the year ended 31 December 2018, the Group recorded profit arising from its mining operation of approximately HK$67,132,000 (2017: loss of HK$25,739,000). The major reason leading to such increase was mainly due to the increase in the price of molybdenum and increase in gross profit margin for the sales of molybdenum concentrate.

Major assets in mining operation

As at 31 December 2018, the major assets included in the Group's mining operation were mining rights and property, plant and equipment associated with the Group's molybdenum mine and potassium feldspar mine of approximately HK$1,369,781,000 and approximately HK$2,495,714,000, respectively. At the end of the reporting period, the Group carried out impairment assessment to assess whether the recoverable amounts of the assets were below the carrying amount.

For the purpose of impairment testing, the Directors appointed an independent professional valuation firm to assess the value in use of the Group's mining operation on a yearly basis. The basis for assessing the value in use was based on the discount cash flow method (the "DCF"). In the opinion of the Directors, the DCF method is the best way to reflect the value in use of the Group's mining operation. During the year under review, there was no change in the valuation method and the Directors had the consensus to adopt a consistent valuation methodology and accounting policy in accounting for such mining operation because there would be no fundamental change in the mining industry and external environment.

The major source data and inputs of the DCF method were mainly comprised of:

– Estimated sales volume of molybdenum concentrates and potassium minerals based on the existing production capacity and corresponding production plan;

– Estimated increase in selling price of molybdenum concentrates and potassium minerals based on historical price and market information;

– Estimated production costs and operating expenses for (i) molybdenum concentrates based on the existing production cost structure; and (ii) potassium minerals was based on the technical report issued by an international mining expert appointed by the Group with reference to market and experience for production of potassium minerals;

– Estimated of the future cashflow, including changes in working capital and the incremental capital expenditure foreseeable to be incurred; and

– Discount rate of 13% and 19% for the molybdenum concentrates' operation and potassium feldspar mine operation, respectively, which were determined based on their weighted average cost of capital.

Based on the assessment of the value in use, no impairment loss had been provided in the consolidated financial statements for the year ended 31 December 2018.

Property management operations

During the year under review, the performance of the Group's property management operations was relatively stable. During the year ended 31 December 2018, the Group has two properties management services for the management of two residential properties located in Shanghai, the PRC and there was no addition and termination of properties management services during the year under review. For the year ended 31 December 2018, revenue generated from this segment was approximately HK$7,607,000 (2017: HK$7,487,000), representing a decrease of approximately 1.6% (2017: 2.68%) as compared to last year.

Chemical trading operations

The Group's chemical trading operations mainly includes manufacturing and sale of chemical products in the PRC. Our chemical products were produced by Anhui Tongxi Chemical Company Limited ("Tongxi Chemical"). During the year under review, the Group's revenue generated from chemical trading operation was approximately HK$703,500,000 and incurred loss of approximately HK$49,805,000. The major reason leading to the loss was due to the fact that the chemical factory of Tongxi Chemical had been closed down for safety review. The whole safety review process had been taken appropriate four months and the chemical operation had been resumed in late June 2018 with the satisfactory of the PRC government. Because of this effect, the Group recorded a loss for its chemical trading operation for the year ended 31 December 2018.

As at 31 December 2018, the major assets included in the Group's chemical trading operation were property, plant and equipment of approximately HK$304,228,000. At the end of the reporting period, the Group carried out impairment assessment to assess whether the recoverable amounts of the assets were below the carrying amount.

For the purpose of impairment testing, the Group appointed an independent professional valuation firm to assess the value in use of the Group's chemical trading operation on a yearly basis. The basis for assessing the value in use was based on DCF. The major source data and inputs of the DCF method were mainly comprised of:

– Estimated sales volume of chemical products produced by Tongxin Chemical based on the existing production capacity and corresponding production plan;

– Estimated increase in selling price of chemical products based on historical price and market information;

– Estimated production costs and operating expenses based on the existing production cost structure; and

– Discount rate of 18% which was determined based on their weighted average cost of capital.

Since the recoverable amounts of Tongxin Chemical below its carrying value, an impairment loss of goodwill of approximately HK$12,939,000 had been provided in the consolidated financial statements for the year ended 31 December 2018.

