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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)

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

For the reasons explained below under “Review of Unaudited Annual Results”, the auditing process for the annual results of North Mining Shares Company Limited (the “Company”) and its subsidiaries (collectively, the “Group”) has not been completed. In the meantime, the board (the “Board”) of directors (the “Directors”, each a “Director”) of the Company announces the unaudited consolidated results of the Group for the year ended 31 December 2019 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	2019 <i>HK\$’000</i> (Unaudited)	2018 <i>HK\$’000</i> (Re-presented)
Continuing operations			
Revenue	3	846,587	953,382
Cost of sales		<u>(675,637)</u>	<u>(880,104)</u>
Gross profit		170,950	73,278
Other income		92,914	14,293
Reversal/Impairment of financial assets		246	(23,504)
Research and development costs		(38,213)	(24,542)
Other gains and losses		(121,882)	(80,384)
Administrative expenses		<u>(179,796)</u>	<u>(132,205)</u>
Loss from operations		(75,781)	(173,064)
Finance costs		<u>(280,318)</u>	<u>(276,722)</u>
Loss before income tax	5	(356,099)	(449,786)
Taxation	6	<u>13,360</u>	<u>13,093</u>
Loss for the year from continuing operations		<u>(342,739)</u>	<u>(436,693)</u>

	<i>Notes</i>	2019 HK\$'000 (Unaudited)	2018 <i>HK\$'000</i> (Re-presented)
Discontinued operations			
Loss for the year from discontinued operations		<u>(13,753)</u>	<u>(134,086)</u>
Loss for the year		<u>(356,492)</u>	<u>(570,779)</u>
Attributable to:			
Owners of the Company			
from continuing operations		(254,730)	(349,922)
from discontinued operations		<u>(13,753)</u>	<u>(134,086)</u>
		(268,483)	(484,008)
Non-controlling interests		<u>(88,009)</u>	<u>(86,771)</u>
Loss for the year		<u>(356,492)</u>	<u>(570,779)</u>
Other comprehensive loss (Net of tax effect):			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising from translation of foreign subsidiaries		<u>7,008</u>	<u>(136,972)</u>
Other comprehensive gain/(loss) for the year		<u>7,008</u>	<u>(136,972)</u>
Total comprehensive loss for the year		<u>(349,484)</u>	<u>(707,751)</u>
Attributable to:			
Owners of the Company		(267,051)	(601,612)
Non-controlling interests		<u>(82,433)</u>	<u>(106,139)</u>
		<u>(349,484)</u>	<u>(707,751)</u>
Loss per share			
From continuing and discontinued operations			
– Basic and diluted, HK cents	8	<u>(1.25)</u>	<u>(2.25)</u>
From continuing operations			
– Basic and diluted, HK cents	8	<u>(1.19)</u>	<u>(1.63)</u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	31 December 2019	31 December 2018
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-Current Assets			
Property, plant and equipment		859,477	894,155
Mining rights		3,227,605	3,296,318
Long-term receivable		563,815	466,664
Goodwill		13,403	56,192
Intangible assets		–	337,625
Prepaid lease payments		–	63,076
Right-of-use assets		85,728	–
Finance lease receivables		–	3,706
		4,750,028	5,117,736
Current Assets			
Finance lease receivables		–	1,091
Inventories		460,044	520,772
Trade and bill receivables	9	2,195	23,435
Prepayments, deposits and other receivables		878,421	586,765
Tax recoverables		–	1,998
Cash and cash equivalents		18,446	122,533
		1,359,106	1,256,594
Total Assets		6,109,134	6,374,330
CAPITAL AND RESERVES			
Share capital		343,926	343,926
Reserves		1,886,638	2,153,689
		2,230,564	2,497,615
Equity attributable to owners of the Company		2,230,564	2,497,615
Non-controlling interests		1,315,257	1,397,690
		3,545,821	3,895,305
Total Equity		3,545,821	3,895,305

