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NORTH MINING SHARES COMPANY LIMITED

北方礦業股份有限公司

*(Provisional Liquidators Appointed)
(For Restructuring Purposes)*

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

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board of directors (the “Board”) of North Mining Shares Company Limited (the “Company”, together with its subsidiaries, the “Group”) is pleased to announce the audited results of the Group for the year ended 31 December 2019 (“Audited Results”).

References are made to the announcements of the Company (i) on 27 March 2020 relating to the unaudited consolidated annual results of the Group for the year ended 31 December 2019 (“Unaudited Results”) and (ii) on 11 June 2020 relating to the delay of despatch of annual report for the year ended 31 December 2019 (“Annual Report”).

AUDITOR’S AGREEMENT ON THE AUDITED RESULTS

The Board announced that the Company’s auditor, Elite Partners CPA Limited, has completed its audit of the annual results of the Group for the year ended 31 December 2019 in accordance with Hong Kong Standard on Auditing issued by Hong Kong Institute of Certified Public Accountants.

MATERIAL DIFFERENCES BETWEEN UNAUDITED AND AUDITED ANNUAL RESULTS

Pursuant to (i) the financial information contained in the unaudited annual results announcement of the Company dated 27 March 2020 (the “Unaudited Annual Results Announcement”) which was neither audited by nor agreed with the auditors of the Company as at the date of its publication and (ii) the subsequent adjustments have been made to such information, shareholders and potential investors of the Company are advised to pay attention to certain differences between the financial information of the unaudited and the audited annual results of the Group. Set forth below are details and reasons for the material differences in such financial information.

Change on Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the year ended 31 December 2019			
	Audited	Unaudited	Difference	Notes
	HK\$'000	HK\$'000	HK\$'000	
Continuing operations				
Revenue	846,587	846,587	–	
Cost of sales	(754,352)	(675,637)	(78,715)	(i)
Gross profit	92,235	170,950	(78,715)	
Other income	102,291	92,914	9,377	(ii)
Research and development cost	(38,213)	(38,213)	–	
Impairment losses under expected credit loss model, net of reversal	(152,428)	246	(152,674)	(iii)
Other gains and losses	(687,526)	(121,882)	(565,644)	(iv)
Administrative expenses	(189,484)	(179,796)	(9,688)	(v)
Loss from operations	(873,125)	(75,781)	(797,344)	
Finance costs	(284,571)	(280,318)	(4,253)	(vi)
Loss before income tax	(1,157,696)	(356,099)	(801,597)	
Taxation	13,360	13,360	–	
Loss for the year from continuing operations	(1,144,336)	(342,739)	(801,597)	
Discontinued operations				
Loss for the year from discontinued operations	(72,237)	(13,753)	(458,484)	(vii)
Loss for the year	(1,216,573)	(356,492)	(860,081)	
Other comprehensive expense				
<i>Exchange differences arising from translation of foreign subsidiaries</i>	(25,065)	7,008	(32,073)	(ix)
<i>Release of exchange difference upon translation of foreign subsidiaries</i>	11,734	–	11,734	
Total comprehensive expense for the year	(1,229,904)	(349,484)	(880,420)	

For the year ended 31 December 2019

	Audited <i>HK\$'000</i>	Unaudited <i>HK\$'000</i>	Difference <i>HK\$'000</i>	<i>Notes</i>
Loss for the year attributable to owners of the Company				
– From continuing operations	(639,329)	(254,730)	(384,599)	
– From discontinued operation	(103,417)	(13,753)	(89,664)	
	(742,746)	(268,483)	(474,263)	
Loss for the year attributable to non-controlling interests				
– From continuing operations	(473,827)	(26,701)	(447,126)	
– From discontinued operation	–	–	–	
	(473,827)	(26,701)	(447,126)	
Total comprehensive expense attributable to:				
Owners of the Company	(742,308)	(267,051)	(475,257)	
Non-controlling interests	(487,596)	(82,433)	(405,163)	
	(1,229,904)	(349,484)	(880,420)	
Loss per share attributable to owner of the Company for the year <i>(HK cents per share):</i>				
Basic	(3.47)	(1.25)	(2.22)	
Diluted	N/A	(1.19)	N/A	