Security technologies operations

The Group's security technologies operations mainly includes research and development of face recognition technologies in the PRC. Our security technologies and service were provided by Xinjinag Casiavision Security Technology Company Limited and Xinjiang Xintongxing Telecommunication Engineering Company Limited ("Xinjiang Group"). During the year under review, the Group's revenue generated from security technologies operation was approximately HK$13,689,000 and incurred loss of approximately HK$4,883,000, which was mainly due to the provision of obsolete inventories of approximately HK$34,300,000 and allowance for credit loss on trade and other receivables of approximately HK$22,500,000.

Xinjiang Group was acquired by the Group in 2017 at the consideration of HK$430,000,000 and the major assets of which was a contract backlog relating to the contracts for the sales of terminal device to the government authority in Xin Jiang, the PRC.

During the year under review, the performance of Xinjiang Group was not as good as expected because there was no sale of terminal device generated from the contract backlog during the year ended 31 December 2018. The reason for such situation was that the Group produced the first batch of terminal device to customer in late 2017, however, the customer had certain feedback and required Xinjiang Group to adjust and add several functions to achieve the best performance of the terminal device. Accordingly, Xinjiang Group was in the process to adjust the derive but still not satisfied during the year under review.

The management of Xinjiang Group consider that they will continue to develop the function of terminal device in order to satisfy the customer's requirements. Nevertheless, in order to protect the interests of the Group and in view of the uncertainty on whether the sale of terminal device can produce the expected income flow under the contract backlog, the Group had discussed with the former shareholders of Xinjiang Group and they agreed to buy back the entire equity interests of Xinjiang Group. Accordingly, subsequent to financial year end, the Group entered into the disposal agreement with the former shareholders of Xinjiang Group to disposed of its entire equity interests in Xinjiang Group at consideration of HK$430,000,000, being the consideration paid for the acquisition of Xinjiang Group in 2017.

Material Transaction

On 28 March 2019, the Group entered into a sale and purchase agreement with the former shareholders of Xinjiang Group for the disposal of the entire equity interests in Full Empire Investment Holding Limited at the consideration of approximately HK$430,000,000.

Termination of Joint Venture

On 9 April 2018, the Company and Mr. Xu Zi Jing ("Mr. Xu") ("Parties") entered into the Joint Venture Agreement pursuant to which the Parties agreed to form a Joint Venture for the purpose of the establishment, operation, promotion and maintenance of blockchain asset trading platform and the research and development and application of blockchain related technology.

After careful consideration of all the circumstances surrounding the Joint Venture and the Company's right under the Joint Venture Agreement, the Parties have mutually agreed to terminate the Joint Venture Agreement. On 12 June 2018, the Parties entered into a termination agreement to terminate the Joint Venture Agreement with immediate effect. The Board considers that the termination of the Joint Venture Agreement will not have any material adverse impact on the financial and operational position of the Group.

PROSPECTS

Looking forward, the global economy is still facing lots of uncertainties, such as the international financial crisis, slowdown of global economy, Sino-US trade war, all these have posed great challenges to the global economy. However, the Group is still confident that the Chinese government can solve the dispute in an effective way and the Chinese economy can keep on growing smoothly.

Molybdenum market

The operation environment of China's steel industry is the key factor that affects the development of the country's molybdenum market. As required by China's environmental protection policy and supply-side reform policy, steel factories have no alternative but to transform and shift to produce high quality special steel. Meanwhile, the normalization of Fall/Winter production restriction will further accelerate the enhancement and reconstruction of the steel industry, there are still ample room to increase the production of stainless steel and high strength steel. All the factors stated above will further drive up the demand for molybdenum, and it is expected that the demand for molybdenum in China will keep increasing. It is expected that the molybdenum market will continue to improve in 2019.

Potassium market

Potassium feldspar can be produced into potash fertilizer, which can enrich the soil and enhance harvest. Over-supply in the potash fertilizer industry still persists, but China's urbanization and agricultural supply-side reform have accelerated the development of a new large scale agricultural industry, and mechanization, automation and intelligent agricultural will be the direction of future development of the industry. Consumption upgrade and the supply-side structural reform have created huge demand for modern agricultural services and quality agricultural products. The aforesaid conditions have provided opportunities for our future development.