		31 December 2019	31 December 2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
LIABILITIES			
Non-Current Liabilities			
Bank loans and other borrowings		473,858	637,396
Lease liabilities		26,688	–
Deferred tax liabilities		234,924	336,943
Other payables		16,495	38,204
		<u>751,965</u>	<u>1,012,543</u>
Current Liabilities			
Trade and bill payables	10	141,323	135,313
Other payables and accruals		314,704	188,649
Contract liabilities		32,967	32,873
Bank loans and other borrowings		918,731	710,524
Provision for environmental and resources tax		98,509	124,123
Lease liabilities		3,815	–
Corporate bond		301,299	275,000
		<u>1,811,348</u>	<u>1,466,482</u>
Total Liabilities		<u>2,563,313</u>	<u>2,479,025</u>
Total Equity and Liabilities		<u>6,109,134</u>	<u>6,374,330</u>
Net Current Liabilities		<u>(452,242)</u>	<u>(209,888)</u>
Total Assets Less Current Liabilities		<u>4,297,786</u>	<u>4,907,848</u>
Net Assets		<u>3,545,821</u>	<u>3,895,305</u>

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 10 April 1995 under the Companies Act 1981 of Bermuda (as amended) as an exempted company with limited liability. The shares of the Company (the “**Shares**”) are listed on the Main Board of the Stock Exchange. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Rooms 2009-18, 20/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.

The principal activities of the Group are (i) investment holdings; (ii) mining operations – exploitation, exploration and trading of mineral resources; (iii) property management operations; and (iv) chemical trading operations.

During the year, the security technologies operations was discontinued.

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

In the opinion of the 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 unaudited 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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The unaudited consolidated financial statements have been prepared in accordance with **HKFRSs** under the historical cost convention. In addition, the unaudited consolidated financial statements also include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

2.2 Going concern

In preparing these unaudited consolidated financial statements, the Directors have considered the future liquidity of the Group. As at 31 December 2019, the Group had net current liabilities of approximately HK\$452,242,000 and incurred net loss of approximately HK\$356,492,000 for the year ended 31 December 2019. 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 unaudited 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 unaudited consolidated financial statements, after taking into consideration of the following measures and arrangements made subsequent to the announcement date:

- (i) On 28 March 2019, the Group entered into a sale and purchase agreement (the "S&P Agreement") to put back the entire equity interests of Full Empire Investment Holding Limited and its subsidiaries to the former shareholders of Xinjiang Casivision Security Technology Company Limited and Xinjiang Xintongxing Telecommunication Engineering Company Limited ("Xinjiang Group") at a consideration of HK\$430,000,000. Pursuant to the S&P Agreement, the consideration will be received by the Group in two years from the date of the S&P 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 12 months from the date of unaudited consolidated financial statements. Accordingly, the unaudited consolidated financial statements of the Group have been prepared on the going concern basis.

3. REVENUE

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

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Re-presented)
Continuing operations		
Sales of molybdenum concentrate	268,021	242,232
Property management fee income	6,999	7,607
Sales of chemical products	571,567	703,543
	<u>846,587</u>	<u>953,382</u>

4. 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 (the "CODM") 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 unaudited consolidated financial statements. Information regarding the above segment is reported below.

4.1 Operating segment information

Segment revenue and results

For the year ended 31 December 2019 (Unaudited)

Continuing operations

		Mining operation			
	Property management <i>HK\$'000</i>	Mining exploitation <i>HK\$'000</i>	Trading of mineral resources <i>HK\$'000</i>	Trading of chemical products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
Segment revenue	6,999	265,935	2,086	571,567	846,587
	<u>6,999</u>	<u>265,935</u>	<u>2,086</u>	<u>571,567</u>	<u>846,587</u>
Results ¹					
Segment results	33	82,936	(301)	(33,655)	49,013
	<u>33</u>	<u>82,936</u>	<u>(301)</u>	<u>(33,655)</u>	<u>49,013</u>
Unallocated corporate income					88,448
Finance costs					(280,318)
Other gains or losses					(121,882)
Unallocated corporate expenses					<u>(91,360)</u>
Loss before income tax					(356,099)
Income tax					<u>13,360</u>
Loss for the year from continuing operations					<u><u>(342,739)</u></u>

