

# OM HOLDINGS LIMITED

(ARBN 081 028 337)



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31 March 2017

ASX Market Announcements  
ASX Limited  
4th Floor  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

Pursuant to the Corporations Act 2001 and the ASX Listing Rule 4.5, please find attached the audited Financial Statements and Reports for the year ended 31 December 2016.

The 2016 Annual Report (including the Financial Statements and Reports) will be dispatched to Shareholders who have requested a copy by Friday, 28 April 2017.

Yours faithfully

**OM HOLDINGS LIMITED**



Heng Siow Kwee/Julie Wolseley  
**Company Secretary**



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## **BACKGROUND INFORMATION ON OM HOLDINGS LIMITED**

*OMH Holdings Limited (OMH) was listed on the ASX in March 1998 and has its foundations in metals trading – incorporating the sourcing and distribution of manganese ore products.*

*OMH is involved in mining manganese product in Australia and South Africa and is constructing a smelter in Sarawak, Malaysia to produce ferrosilicon and ferro-manganese intermediate products. The smelter project is owned 75% by OMH.*

*The first phase of the Sarawak smelter project commenced production in September 2014 and will ramp up to full commercial production by the end of 2015. When completed the ferrosilicon production facility's capacity of 308,000 tonnes per annum will make it one of the largest ferrosilicon smelters globally.*

*OMH, through a wholly owned subsidiary, owns the Bootu Creek manganese mine in the Northern Territory. This mine has the capacity to produce up to 1,000,000 tonnes of manganese product per annum.*

*OMH also owns a 26% investment in Ntsimbintle Mining (Proprietary) Ltd, which, in turn owns 50.1% interest in the world class Tshipi Borwa ("Tshipi") manganese mine in South Africa. This mine has the capacity to produce up to 2,400,000 tonnes of manganese product per annum when the permanent processing plant is completed.*

*The manganese products of Bootu Creek, and those from Tshipi, are exclusively marketed through the OMH's trading division and OM Tshipi Pte Ltd (33.33% owned) respectively. Through all these activities OMH has established itself as a significant manganese supplier to the Chinese market.*

Financial statements  
**OM Holdings Limited**  
**and its subsidiaries**

31 December 2016

# Company information

<b>Company registration number</b>	ARBN 081 028 337
<b>Registered office</b>	Clarendon House 2 Church Street Hamilton, HM11 Bermuda
<b>Directors</b>	Low Ngee Tong (Executive Chairman) Zainul Abidin Rasheed (Independent Deputy Chairman) Julie Anne Wolseley (Non-Executive Director and Joint Company Secretary) Tan Peng Chin (Independent Non-Executive Director) Thomas Teo Liang Huat (Independent Non-Executive Director) Peter Church OAM (Independent Non-Executive Director) Ivo Philipps (Non-Executive Director) (resigned on 26 August 2016)
<b>Audit committee</b>	Thomas Teo Liang Huat (Chairman) Julie Anne Wolseley Zainul Abidin Rasheed Peter Church OAM
<b>Remuneration committee</b>	Tan Peng Chin (Chairman) Julie Anne Wolseley Zainul Abidin Rasheed Thomas Teo Liang Huat
<b>Secretaries</b>	Heng Siow Kwee Julie Anne Wolseley I.S. Outerbridge Lo Chi Man
<b>Bankers</b>	National Australia Bank Ltd Standard Chartered Bank Credit Suisse AG
<b>Independent auditor</b>	Foo Kon Tan LLP Public Accountants and Chartered Accountants 24 Raffles Place #07-03 Clifford Centre Singapore 048621  Partner in charge: Mr Ong Soo Ann (since financial year 31 December 2011)

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## **Directors' statement**

### **for the financial year ended 31 December 2016**

The Directors are pleased to present their statement to the members together with the audited consolidated financial statements of OM Holdings Limited (“the Company”) and its subsidiaries (collectively, the “Group”) for the financial year ended 31 December 2016 and the statement of financial position of the Company as at 31 December 2016.

