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NORTH MINING SHARES COMPANY LIMITED
北 方 礦 業 股 份 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 433)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

References are made to (i) the announcement of North Mining Shares Company Limited (the "**Company**", together with its subsidiaries the "**Group**") dated 27 March 2020 in relation to the unaudited annual results (the "**Unaudited Annual Results**") of the Group for the year ended 31 December 2019 ("**FY 2019**"); (ii) the announcements of the Company dated 27 April 2020, 15 May 2020 and 11 June 2020 in relation to the delay in publication of the audited annual results announcement and despatch of the annual report of the Company for FY 2019 (the "**2019 Annual Report**"); and (iii) the 2019 Annual report was published by the Company on 28 June 2020 containing, among others, the audited annual results of the Group for FY2019 (the "**Audited Results**").

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide further information in relation to the management's and audit committee's views on the Audit Qualifications and Other Information to supplement the relevant disclosures made in the 2019 Annual Report.

AUDIT QUALIFICATIONS

As disclosed in the 2019 Annual Report, the auditor of the Company (the "**Auditor**") issued a disclaimer of opinion on the consolidated financial statements of the Group for FY2019 (the "**Audit Qualification(s)**"), the details of which were described in the paragraph headed "Basis for Disclaimer of Opinion" of the independent auditor's report contained in the 2019 Annual Report.

(i) Multiple fundamental uncertainties relating to going concern

For the purpose of preparing the 2019 Annual Report under going concern basis, Directors have taken the following measures to mitigate the liquidity pressure and to improve the financial position of the Group, as disclosed in note 1.3 of the 2019 Annual Report, including but not limited to: (i) subscription of the new shares of Company with estimated gross proceeds of HK$30 million by an independent subscriber (the "**Independent Subscriber**"); and (ii) memorandum of understanding entered by the Company with Sfund International Investment Fund Management Limited and Mr. Qian Yi Dong (the "**Potential Subscribers**") in relation to the possible subscription of the new shares of the Company by the Potential Subscribers (the "**Possible Subscription**") with estimated proceeds of HK$350 million and HK$50 million, respectively (collectively as "**Possible New Funding**",).

The Auditor was unable to obtain sufficient audit evidence, such as (i) written confirmation from the Independent Subscriber and the Potential Subscribers that they would provide the Possible New Funding; and (ii) whether the Possible New Funding will be approved by the Stock Exchange and/or the shareholders of the Company (the "**Shareholders**").

The management position and assessment on the Audit Qualifications

The Board was of the view that the Possible New Funding had/would be completed that the Company would have sufficient funding to settle its debts in the coming twelve months from the approval of the 2019 Annual Report because the major condition precedent of the Possible New Funding had been completed, i.e. the withdrawal of the winding-up petition in the Court of First Instance of the High Court of Hong Kong on 22 June 2020; and the withdrawal of the winding-up petition in the Supreme Court of Bermuda would be completed, which in fact the Bermuda Petition was withdrawal on 28 July 2020.

Nevertheless, the Possible New Funding is yet to complete as at the date of approving the 2019 Annual Report. The Auditor concerns as to whether the Possible New Funding can be materialized to resolve the liquidity position of the Group because there were still several uncertainties relating to the Possible New Funding such as approval from the Stock Exchange and the Shareholders and the confirmation of the Independent Subscriber and the Potential Subscribers in relation of the completion of the Possible New Funding.

The Audit Committee's view towards the Audit Qualifications

The audit committee of the Company (the **"Audit Committee**") agreed with the Board's position concerning the Possible New Funding would be completed in coming next twelve months from the date of approving the 2019 Annual Report because the major condition precedent of the Possible New Funding had been completed.

The Audit Committee had discussed with the Auditor that they understood the Auditor's concern and agreed with the Auditor that the Company was unable to provide documentary evidence regarding the Possible New Funding can be materialized.