For the year ended 31 December 2018 (Re-presented)

Continuing operations

	Mining operation				
	Property management <i>HK\$'000</i>	Mining exploitation <i>HK\$'000</i>	Trading of mineral resources <i>HK\$'000</i>	Trading of chemical products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Revenue					
Segment revenue	7,607	233,882	8,350	703,543	953,382
	<u>7,607</u>	<u>233,882</u>	<u>8,350</u>	<u>703,543</u>	<u>953,382</u>
Results ¹					
Segment results	296	67,132	(1,785)	(49,805)	15,838
	<u>296</u>	<u>67,132</u>	<u>(1,785)</u>	<u>(49,805)</u>	<u>15,838</u>
Unallocated corporate income					16,227
Finance costs					(276,721)
Other gains or losses					(80,384)
Unallocated corporate expenses					<u>(124,746)</u>
Loss before income tax					(449,786)
Income tax					<u>13,093</u>
Loss for the year from continuing operations					<u>(436,693)</u>

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 CODM for the purpose of resource allocation and performance assessment.

Segment assets and liabilities

	Mining operation					Total HK\$'000
	Property management HK\$'000	Mining exploitation HK\$'000	Trading of mineral resources HK\$'000	Trading of chemical products HK\$'000	Others HK\$'000	
	As at 31 December 2019 (Unaudited)					
Segment assets	<u>628,786</u>	<u>4,399,811</u>	<u>215</u>	<u>364,560</u>	<u>715,762</u>	<u>6,109,134</u>
Segment liabilities	<u>-</u>	<u>825,418</u>	<u>-</u>	<u>504,909</u>	<u>1,232,986</u>	<u>2,563,313</u>

	Mining operation					Selling and service providing of security technologies Others HK\$'000	Total HK\$'000
	Property management HK\$'000	Mining exploitation HK\$'000	Trading of mineral resources HK\$'000	Trading of chemical products HK\$'000			
	As at 31 December 2018 (Audited)						
Segment assets	<u>585,520</u>	<u>4,006,322</u>	<u>368,123</u>	<u>489,739</u>	<u>145,390</u>	<u>779,236</u>	<u>6,374,330</u>
Segment liabilities	<u>367</u>	<u>817,397</u>	<u>-</u>	<u>565,552</u>	<u>10,434</u>	<u>1,085,275</u>	<u>2,479,025</u>

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

	Continuing operations					Total HK\$'000
	Mining operation				Others HK\$'000	
	Property management HK\$'000	Mining exploitation HK\$'000	Trading of mineral	Trading of chemical		
			resources HK\$'000	products HK\$'000		
As at 31 December 2019 (Unaudited)						
Depreciation and amortisation	2	71,958	34	37,014	6,498	115,506
Capital expenditures	-	63,596	157	57,223	-	120,976

	Continuing operations						Discontinued operations	Total HK\$'000
	Mining operation					Sub total HK\$'000	Selling and service providing of security technologies HK\$'000	
	Property management HK\$'000	Mining exploitation HK\$'000	Trading of mineral	Trading of chemical	Others			
			resources HK\$'000	products HK\$'000	HK\$'000			
As at 31 December 2018 (Re-presented)								
Depreciation and amortisation	3	67,253	26	36,798	6,185	110,265	103,510	213,775
Capital expenditures	-	20,489	50	46,619	3,071	70,229	25	70,254

4.2 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	
	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Re-presented)	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
Hong Kong	–	–	417,128	426,186
The People's Republic of China (the "PRC" or "China")	<u>846,587</u>	<u>967,071</u>	<u>5,692,006</u>	<u>5,948,144</u>
	<u><u>846,587</u></u>	<u><u>967,071</u></u>	<u><u>6,109,134</u></u>	<u><u>6,374,330</u></u>

5. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Re-presented)
Continuing operations		
Auditors' remuneration	1,300	1,200
Cost of inventories expensed	669,778	880,104
Depreciation of property, plant and equipment	55,204	58,620
Depreciation of right-of-use assets	7,214	–
Staff costs (including directors' remuneration)		
– Wages and salaries	25,589	32,097
– Retirement benefits contributions	2,028	2,625
Operating lease payments in respect of offices premises	<u>–</u>	<u>7,130</u>

6. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Re-presented)
Continuing operations		
Current tax:		
PRC corporate income tax	2	31
Deferred tax	<u>(13,362)</u>	<u>(13,124)</u>
	<u><u>(13,360)</u></u>	<u><u>(13,093)</u></u>

Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profit for the year ended 31 December 2019. No provision for Hong Kong Profits Tax has been made since the Group incurred taxation losses for the year ended 31 December 2019.

On 21 March, 2018, the Inland Revenue (Amendment) (No.7) Bill 2017, which introduces a two-tiered profits tax regime, was substantively enacted. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

PRC corporate income tax charge represents the PRC Enterprise Income Tax paid or payable during the year. Enterprise Income Tax in PRC has been provided at the prevailing rate.

Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

7. DIVIDENDS

The Directors do not recommend the payment of any final dividend in respect of the year ended 31 December 2019 (2018: Nil).

8. LOSS PER SHARE

(a) Basic loss per share

For continuing and discontinued operations

The calculation of the basic loss per share from continuing and discontinued operations attributable to owners of the Company of approximately HK\$268,483,000 for the year ended 31 December 2019 (2018: HK\$484,008,000) and the weighted average number of 21,495,386,286 shares in issue during the year (2018: 21,495,386,286).

For continuing operations

Basic loss per share for continuing operations is HK\$1.19 cents per share (2018: loss per share of HK\$1.63 cents per share), which was based on the loss for the year from continuing operations of approximately HK\$254,730,000 (2018: loss of approximately HK\$349,922,000).

For discontinued operations

Basic loss per share for the discontinued operations is HK\$0.06 cents per share (2018: loss per share of HK\$0.62 cents per share), which was based on the loss for the year from the discontinued operations of approximately HK\$13,753,000 (2018: loss of approximately HK\$134,086,000).

(b) Diluted loss per share

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 years ended 31 December 2019 and 2018.

9. TRADE AND BILL RECEIVABLES

	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade and bill receivables	2,195	44,864
<i>Less: Allowance for credit losses</i>	–	(21,429)
	2,195	23,435

As at 31 December 2019 and 31 December 2018, trade receivables from contracts with customers amounted to HK\$2,195,000 and HK\$23,435,000, respectively.

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

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
0–30 days	476	11,780
31–60 days	–	–
61–90 days	15	1,182
91–180 days	37	272
Over 180 days but within one year	<u>1,667</u>	<u>10,201</u>
	<u>2,195</u>	<u>23,435</u>

For the year ended 31 December 2019, 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 (2018: 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.

10. TRADE AND BILL PAYABLES

	2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Audited)
0–30 days	56,234	28,889
31–60 days	94	9,715
61–90 days	33,283	4,858
91–180 days	12,680	43,097
Over 180 days but within one year	<u>39,032</u>	<u>48,754</u>
	<u>141,323</u>	<u>135,313</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL FINANCIAL PERFORMANCE

During the year under review, the Group recorded a revenue of approximately HK\$846,587,000 from continuing operations, representing a decrease of approximately 11.20% as compared with last corresponding year of approximately HK\$953,382,000 from continuing operations. Such decrease was mainly attribute to due to the decrease in revenue from the Group's chemical trading operation as compared to last corresponding year.

For the year ended 31 December 2019, the Group recorded a loss attributable to owners of the Company of approximately HK\$254,730,000 from continuing operations (2018: loss of approximately HK\$349,922,000 from continuing operations), representing a decrease of approximately 27.20% as compared with last corresponding year. Such decrease in loss for the year ended 31 December 2019 was mainly due to (i) the disposal of subsidiaries during the year; and (ii) increase the gain from gross profit of approximately HK\$97,672,000.