In the opinion of the directors,

- (a) the consolidated financial statements of the Group and the statement of financial position of the Company are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

#### **Names of Directors**

The Directors of the Group in office at the date of this report are:

Low Ngee Tong (Executive Chairman)  
Zainul Abidin Rasheed (Independent Deputy Chairman)  
Julie Anne Wolseley (Non-Executive Director and Joint Company Secretary)  
Tan Peng Chin (Independent Non-Executive Director)  
Thomas Teo Liang Huat (Independent Non-Executive Director)  
Peter Church OAM (Independent Non-Executive Director)  
Ivo Philipps (Non-Executive Director) (resigned on 26 August 2016)

In accordance with Bye-law 88(1) of the Company’s Bye-laws, one-third of the Directors (excluding the Chief Executive Officer) retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

#### **Arrangements to enable Directors to acquire shares or debentures**

During and at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement of which the object was to enable the Directors to acquire benefits through the acquisition of shares in or debentures of the Company or any other corporate body, other than as disclosed in this report.

**Directors' interests in shares**

- (i) None of the Directors who held office at the end of the financial year had any interests in the shares of the Company or its related corporation, except as follows:

	Holdings registered in the name of <u>director or nominee</u>		Holdings in which director is deemed to have an interest	
	As at <u>1.1.2016</u>	As at <u>31.12.2016</u>	As at <u>1.1.2016</u>	As at <u>31.12.2016</u>
The Company -	<u>Number of ordinary shares fully paid</u>			
Low Ngee Tong	19,825,000	<b>19,825,000</b>	<sup>(1)</sup> 47,313,500	<sup>(1)</sup> <b>47,313,500</b>
Julie Anne Wolseley	5,562,002	<b>5,562,002</b>	-	-
Tan Peng Chin	<sup>(2)</sup> 1,660,000	<b><sup>(2)</sup>1,960,000</b>	-	-

Note:

- (1) These shares are held directly by a company named Ramley International Limited, which is wholly owned by Mr Low Ngee Tong.
- (2) 660,000 (2015 - 360,000) shares are held by UOB Kay Hian Private Limited on behalf of Mr Tan Peng Chin.

**Shares Options**

No options were granted during the financial year to take up unissued shares of the Company.

No shares were issued by virtue of the exercise of options.

There were no unissued shares of subsidiaries under option at 31 December 2016.

**Audit Committee**

The Audit Committee at the end of the financial year comprised the following members:

Thomas Teo Liang Huat (Chairman)  
Julie Anne Wolseley  
Zainul Abidin Rasheed  
Peter Church OAM

The Audit Committee performs the functions set out in the Audit Committee Charter available on the Company's website. The Company has also considered the second edition of the Corporate Governance Principles and Recommendations with 2010 Amendments developed by the ASX Corporate Governance Council. In performing those functions, the Audit Committee has reviewed the following:

- i. overall scope of both the internal and external audits and the assistance given by the Company's officers to the auditors. It met with the Company's internal and external auditors to discuss the results of their respective examinations and their evaluation of the Company's system of internal accounting controls;
- ii. the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit; and
- iii. the half-yearly financial information and the statement of financial position of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2016 as well as the auditor's report thereon.

**Audit Committee (Cont'd)**

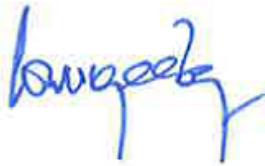
The Audit Committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any Director or executive officer to attend its meetings. The Audit Committee also recommends the appointment of the external auditor and reviews the level of audit and non-audit fees.

The Audit Committee is satisfied with the independence and objectivity of the external auditor and has recommended to the Board of Directors that the auditor, Foo Kon Tan LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

**Independent auditor**

The independent auditor, Foo Kon Tan LLP, Public Accountants and Chartered Accountants, has expressed its willingness to accept the re-appointment.