Consolidated Statement of Financial Position

At 31 December 2019

	Audited HK\$'000	Unaudited HK\$'000	Difference HK\$'000	Notes
NON-CURRENT ASSETS				
Property, plant and equipment	779,928	859,477	(79,549)	(iv)
Mining rights	2,615,579	3,227,605	(612,026)	(iv)
Right-of-use assets	60,289	85,728	(25,439)	(vi)
Long-term receivables	446,804	563,815	(117,011)	(iii)
CURRENT ASSETS				
Inventories	426,106	460,044	(33,938)	(i)
Trade and bill receivables	1,235	2,195	(960)	(iii)
Current portion of long-term receivables	396,765	–	396,765	
Prepayments, deposits and other receivables	402,322	878,421	(476,099)	(iii)
CURRENT LIABILITIES				
Other payables and accruals	328,806	314,704	14,102	(v)
Bank loans and other borrowings	856,787	918,731	(61,944)	(ix)
Provision for environment and resources tax	53,935	98,509	(44,574)	(ii)
Lease liabilities	4,269	3,815	454	(vi)
Contract liabilities	33,531	32,967	564	(ix)
NON-CURRENT LIABILITIES				
Bank loans and other borrowing	524,658	473,858	50,800	(viii)
Other payables	16,448	16,495	(47)	(ix)
Lease liabilities	1,091	26,688	(25,597)	(vi)
CAPITAL AND RESERVES				
Reserves	1,410,199	1,886,638	(476,439)	
Non-controlling interests	909,681	1,315,257	(405,576)	

Notes:

- (i) The difference represented the written off of inventories and reallocation of administrative expense to cost of sales.
- (ii) The difference represented over provision for the environment and resources tax from prior year.
- (iii) The difference represented additional impairment loss of long-term receivables, trade receivables and other receivables under expected credit loss model recognised for the year. Also, reclassify current portion of long-term receivables from Prepayment, deposits and other receivables.
- (iv) The difference represented the written off of construction in process and the impairment loss on the mining rights recognised during the year.
- (v) The difference represented the under-provision of accrued expenses and reallocation from administrative expense to cost of sales.
- (vi) The difference represented the effect on new incremental borrowing rates used in calculating the lease liabilities upon the adoption of HKFRS 16 as at 1 January 2019 and use the new incremental borrowing value from the valuer.
- (vii) The difference represented the amounts reclassified from loss from continuing operations to loss from discontinued operation.
- (viii) The difference represented the reclassification of bank loans and other borrowings from current to non-current
- (ix) The difference represented the reclassification from other payables and accruals to the contract liabilities.
- (x) The difference represented the exchange differences arising from the effect of the above adjustments.

Save as disclosed above, all other information in the announcement of the Company on 27 March 2020 relating to the Unaudited Results remains unchanged.

REVIEW OF AUDITED RESULTS BY AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has reviewed with the management of the Company and the Company’s external auditors the consolidated financial statements of the Group for the year ended 31 December 2019, including accounting principles and practices adopted by the Group, and discussed the risk management, internal controls and financial reporting matters related to the preparation of the annual results of the Group for 2019. The Group’s Audited Results have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards, the Listing Rules and other legal requirements, and that adequate disclosures have been made

EXTRACT OF THE AUDITOR'S REPORT

The following is the extract of the independent auditor's report from the external auditor of the Company:

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

1) Multiple fundamental uncertainties relating to going concern

The consolidated financial statements, as at 31 December 2019, the Group's current liabilities exceeded its current assets by HK\$475,077,000 and incurred a net loss of approximately HK\$1,216,573,000 for the year then ended. The Group maintained cash and cash equivalents of approximately HK\$18,446,000 as at 31 December 2019.

On 27 May 2019, the Company received a petition ("Petition") issued in the Court of First Instance of the High Court of Hong Kong ("High Court") by a creditor against the Company for failure to settle an indebtedness sum of HK\$170,492,494, being the alleged outstanding amount owned by the Company to the Petitioner.

On 28 October 2019, to facilitate the Company's financial restructuring, a winding-up petition together with an application for the appointment of joint and several provisional liquidators of the Company had been filed to the Supreme Court of Bermuda at the request of the Company for restructuring purpose.

On 7 June 2020, a settlement agreement had been entered between the Company and the creditor that the Company had to settle the outstanding balance of HK\$119,948,632, being the outstanding principal of HK\$106,596,345 and accumulated interest of HK\$13,352,287, owed to the creditor by (a) the Company shall deposit a cash order of HK\$15,000,000 that shall be released to the creditor immediate upon the High Court orders to dismiss the Petition; (b) the Company shall pay the creditor of HK\$15,000,000 on each of the dates falling the expiry, of six months, twelve months and eighteen months from the date of the settlement agreement; and (c) the Company shall pay the creditor the remaining outstanding balance due to the creditor on the second anniversary date of the date of the settlement agreement.

These conditions indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern.

The Directors have been undertaking a number of measures to improve the Group's liquidity and financial position, including but not limited to, debt restructuring, raise additional funding through placing of shares of the Company and implement cost saving 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 those measures, which are subject to multiple uncertainty. For the purpose of our audit, we were unable to obtain sufficient appropriate audit evidence that we consider necessary to assess whether those measures can be successfully implemented to improve the Group's liquidity and financial position.