Security business market

Xinjiang's public security has always been a concern to the Chinese government. The government is gradually enhancing the security control on different aspects and along the boundary line, and has started to manage the urban and rural areas with the help of online systems. As Chinese government will continue to improve the social security system and will demand for more security systems, so we envisage a bright future for our security business. However, due to the uncertainty on the development of the security systems that involve advance technology to fulfill the ever-changing environment, the Group decided to sell back the security business to its former shareholders to avoid the economic risk associated with the security business.

Chemical business market

China has stringent regulatory requirements for safety and environmental protection, which have inevitably created short-term operation pressure on the chemicals manufacturing industry. However, corporate with competitive advantage on environmental protection will eventually capture the opportunities emerged in an operation environment with sound regulation. The Group will continue to invest on safety and environmental protection, impose stringent control over its costs, enhance its production efficiency, and will formulate effective marketing strategy to meet the challenges of increasing competition in the market.

The Group will make every endeavor to keep abreast of the changing market conditions, proactively identify investment opportunities and expand its mineral resources in order to broaden the revenue base of the Group, enhance its future financial performance and profitability, and fine tune its business strategies when the Directors of the Company think appropriate. Moreover, the Group is seeking for further operating efficiency across the business. We are confident in the future and committed to continuous growth of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and proceeds from suitable source of funding. During the year under review, the Group recorded a cash outflow of approximately HK$39,784,000 (2017: inflow of approximately HK$433,686,000) which was mainly due to the Group used internal cash resources to repayment of loan interests and convertible bonds in 2018.

As at 31 December 2018, the Group had outstanding bank loans and other borrowings at the amount of approximately HK$1,347,921,000 (2017: approximately HK$847,664,000). The Group's gearing ratio as at 31 December 2018 was approximately 21.15% (2017: 12.97%). The increase in gearing ratio was mainly due to the increase in proportion of interest bearing bank borrowings to total liability and equity during the year under review. The Board will closely monitor the liquidity position of the Group to ensure the Group has sufficient funding to settle the debts when fall due. As at 31 December 2018, the Group's current ratio was approximately 0.86 (2017: approximately 0.74).

The decrease in current ratio was mainly due to increase in bank loans and other borrowings during the year under review. As at 31 December 2018, the Group's debt to equity ratio was approximately 0.99 (2017: approximately 0.42). The increase in debt to equity ratio was mainly due the increase in borrowing during the year under review.

The ratio was calculated by dividing the total liabilities of approximately HK$2,479,025,000 (2017: approximately HK$1,929,976,000) by equity attributable to owners of the Company of approximately HK$2,497,615,000 (2017: approximately HK$3,120,678,000). Overall, the Board believes that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

CAPITAL STRUCTURE AND TREASURY POLICIES

Capital Structure

The Group's capital structure as at 31 December 2018 mainly comprised of current assets of approximately HK$1,256,594,000 (2017: approximately HK$955,339,000), current liabilities of approximately HK$1,466,482,000 (2017: approximately HK$1,284,428,000) and equity attributable to owners of the Company of approximately HK$2,497,615,000 (2017: approximately HK$3,120,678,000).

Current assets mainly comprised of (i) cash and cash equivalents of approximately HK$122,533,000 (2017: approximately HK$162,317,000); (ii) inventories of approximately HK$520,772,000 (2017: approximately HK$472,640,000); and (iii) prepayments, deposits and other receivables of approximately HK$586,765,000 (2017: approximately HK$253,722,000).

Current liabilities mainly comprised of (i) borrowings of approximately HK$710,524,000 (2017: approximately HK$596,343,000); (ii) trade payables of approximately HK$135,313,000 (2017: approximately HK$184,859,000); and (iii) accruals and other payables of approximately HK$221,522,000 (2017: approximately HK$148,775,000).

Convertible Bonds Issued

During the year under review, the Group did not issue any convertible bonds. As at 31 December 2017, the Group issued two convertible bonds: (i) convertible bond in an aggregate principal amount of HK$98,838,000 ("CB1"). The interest rate is 10% per annum, from the date of issue payable annually in arrears. The bondholder will have the right to convert the whole or part of the principal amount of the convertible bond into the conversion shares at an initial conversion price of HK$0.15 per share (subject to adjustment) at any time and from time to time, between the date of issue of the convertible bond, and up to the date falling on the second anniversary of the date of issue of the convertible bond; and (ii) convertible bond in an aggregate principal amount of HK$250,000,000 ("CB2"). The interest rate is 10% per annum, from the date of issue payable annually in arrears. The bondholder will have the right to convert the whole or part of the principal amount of the convertible bond into the Conversion Shares at an initial conversion price of HK$0.15 per share (subject to adjustment) at any time and from time to time, between the date of issue of the convertible bond, and up to the date falling on the second anniversary of the date of issue of the convertible bond.