BUSINESS REVIEW

The principal activities of the Group are: (i) mining operations – exploitation, exploration and trading of mineral resources; (ii) property management operations; and (iii) chemical trading operations – manufacturing and sale of chemical products (collectively named “continuing operations”). During the year under review, security technologies operations – research, development and sale of security technologies products was discontinued (“discontinued operations”). An analysis of each of these business segments is presented below:

Continuing operations

Mining Operations – Exploitation, Exploration and Trading of Mineral Resources

As at 31 December 2019, 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, exploration 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 about 3,127 tonnes (2018: 3,257 tonnes), whereas the grade of molybdenum concentrate was approximately 45%-50%. The average selling price of molybdenum concentrate was approximately HK\$73,261 per tonne (2018: HK\$74,266 per tonne). During the year under review, the mining operation contributed a revenue of approximately HK\$268,021,000 (2018: approximately HK\$242,232,000) to the Group, of which approximately HK\$238,793,000 was contributed by sales of molybdenum concentrate (2018: approximately HK\$219,336,000) and approximately HK\$29,228,000 was contributed by sales of sulfuric acid and iron concentrate (2018: approximately HK\$22,896,000). Gross profit was approximately HK\$139,508,000 (2018: HK\$86,185,000) and the gross profit margin was 52.10% (2018: 35.6%), representing an increase of 16.50% as compared with last corresponding year. The increase in gross profit margin was mainly due to the decrease of exploration cost incurred in cost of sales from about HK\$47,911 per tonne in 2018 to HK\$41,098 per tonne in 2019. During the year, the Group recognised an amortisation of mining rights of approximately HK\$53,448,000 (2018: approximately HK\$52,494,000).

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 would commence its operation in 2020 and consider that the commencement of the operation depends on two major elements including exploitation and exploration 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. During the year under review, the study of technology to be used in the production of potassium was completed. The Group will complete all 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 2019, the Group recorded profit arising from its mining operation of approximately HK\$82,635,000 (2018: profit of HK\$65,347,000). The major reason leading to such increase was mainly due to the increase in gross profit margin for the sales of molybdenum concentrate.

Major assets in mining operation

As at 31 December 2019, 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\$1,308,070,000 and approximately HK\$2,493,813,000, 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.

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 2019, 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 2019, revenue generated from this segment was approximately HK\$6,999,000 (2018: HK\$7,607,000), representing a decrease of approximately 7.99% (2018: 1.60%) as compared to last corresponding 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"), a non-wholly owned subsidiary of the Company. During the year under review, the Group's revenue generated from chemical trading operation was approximately HK\$571,567,000 and incurred loss of approximately HK\$33,654,000.

As at 31 December 2019, the major assets included in the Group's chemical trading operation were property, plant and equipment of approximately HK\$258,670,000. 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.

Discontinued operations

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 Xinjiang Group, which were wholly owned subsidiaries of the Company.

Material Transaction

Disposal of the entire equity interests in Full Empire Investment Holding Limited

On 28 March 2019, the Group entered into the S&P 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 HK\$430,000,000.

On 31 May 2019, as additional time is required to prepare and finalise certain information to be included in the circular for the disposal, the Group announced that it expected that the despatch date of the circular will be postponed to a date falling on or before 30 June 2019.

On 2 July 2019 and 1 August 2019, the Group further announced that as additional time is required to prepare and finalise certain information to be included in the circular, it is expected that the despatch date of the circular will be postponed to a date falling on or before 31 July 2019 and 31 August 2019, respectively.

On 7 August 2019, the Group announced that as additional time is required for the fulfilment of the conditions precedent in the S&P Agreement, the parties to the S&P Agreement entered into a supplemental agreement on 7 August 2019 to extend the long stop date for fulfilment or waiver by the Repurchaser of the conditions precedent of the S&P Agreement to 31 October 2019 or such later date as may be agreed by the parties to the S&P Agreement. Save as disclosed above, all other terms and conditions of the S&P Agreement remain unchanged and in full force and effect in all respects.

On 28 October 2019, the Group had completed the disposal of Xinjiang Group.