On behalf of the Directors



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LOW NGEE TONG  
Executive Chairman

Dated: 31 March 2017

# Independent auditor's report to the members of OM Holdings Limited

## Opinion

We have audited the accompanying financial statements of OM Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”), which comprise the statements of financial position of the Company and the Group as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the International Financial Reporting Standards (IFRSs) so as to give a true and fair view of the financial position of the Company and the consolidated financial position of the Group as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent auditor's report to the members of OM Holdings Limited (Cont'd)

## Key Audit Matters

Key audit matter	Risk:	Our response and work performed:
Valuation of property, plant and equipment	<p>The Group has property, plant and equipment ("PPE") of A\$639,825,000 as at 31 December 2016. PPE are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is based on certain key assumptions, such as cash flow projections covering a five-year period and the perpetual growth rate and discount rate per cash generating unit. These assumptions which are determined by management are judgmental.</p> <p>Due to the uncertain global economic environment, there are higher inherent risks relating to the impairment of property, plant and equipment.</p>	<p>We found that cautious estimates were made in the determination of the recoverable amount, and impairment is made to the certain categories of property, plant and equipment, since the recoverable amount is less than the net book value.</p> <p>Our audit procedures included among others, obtaining the valuation model and assumptions used, challenging management's assumptions and involving independent valuation experts to support us in our evaluation of the model. We have engaged our auditor's expert to review the valuation model, inputs and assumptions made. In the computation of the discounted cash flow projections, the Group takes into account the indicative open market prices of the finished products from independent expert and publication report, and uses inputs, such as market growth rate, weighted average cost of capital and other factors, typical of similar mining and smelting industries. Senior management has applied its knowledge of the business in its regular review of these estimates.</p> <p>We have evaluated the competence, capabilities and objectivity of management's expert and our auditor's expert, obtained an understanding of the work of our expert; and evaluated the appropriateness of our expert's work as audit evidence for the relevant assertion. We also focused on the adequacy of disclosures about key assumptions and sensitivity. The Group's disclosures about property, plant and equipment is included in Note 4 to the financial statements.</p>

# Independent auditor's report to the members of OM Holdings Limited (Cont'd)

## Key audit Risk:

**Acquisition of a subsidiary (OMM)**

In August 2016, the Company re-acquired a former subsidiary, OM (Manganese) Ltd ("OMM") that had gone into Voluntary Administration in the prior year, and that had completed a Deed of Company Arrangement ("DOCA").

Control of OMM reverted to the Company on 24 August 2016. Accordingly, the results of OMM was consolidated to the Group, with effect from 24 August 2016. A purchase price allocation exercise was carried out by management to determine the fair value of the assets acquired and liabilities assumed at the date control was regained.

## Our response and work performed:

Our audit procedures included checking and evaluating management's assessment that the Company has gained control of OMM in accordance with IFRS 10 *Consolidated Financial Statements* and the group's accounting policies. Other audit procedures included among others, obtaining valuation report on the fair value of assets and liabilities, performed by external valuer. We have engaged our auditor's expert to review and assess the valuation model used, the accuracy of fair value of the assets and liabilities assumed. We also challenged the assumptions and inputs used by the valuer and determine whether the assumptions and inputs are appropriate and accurate.

We have evaluated the competence, capabilities and objectivity of management's expert, obtained an understanding of the work of that expert, and evaluated the appropriateness of that expert's work as audit evidence for the relevant assertion. We have evaluated the competence, capabilities and objectivity of our auditor's expert, obtained an understanding of the work of our expert, and evaluated the appropriateness of our expert's work as audit evidence for the relevant assertion.

Based on our procedures, the management's assessment of OMM as a subsidiary is supported by the completion of DOCA, providing the Group with the control over OMM, in accordance with IFRS 10.

We also found that the estimates used in determining the value of the mine development costs, and property, plant and equipment and the resulting estimate used to determine the allocated values to the purchase price allocation were fair.