During the year ended 31 December 2018, CB1 was fully repaid.

Debenture and Bond Issued

Upon the maturity date of CB2 on 28 December 2018, the Group entered into standstill deed in relation to turn the CB2 into a bond with a principal amount of HK$250,000,000 at a price equal to 100% of its principal amount to Sfund International Investment Fund Management Limited, which is to the best of knowledge, information and belief of the Directors having made all reasonable enquires, an independent third party of the Company (the "Corporate Bond"). The Corporate Bonds would mature on 28 September 2019. The interest rate of the Corporate Bond was 10% per annum.

Treasury Policies

During the year ended 31 December 2018, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. The Board does not consider that the Group is significantly exposed to any foreign currency exchange risk. It is the Group's treasury policy to manage its foreign currency exposure whenever such financial impact is material to the Group. For the years ended 31 December 2018 and 2017, the Group did not employ any financial instruments for hedging purpose and was not engaged in foreign currency speculative activities.

BANK AND OTHER BORROWING AND CHARGES OF GROUP ASSETS

As at 31 December 2018, the Group had bank and other borrowings amounted to approximately HK$1,347,921,000 (2017: HK$847,664,000). As at 31 December 2018, the Group's interest bearing bank loans were carried at effective interest rates from 6.09% to 30% per annum and were secured by (i) guarantees from a subsidiary of the Group and the subsidiary's minority shareholders; (ii) guarantee from the ultimate control party; (iii) pledged bank deposit, (iv) pledged property, plant and equipment; (v) pledged prepaid land lease; and (vi) pledged mining rights.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no significant contingent liabilities (2017: Nil).

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2018, the Group employed 688 full time employees (2017: 637 employees). Employees' remuneration packages are structured and reviewed with reference to the nature of the jobs, market condition and individual merits. The Group also provides other employee benefits including year-end double pay, mandatory provident fund and medical insurance.

SCOPE OF WORK OF ELITE PARTNERS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditors, Elite Partners CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2018. The work performed by Elite Partners Limited 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 Elite Partners CPA Limited on the preliminary announcement.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, the Company had applied the principles of the Corporate Governance Code (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with all the applicable code provisions of the Code, except the following code provisions:

1. Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

   Mr. Yang Ying Min ("Mr. Yang"), being the Chairman and Chief Executive of the Company, has in-depth knowledge and considerable experience in the Group's business, and is responsible for the overall strategic planning and general management of the Group. The Board considers that vesting the roles of chairman and chief executive officer in the same person will lead to consistent leadership of the Group and enable the Group to make and implement decisions promptly, thus achieving the Group's objectives efficiently and effectively in response to the changing environment.

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

2. Under the code provision A.5.1 of the Code, the Company should establish a nomination committee chaired by the chairman of the Board or an independent non-executive director. The majority of its members shall be independent non-executive directors.

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

The Company has formulated a board diversity policy (the "Policy") for achieving diversity on the Board of the Company. The Policy enables the sustainable and balanced development of the Company's strategic objectives. The Board reviews the Policy annually to ensure the effectiveness of which.

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

   Due to personal and other important engagement, Dato Dr. Cheng Chak Ho was absent from the 2018 annual general meeting of the Company.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company confirmed that all Directors had fully complied with the required standard set out in the Model Code for the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive directors, namely. Mr. William Fong, Mr. Leung Kar Fai and Dato Dr. Cheng Chak Ho. The purpose of the establishment of the audit committee is for reviewing and supervising the financial reporting system, risk management and internal control systems of the Group. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2018.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The result announcement is published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.northmining.com.hk. The 2018 annual report of the Company containing all the information required by the Listing Rules will be dispatched to its shareholders and published on the above websites in due course.

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

Hong Kong, 28 March 2019

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 Mr. Zhao Jian as Executive Directors; and Mr. William Fong, Mr. Leung Kar Fai and Dato Dr. Cheng Chak Ho as Independent Non-executive Directors.