PROSPECTS

Looking forward, the growth of global economy is subject to high uncertainties and challenges mainly from the Sino-US trade disputes and the outbreak and rapid spreading of COVID-19 across continents as well as other negative factors such as rising costs in raw materials, rent and labour. The Chinese economy would face significant downward pressure due to the threat of the novel coronavirus infection, weakened private domestic consumption and sharp drop in tourists' arrivals into China. However, the Group believes that the threat of the novel coronavirus infection and severe disruptions to economic activities, includes the consumption- and tourism-related sectors, should only be temporary in China. The Group remain confident in long-term development growth with promising prospects in China.

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 2020.

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.

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 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.

LITIGATION

The Winding Up Petition in Hong Kong

On 27 May 2019, the Company received a winding up petition dated 27 May 2019 filed in the Court of First Instance of the High Court of Hong Kong (the “Hong Kong Court”) by Natu Investment Management 1 Company Limited against the Company for failure to settle an indebted sum of HK\$170,492,494.31 (the “Winding Up Petition”). In view of public health consideration, the Judiciary of Hong Kong has announced that all hearings of the Hong Kong Court originally scheduled from 29 January 2020 to 16 February 2020, which includes the substantive hearing of the Petition scheduled for 4 February 2020, will be adjourned to a date to be fixed.

Appointment of the Joint Provisional Liquidators and the Winding-Up Hearing In Bermuda

To facilitate the Company’s financial restructuring, on 28 October 2019 (Bermuda time), a winding up petition together with an application for the appointment (the “JPL Application”) of TANG Chung Wah and KAN Lap Kee of Shinewing Specialist Advisory Services Limited and Edward Alexander Niles Whittaker of R&H Services Limited be appointed as joint and several provisional liquidators of the Company on a light touch basis for restructuring purposes only was presented and filed with the Supreme Court of Bermuda (the “Bermuda Court”) by the Company’s Bermuda Counsel, Walkers (Bermuda) Limited at the request of the Company.

The JPL Application was heard before the Bermuda Court on 1 November 2019. The Bermuda Court made the orders as sought by the Company under the JPL Application, inter alia, (i) HOU Chung Man and KAN Lap Kee of Shinewing Specialist Advisory Services Limited and Edward Alexander Niles Whittaker of R&H Services Limited be appointed as joint and several provisional liquidators of the Company (together “JPLs”) on a light touch approach for restructuring purpose (the “Bermuda Court Order”); and (ii) a letter of request (the “Letter of Request”) be issued by the Bermuda Court to the High Court of Hong Kong to request, among other things, recognition of the Bermuda Court Order and the appointment of the JPLs such that the Bermuda Court Order shall be treated in all respects in the same manner as if they have been made by the High Court of Hong Kong. On the same day, Justice Subair Williams issued the Letter of Request.

At the first hearing of the winding up petition before the Bermuda Court on 15 November 2019, Justice Subair Williams granted an adjournment of the petition to 31 January 2020 in order to allow time for the JPLs to prepare a report on the restructuring progress of the Company. The Bermuda Court on 31 January 2020 granted an adjournment of the winding up petition to 1 May 2020 in order to allow time for the restructuring to be completed by way of a creditors’ scheme of arrangement.

Save as disclosed above, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance, and so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

POSSIBLE SUBSCRIPTION

As disclosed in the announcement of the Company dated 18 September 2019, the Company (as issuer) entered into the non-legally binding memorandum of understanding dated 18 September 2019 (the “MOU”) with SFund International Investment Fund Management Limited (“SFund International”) and Mr. Qian Yi Dong (as potential subscribers) (the “Potential Subscribers”) and the MOU set out the preliminary understandings of the parties in relation to the possible subscription for the new shares of the Company (the “Subscription Shares”) by the Potential Subscribers (the “Possible Subscription”).

The MOU recorded the intention of the Potential Subscribers (subject to signing of the formal agreement) to subscribe for the Subscription Shares, the subscription amount of which is expected to be settled by (i) cash; and (ii) settlement of the principal amount of the non-convertible bonds in the principal amount of HK\$250,000,000 issued by the Company and currently held by SFund International. It is also intended that the Potential Subscribers will own more than 30% of the enlarged issued share capital of the Company immediately upon completion of the Possible Subscription.