We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements. The Group's disclosures on the investment in subsidiary is included in Note 11 to the financial statements.

# Independent auditor's report to the members of OM Holdings Limited (Cont'd)

## Other Information

Management is responsible for the other information. The other information comprises the information included in the directors' statement, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with the ISAs.

## Responsibilities of Management and those charged with governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The responsibilities of those charged with governance include overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

# Independent auditor's report to the members of OM Holdings Limited (Cont'd)

## Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## **Independent auditor's report to the members of OM Holdings Limited (Cont'd)**

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Foo Kon Tan LLP  
Public Accountants and  
Chartered Accountants

Singapore, 31 March 2017

## Statements of financial position as at 31 December 2016

		<b>The Company</b>		<b>The Group</b>	
		<b>31 December</b>	<b>31 December</b>	<b>31 December</b>	<b>31 December</b>
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>	<b>A\$'000</b>
<b>Assets</b>					
<b>Non-Current</b>					
Property, plant and equipment	4	-	-	<b>639,825</b>	613,023
Land use rights	5	-	-	<b>9,813</b>	18,112
Exploration and evaluation costs	6	-	-	<b>1,866</b>	1,676
Mine development costs	7	-	-	<b>43,169</b>	-
Goodwill	8	-	-	-	-
Deferred tax assets	10	-	-	-	4,608
Interests in subsidiaries	11	<b>107,992</b>	107,303	-	-
Interests in associates	12	-	-	<b>117,281</b>	106,662
		<b>107,992</b>	107,303	<b>811,954</b>	744,081
<b>Current</b>					
Inventories	13	-	-	<b>302,817</b>	259,848
Trade and other receivables	15	<b>128,181</b>	125,955	<b>50,174</b>	54,018
Prepayments		<b>862</b>	1	<b>1,897</b>	861
Available-for-sale financial assets	9	-	798	-	798
Cash collateral	16	-	-	<b>8,764</b>	11,202
Cash and cash equivalents	16	<b>21</b>	55	<b>20,571</b>	12,711
		<b>129,064</b>	126,809	<b>384,223</b>	339,438
Land use rights classified as held-for-sale	5	-	-	-	20,311
		<b>129,064</b>	126,809	<b>384,223</b>	359,749
<b>Total assets</b>		<b>237,056</b>	234,112	<b>1,196,177</b>	1,103,830
<b>Equity</b>					
<b>Capital and Reserves</b>					
Share capital	17	<b>36,671</b>	36,671	<b>36,671</b>	36,671
Treasury shares	18	<b>(2,330)</b>	(2,330)	<b>(2,330)</b>	(2,330)
Reserves	19	<b>(10,136)</b>	7,277	<b>105,370</b>	52,826
		<b>24,205</b>	41,618	<b>139,711</b>	87,167
<b>Non-controlling interests</b>		-	-	<b>62,748</b>	32,496
<b>Total equity</b>		<b>24,205</b>	41,618	<b>202,459</b>	119,663
<b>Liabilities</b>					
<b>Non-Current</b>					
Borrowings	21	<b>86,300</b>	54,391	<b>560,348</b>	435,249
Land use rights obligation	20	-	-	-	2,937
Derivative financial liabilities	14	-	-	-	73,464
Trade and other payables	23	-	12,291	<b>183,857</b>	131,563
Provisions	22	-	-	<b>6,069</b>	-
Deferred capital grant	24	-	-	<b>14,554</b>	-
		<b>86,300</b>	66,682	<b>764,828</b>	643,213
<b>Current</b>					
Trade and other payables	23	<b>126,551</b>	97,132	<b>166,319</b>	162,551
Derivative financial liabilities	14	-	-	-	30,461
Borrowings	21	-	20,362	<b>57,283</b>	134,886
Land use rights obligation	20	-	-	-	3,173
Provisions	22	-	8,318	-	8,318
Deferred capital grant	24	-	-	<b>783</b>	-
Income tax payables		-	-	<b>4,505</b>	1,565
		<b>126,551</b>	125,812	<b>228,890</b>	340,954
<b>Total liabilities</b>		<b>212,851</b>	192,494	<b>993,718</b>	984,167
<b>Total equity and liabilities</b>		<b>237,056</b>	234,112	<b>1,196,177</b>	1,103,830