The Company's proposed action plan with expected timeline to address the Audit Qualifications

The following set out the Company's proposed action plan with expected timeline to address the going concern issue:

(a) On 7 June 2020, the Company and the Independent Subscriber entered into a subscription agreement for raising approximately HK$30 million and the subscription was completed on 5 August 2020. Please refer to the announcements of the Company dated 7 June 2020 and 5 August 2020 in relation to (1) subscription of new shares under general mandate; and (2) completion of subscription of new shares under general mandate respectively for further details;

(b) The Company is currently discussing with the Potential Subscribers including but not limited to the structure and terms for the Possible Subscription. The Board is in the opinion that the Possible Subscription will complete before the end of December 2020 and announcements will be published in due course; and

(c) As at 31 December 2019, the Company had approximately HK$571.86 million loans (included principal and interests) (the "**Debts**") due to the creditors of the Company (the "**Creditors**"). The Board has been actively communicating with the Creditors and discussing the repayment plans for the Debts. So far, the plan being discussed with the Creditors was to convert all the Debts into convertible bonds with a term of not less than two years. Currently, the largest creditor of the Company has agreed to the proposed conversion and no concrete terms of the proposed conversion has been finalised.

Expectation of the Audit Qualifications to be removed in the next year's independent auditors' report after taking into account the Company's action plan.

The Company expect the Audit Qualifications can be removed if the Possible New Funding would be completed on or before the approval of the consolidated financial statements of the Group for the year ending 31 December 2020. The Board will closely monitor the progress with the negotiation with the Potential Subscribers and make the best effort to complete the Possible New Funding.

(ii) Limitation of scope – Recoverability of consideration receivable; long-term receivables and loan receivable (together as "Receivables")

The Board has closely monitored the settlement of Receivables throughout the year, including but not limited to actively communicate with the debtors, understanding the financial situation of the debtors and negotiate the repayment schedule for the Receivables.

During the discussion with the debtors, it comes to the Board's attention that the financial situation of the debtors was seriously affected by the threat of Coronavirus Disease 2019 ("**COVID-19**"). The Chinese government has adopted and/or implemented a containment and quarantine policy to suspend all operations to reduce the risk of further transmission of COVID-19, resulting in almost all business transactions, including the debtors' own business, were seriously affected. The debtors were, therefore, unable to settle the Receivables under the payment schedule.

Although the Board had actively communicated with the debtors, including but not limited to the agreement of the new repayment schedule with the debtors, for the purpose of the audit, the Board was unable to provide supporting documents to the Auditor to satisfy themselves as to the recoverability of the Receivables, such as the financial information of the debtors to support that they have sufficient financial availability to settle the Receivables.

The management position and assessment on the Audit Qualifications

The Board considered that throughout the discussion with the debtors, the debtors were willingness to settle the Receivables. The Board understood that the delay of the settlement was mainly due to the impact of COVID-19 was not in the control of the debtors. From the view that the COVID-19 was only a short-term phenomenon, the Board consider that the debtor has sufficient cash to settle the Receivables in future.

Nevertheless, the Auditor concern about the justification of the recoverability of the Receivables and the documentary evidence to support the view of the Board. Under this circumstance, the Board was unable to provide documentary evidence to the Auditor in respect of the recoverability of the Receivables or as to whether the debtors can be successfully recovered from the impact of COVID-19.

The Audit Committee's view towards the Audit Qualifications

The Audit Committee had discussed with the Board and concurred with adverse impact from the COVID-19 that affected the debtors' ability for repayment. The Audit Committee had also discussed with the Auditor that they understood the Auditor's concern and agreed with the Auditor that the Company was unable to provide documentary evidence regarding the recoverability of the Receivables.

The Company's proposed action plan with expected timeline to address the Audit Qualifications

The Company will put in their best effort to monitor the situation of the debtors, including but not limited to, frequently held meetings with debtors to understand their financial situation, negotiation of new repayment schedule, identify any additional collateral can be obtained from debtors to secure the Receivables.

Nevertheless, in order to protect the Company and Shareholders as a whole, the Group will review the recoverability of the Receivables for each of the debtors on or before 31 December 2020, and will take legal actions against the debtors if any implications for default of Receivables exist.

Expectation of the Audit Qualifications to be removed in the next year's independent auditors' report after taking into account the Company's action plan.

The Company expects the Audit Qualifications can be removed if the debtors' recoverability can be ascertained, which can be evidenced by the settlement of Receivables in accordance with the new repayment schedule or new collateral can be obtained from debtors. If the debtors fail to comply with new repayment schedule, the Group will provide full impairment for the said balance and will take legal action against the debtors.

If the impairment of the Receivables had been made in the coming year audit (i.e. 2020 Annual Report), the Board expects the Audit Qualifications will only be the timing for impairment and that can be removed in following year audit (i.e. 2021 Annual Report).