If the Possible Subscription materialises, immediately after completion of the Possible Subscription, the Potential Subscribers and the parties acting in concert with any of them will in aggregate be interested in more than 30% of the enlarged issued share capital of the Company.

It is intended that the Possible Subscription will be conditional upon the granting of the whitewash waiver and the whitewash waiver having been approved by the independent shareholders at the special general meeting of the Company.

As at the date of this announcement, the hearing date of the Hong Kong Petition is still pending the reschedule arrangement of the Court, meanwhile the Company and the JPLs are still in the process of discussing and finalising the structure and terms of the creditors' scheme of arrangement. As such, the Potential Subscribers and the Company require further time to negotiate the structure and terms of the Possible Subscription by taking into account of the aforesaid restructuring plan. No concrete terms of the Possible Subscription has been finalised as at the date of this announcement.

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\$104,087,000 (2018: outflow of approximately HK\$39,784,000) which was mainly due to the Group used internal cash resources to repayment of loan interests and purchase of property, plant and equipment during the year ended 31 December 2019.

As at 31 December 2019, the Group had outstanding bank loans and other borrowings at the amount of approximately HK\$1,392,589,000 (2018: approximately HK\$1,347,920,000). The Group's gearing ratio as at 31 December 2019 was approximately 22.80% (2018: 21.15%). 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 2019, the Group's current ratio was approximately 0.75 (2018: approximately 0.86).

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 2019, the Group's debt to equity ratio was approximately 1.15 (2018: approximately 0.99). 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\$2,563,313,000 (2018: approximately HK\$2,479,025,000) by equity attributable to owners of the Company of approximately HK\$2,230,564,000 (2018: approximately HK\$2,497,615,000). The Board is confident that the Group would have adequate financial resources to satisfy full repayment of the current liabilities as and when they fall due.

CAPITAL STRUCTURE AND TREASURY POLICIES

Capital Structure

The Group's capital structure as at 31 December 2019 mainly comprised of current assets of approximately HK\$1,359,106,000 (2018: approximately HK\$1,256,594,000), current liabilities of approximately HK\$1,811,348,000 (2018: approximately HK\$1,466,482,000) and equity attributable to owners of the Company of approximately HK\$2,230,564,000 (2018: approximately HK\$2,497,615,000).

Current assets mainly comprised of (i) cash and cash equivalents of approximately HK\$18,446,000 (2018: approximately HK\$122,533,000); (ii) inventories of approximately HK\$460,044,000 (2018: approximately HK\$520,772,000); and (iii) prepayments, deposits and other receivables of approximately HK\$878,421,000 (2018: approximately HK\$586,765,000).

Current liabilities mainly comprised of (i) bank loans and borrowings of approximately HK\$918,731,000 (2018: approximately HK\$710,524,000); (ii) trade and bill payables of approximately HK\$141,323,000 (2018: approximately HK\$135,313,000); and (iii) other payables and accruals of approximately HK\$314,704,000 (2018: approximately HK\$188,649,000).

Debenture and Bond Issued

Upon the maturity date of convertible bond in an aggregate principal amount of HK\$250,000,000 ("CB") on 28 December 2018, the Group entered into standstill deed in relation to turn the CB 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, 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.

Treasury Policies

During the year ended 31 December 2019, 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 2019 and 2018, the Group did not employ any financial instruments for hedging purpose and was not engaged in foreign currency speculative activities.

BANK LOANS AND OTHER BORROWING AND CHARGES OF GROUP ASSETS

As at 31 December 2019, the Group had bank loans and other borrowings amounted to approximately HK\$1,392,589,000 (2018: HK\$1,347,921,000). As at 31 December 2019, 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 2019, the Group had no significant contingent liabilities (2018: Nil).

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2019, the Group employed 693 full time employees (2018: 688 employees). Employees' remuneration packages are generally structured by reference to market norms, individual qualifications, relevant experience and performance.

DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2019.

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.