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

2) Limitation of scope – Recoverability of consideration receivable; long-term receivables and loan receivable

- (a) As at 31 December 2019, the Group has consideration receivable of approximately HK\$410,000,000 arising from the disposal of the entire equity interests of Full Empire Investment Limited and its subsidiaries ("Consideration Receivable"), of which HK\$210,000,000 shall be received in cash within one year after the execution of the agreement relating to the disposal; and the remaining balance of the Consideration Receivable shall be received in cash before 28 March 2021. On 21 May 2020, the Company entered into a supplemental agreement with the purchaser of Full Empire Investment Limited that the instalments of the outstanding balance of the Consideration Receivable further delay to (i) HK\$200,000,000 shall be settled on 28 March 2021; and (ii) the remaining balance of the Consideration Receivable shall be settled on 28 March 2022. The Group has provided a credit loss in respect of the Consideration Receivable of approximately HK\$3,924,000 under the ECL model for the year ended 31 December 2019.
- (b) As at 31 December 2019, the Group has long-term receivables of approximately HK\$600,000,000, carrying interest at 10% per annum and repayable on annual basis in 5 years ("Long-term Receivables"). The Group has provided a credit loss in respect of the Long-term Receivables of approximately HK\$142,615,000 under the ECL model for the year ended 31 December 2019.

- (c) As at 31 December 2019, the Group has loan receivable of approximately HK\$225,000,000 granted to minority shareholders of subsidiaries of the Group which was carried interest at 11% per annum (“Loan Receivable”). The Group has provided a credit loss in respect of the Loan Receivable of approximately HK\$2,775,000 under the ECL model for the year ended 31 December 2019.

We were unable to obtain sufficient appropriate audit evidence as to (i) inadequate documentary evidence available for us to satisfy ourselves as to whether the ECL assessment for each of the Consideration Receivable, Long-term Receivables and Loan Receivable was appropriate; and (ii) no alternative audit procedures that we could perform to satisfy ourselves as to the recoverability of the Consideration Receivable, Long-term Receivables and Loan Receivables.

Any adjustments that might have been found necessary might have an effect on the Group’s net assets at as 31 December 2019, and its financial performance and cash flows of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

3) Limitation of scope - Condition of certain inventories held by sub-contractor

During the year ended 31 December 2019, the Group entered into a processing agreement with a sub-contractor, being a processing factory, to further process the Group’s molybdenum concentrate into Ferromolybdenum for the purpose of re-sale at higher profit margin. As at 31 December 2019, the Group’s inventories of approximately HK\$359,951,000 were held by the sub-contractor (“Inventories”). However, there was no subsequent sale had been made. As represented by the management of the sub-contractor and the management of the Company, the manufacturing process has been delayed due to the adverse effect of COVID-19.

Given the above circumstances, we were unable to obtain sufficient appropriate audit evidence regarding the valuation, condition and quantities of the Inventories, including but not limited to: (i) unable to perform physical counting of the Inventories for the purpose of our audit; and (ii) unable to satisfy ourselves by alternative means concerning the audit of net realisable value of the Inventories at 31 December 2019.

Any adjustments that might have been found necessary might have an effect on the Group’s net assets at as 31 December 2019, and its financial performance and cash flows of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

PROFIT WARNING

Due to the epidemic of the Coronavirus Disease 2019 and the curbing and quarantine policies adopted and/or implemented by the Chinese government, and Elite Partners CPA Limited, the auditor of the Company (the “Auditor”), encountered significant practical difficulties in auditing the consolidated financial statements of the Group for the year ended 31 December 2019 as they were unable to go to certain locations of the Group’s subsidiaries for performing audit work. On 27 March 2020, the Company has published an announcement of unaudited annual results for the year ended 31 December 2019.

The Company has been communicating and liaising with the Auditor. The Auditor requires additional time to finalise its audit procedures for the publication of the 2019 audited annual results and the 2019 Annual Report. The Company has also granted the extended waiver from The Stock Exchange of Hong Kong Limited on 9 June 2020 for delay publication of 2019 Annual Result Announcement, 2019 Audit Report, a meeting of the Board and holding the Annual General Meeting.

On 23 June 2020, The Company published the profit warning announcement. Because the Company alerted that a significant impairment loss of the Group’s asset value was identified during the completion of auditing and asset valuation progress.

PUBLICATION OF ANNUAL REPORT

As disclosed in the announcement published by the Company on 11 June 2020, the Company plans to publish the annual report and the audited results announcement together.

By order of the Board
North Mining Shares Company Limited
(Provisional Liquidators Appointed)
(For Restructuring Purposes)
Yang Ying Min
Chairman

Hong Kong, 26 June 2020

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. Wong Wai Chun Alex, Dato Dr. Cheng Chak Ho and Mr. Yeung Yat Chuen as Independent Non-executive Directors.