(iii) Limitation of scope – Condition of certain inventories held by sub-contractor

On 28 October 2019, the Group and a sub-contractor (the "**Sub-Contractor**") entered into a processing agreement, which process the Group's molybdenum concentrates into Ferromolybdenum by the Sub-Contractor for re-sale at higher profit margin. The molybdenum concentrates were 6,487.90 tons, at cost of approximately HK$360 million were held by the Sub-Contractor as at 31 December 2019 (the "**Inventories**").

On 31 December 2019, the Auditors were unable to perform physical stock taking of the Inventories due to the fact that the Inventories were held by the Sub-Contractor under their production line. Nevertheless, the Auditor requested the stocktaking of the Inventories and the Group planned to arrange second stock take for the Inventories in late January 2020. However, due to the epidemic of the COVID-19 and the curbing and quarantine policies adopted and/or implemented by the Chinese government, the Auditor was unable to go to the Mainland China (the "**PRC**") to perform physical stock taking.

The Auditor proposed alternative audit procedures to assess the Inventories including but limited to the roll-back testing or verification of the subsequent sales for the Ferromolybdenum, etc. However, due to the curbing and quarantine policies adopted and/or implemented by the Chinese government, substantially all of the production factories in the PRC were forced to close down and there were no subsequent sales in respect of the Ferromolybdenum. Accordingly, the Auditor has no alternative but to qualify the Inventories held by the Sub-Contractor.

The management position and assessment on the Audit Qualifications

The Board consider that the Audit Qualifications, resulting from the epidemic of COVID-19, was not in the control by the Group, including but not limited to the close down of factories that affect the production process of the Sub-Contractor and the subsequent sales of Ferromolybdenum. The Board agreed with the Audit Qualifications because the stocktaking is one of the standard audit procedures that the Auditor should perform for the purpose of their audit.

The Audit Committee's view towards the Audit Qualifications

The Audit Committee had discussed with the Board and the Auditor concurred with the Audit Qualifications. The Board will closely monitor the production and subsequent sales of the Ferromolybdenum subsequent to the resume of Sub-Contractor's production and subsequent sales of Ferromolybdenum.

The Company's proposed action plan with expected timeline to address the Audit Qualifications and expectation of the Audit Qualifications to be removed in the next year's independent auditors' report after taking into account the Company's action plan.

The Board expects the Audit Qualifications can be removed in coming year's audit because all of the production factories in the PRC were resuming. The board expects that the Ferromolybdenum can be sold in 2020.

OTHER INFORMATION - MATERIAL DIFFERENCES BETWEEN THE UNAUDITED ANNUAL RESULTS AND THE AUDITED RESULTS

References are made to the Unaudited Annual Results and the 2019 Annual Report. The Board would like to provide the following supplemental information in relation to the material differences between the Unaudited Annual Results and the 2019 Annual Report (the "**Adjustments**"), particularly, the nature and reasons for each Adjustment.

The Adjustments was mainly resulting from the valuation results which were made by the independent valuer (the "**Valuer**") in respect of the valuation for (i) the expected credit loss ("**ECL**"); and (ii) impairment assessment on the Group's potassium feldspar mine (the "**Mine Impairment**").

(i) Expected Credit Loss of Receivables

The valuation was performed and assessed the respective ECL under ECL model in accordance with Hong Kong Financial Reporting Standard 9 “Financial Instruments” (“**HKFRS 9**”). The assumptions made for the impairment loss under ECL, net of reversal of HK$153 million, are as follows:

(a) The list Receivables as of 31 December 2019;
(b) The economic outlook in general and the specific economic environment and market elements affecting the total ECL of the Receivables;
(c) Reliable sources of market data; and
(d) Factors that will materially affect the total ECL of the Receivables.

Details of the works relating to the ECL include the followings:

A probability of default approach was adopted in the valuation to determine the ECL. Exposure at default is the amount of long-term Receivables that are exposed to credit risk; loss given default is the share of a financial asset that the lender shall lose if a debtor default and is calculated as 1 minus recover rate.

As the results of the valuation, the Valuer applied a default probability of 1.82% and a recovery rate of 38.36% to determine the ECL after considering the external credit rating, repayment history, past due and default status, financial position of the debtors, etc.