CHANGE IN DIRECTORS' INFORMATION

During the year ended 31 December 2019 and up to the date of this announcement, the following changes in the composition of the Board and certain Board committees took place:

- (i) Mr. Yeung Yat Chuen has been appointed as an independent non-executive Director, the chairman of the remuneration committee (the “Remuneration Committee”) and a member of the audit committee (the “Audit Committee”) of the Board with effect from 28 July 2019;
- (ii) Mr. Leung Kar Fai has resigned as an independent non-executive Director, the chairman of the Remuneration Committee and a member of the Audit Committee with effect from 28 July 2019;
- (iii) Mr. Wong Wai Chun Alex has been appointed as an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and the financial reporting committee of the Board (the “Financial Report Committee”) with effect from 29 April 2019; and
- (iv) Mr. William Fong has resigned as an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and the Financial Reporting Committee with effect from 29 April 2019.

For further details, please refer to the announcements of the Company dated 29 April 2019 and 28 July 2019, respectively.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2019, the Company had applied the principles of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of 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 Officer 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 the Policy.

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, Mr. Wong Wai Chun Alex and Dato Dr. Cheng Chak Ho were absent from the 2019 annual general meeting of the Company.

The Company considers that sufficient measures have been taken to ensure that the Company had complied with the Code for the year.

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 2019.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) on 25 May 2011, which shall be valid and effective for a period of ten years commencing from the date of its adoption. The principal purposes of the Share Option Scheme are to enable the Group and its invested entities to recruit and retain high calibre eligible participants and attract human resources that are valuable to the Group or invested entities, to recognise the contributions of the eligible participants to the growth of the Group or invested entities by aligning their interests with that of the Company and to motivate and give incentives to these eligible participants to continue to contribute to the long term success and prosperity of the Group or invested entities. The amount payable by a participant upon acceptance of a grant of share option is HK\$1.00.

The exercise price in respect of any option granted under the Share Option Scheme shall be such price as determined by the Board and notified to an option-holder and which shall not be less than the highest of:

- (i) The closing price of the shares as stated in the Stock Exchange’s daily quotation sheets on the date of offer of the option;
- (ii) The average of the closing price of the shares as stated in the Stock Exchange’s daily quotation sheets for the five trading days immediately preceding the date of offer of the option; and
- (iii) The nominal value of the shares.

On 26 July 2011, the Company granted 500,000 share options to a consultant of the Company with three years of exercisable period from 26 July 2011 to 25 July 2013. Upon the expiry of exercise period, no share option was exercised, all outstanding share options granted under the Share Option Scheme had been lapsed accordingly. During the year ended 31 December 2018, 100,000,000 share options was granted to a director, then lapsed in the same year due to his resignation. No share option remained outstanding and exercisable under the Share Option Scheme as at 31 December 2019.

During the year ended 31 December 2019, no share option had been granted, exercised, lapsed, or was cancelled under the Share Option Scheme.

As at 31 December 2019, total number of share available for issue under the Share Option Scheme was 1,199,761,670, representing 5.58% of the issued share capital of the Company as at 31 December 2019.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to restrictions in force in parts of China to combat the COVID-19 outbreak. The results contained herein have not been agreed by the Group's auditors, Elite Partners CPA Limited (the "Auditors"). An announcement relating to the results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by HKICPA.

The annual results contained herein have been reviewed by the Audit Committee.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Auditors and the material differences (if any) as compared with the annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Mr. Wong Wai Chun Alex, Dato Dr. Cheng Chak Ho and Mr. Yeung Yat Chuen. 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 2019 and has discussed with the Auditors about auditing, internal control and financial reporting matters including the review of the accounting practices and principles adopted by the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, during the year and thereafter up to the date of this announcement, the Company has maintained a sufficient public float of the Shares (i.e. at least 25% of the issued Shares being held by the public) as required under the Listing Rules.

PUBLICATION OF 2019 UNAUDITED ANNUAL RESULTS ANNOUNCEMENT

The 2019 unaudited annual results 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.

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

Hong Kong, 27 March 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.