(ii) Mine Impairment

Other losses of approximately HK$687 million were recogised in the 2019 Annual Report, which mainly came from the impairment loss of potassium feldspar mine of approximately HK$580 million as disclosed in the 2019 Annual Report. The valuation is based on the cash flow projection for development of potassium mine in connection with the mining rights and the weighted average cost of capital (“**WACC**”) of the mining operation in order to estimate the value in use of assets.

The income approach was considered to be the most appropriate valuation approach in this valuation. Under the income approach, the multi-period excess earnings method was adopted. The followings are the key inputs together with the assumptions adopted in the valuation:

(a) Projection period;
(b) Revenue;
(c) Operating costs;
(d) Capital expenditures;
(e) Working capital requirement;
(f) Comparable companies; and
(g) WACC.

The Potassium Mine is expected to commence production in 2021. Due to the postponement of the production plan and the COVID-19 outbreak, a higher post-tax discount rate of 30% in 2019 (2018: 21%) was adopted for the Mining Right in the valuation to reflect the greater risk in its production and operation. Apart from that, there were no significant changes in the value of inputs or assumptions for valuation adopted from these adopted in the previous year.

Reason of Adjustments and management position and assessment

The ECL assessment require the assessment of the historical repayment pattern for each of the debtors, as well as their subsequent settlements after the reporting period. The Board was unable to obtain sufficient financial detail for analysis and assessment on the determination of ECL before 31 March 2020. It was mainly due to the fact that substantially all of the subsidiaries' management in the PRC were not in office as the curbing and quarantine policies adopted and/or implemented by the Chinese government not allowed them to go to office for works. As the result, the Board cannot obtain relevant information to preliminary assess of ECL. Accordingly, for prudent basis, the Group did not recognised the ECL in the Unaudited Annual Results.

The valuation for the Mine Impairment normally based on the audited figures and latest market information, including but not limited to the identification of any latest market change affecting the price for potassium feldspar, that provides more accurate information for the purpose of valuation. Accordingly, it would be pre-mature to assess the Mine Impairment at the time of the Unaudited Annual Results since the valuation are based on the most updated figures.

For the preparation of the Unaudited Annual Results, the Board exercised its best effort to obtain all the management accounts from the PRC subsidiaries, in particular, the Board faced a significant difficulty to obtain such financial information since the curbing and quarantine policies adopted and/or implemented by the Chinese government that citizens were not allowed to go for works.

Nevertheless, the Board had taken the following steps to ensure the Unaudited Annual Results were accurate:

(a) Performed reconciliation on the consolidated financial statements to ensure each of the major items in the Unaudited Annual Results were consistent with the underlying financial information (i.e. the PRC subsidiaries management accounts);

(b) Enquired, through telephone conversation, the management of the PRC subsidiaries to understand any significant events affecting the financial information;

(c) Performed an analytical review to identify whether the Unaudited Annual Results materially different from the Board's understanding of the financial situation of the operation;

(d) Discussed with Valuer to obtain their preliminary view on the ECL and the Mine Impairment. Since the Valuer was unable to obtain sufficient valuation evidence on the ECL and Mine Impairment during the preparation of the Unaudited Annual Results, the Valuer was unable to comment on the valuation; and

(e) Discussed with the Auditor to identify any effect on the new and revised HKFRSs that need to incorporate in the Unaudited Annual Results.

Audited work performed by the Auditor in related to the Adjustments

Since the Adjustments were mainly relating to the valuation (i.e. ECL and the Mine Impairment), to the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, the Auditor performed the following major audit procedures:

(a) ECL – the Auditor had challenged the Valuer and the management of the Company regarding the basis and key assumptions on determining the ECL, including but not limited to (i) examined the historical repayment pattern and forward looking rate; (ii) challenged the management on whether the balances subject to credit impairment ; and (iii) check whether the basis to determine the ECL was complied with relevant accounting standards.

(b) Mine Impairment – the Auditor had challenged the Valuer and the management on the key assumptions applied in the valuation, including but not limited to (i) latest market price of the mineral resources; (ii) key assumptions applied in the discount cash flow; and (iii) the WACC applied in the valuation.

The Board confirmed that the above supplemental information does not affect other information contained in the 2019 Annual Report and, save as disclosed above, the content of the 2019 Annual Report remains unchanged.

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

Hong Kong, 23 September 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 and Dato Dr. Cheng Chak Ho as Independent Non-executive Directors.