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# Consolidated statement of comprehensive income

for the financial year ended 31 December 2016

	Note	Year ended 31 December 2016 A\$'000	Year ended 31 December 2015 A\$'000
Revenue	3	414,243	338,463
Cost of sales		(354,161)	(332,348)
Gross profit		60,082	6,115
Other income	25	62,756	24,334
Distribution costs		(13,864)	(17,695)
Administrative expenses		(23,096)	(18,474)
Other operating expenses		(62,150)	(100,753)
Finance costs	27	(42,418)	(23,637)
Loss from operations		(18,690)	(130,110)
Share of results of associates		10,574	(1,522)
Loss before income tax	27	(8,116)	(131,632)
Income tax	28	(8,629)	6,591
<b>Loss for the year</b>		<b>(16,745)</b>	<b>(125,041)</b>
<b>Other comprehensive (expense)/income, net of tax:</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
Net fair value loss on available-for-sale financial assets and financial derivative		(217)	(616)
Currency translation differences arising from foreign subsidiaries		(3,600)	14,748
Currency translation differences for disposal of a subsidiary		(842)	-
Cash flow hedges	29	65,408	(32,051)
<b>Other comprehensive income/(expense) for the year, net of tax of nil</b>		<b>60,749</b>	<b>(17,919)</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>44,004</b>	<b>(142,960)</b>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		7,936	(122,101)
Non-controlling interests		(24,681)	(2,940)
		<b>(16,745)</b>	<b>(125,041)</b>
<b>Total comprehensive income/(expense) attributable to:</b>			
Owners of the Company		52,550	(135,911)
Non-controlling interests		(8,546)	(7,049)
		<b>44,004</b>	<b>(142,960)</b>
<b>Profit/(loss) per share</b>			
- Basic	30	1.08	(16.69)
- Diluted	30	1.08	(16.69)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# Consolidated statement of changes in equity

for the financial year ended 31 December 2016

	Share capital A\$'000	Share premium A\$'000	Treasury shares A\$'000	Non-distributable reserve A\$'000	Capital reserve A\$'000	Fair value reserve A\$'000	Hedging reserve A\$'000	Exchange fluctuation reserve A\$'000	Retained profits A\$'000	Total attributable to equity holders of the parent A\$'000	Non-controlling interests A\$'000	Total equity A\$'000
Balance at 1 January 2016	36,671	176,563	(2,330)	5,553	16,513	217	(56,962)	19,718	(108,776)	87,167	32,496	119,663
Loss for the year	-	-	-	-	-	-	-	-	7,936	7,936	(24,681)	(16,745)
Other comprehensive (expense)/income for the year	-	-	-	114	-	(217)	49,056	(4,225)	(114)	44,614	16,135	60,749
Total comprehensive (expense)/income for the year	-	-	-	114	-	(217)	49,056	(4,225)	7,822	52,550	(8,546)	44,004
Capital injection from non-controlling interest	-	-	-	-	-	-	-	-	-	-	38,798	38,798
Dividend forfeited	-	-	-	-	-	-	-	-	127	127	-	127
Disposal of a subsidiary	-	-	-	(133)	-	-	-	-	-	(133)	-	(133)
Balance at 31 December 2016	36,671	176,563	(2,330)	5,534	16,513	-	(7,906)	15,493	(100,827)	139,711	62,748	202,459

	Share capital A\$'000	Share premium A\$'000	Treasury shares A\$'000	Non-distributable reserve A\$'000	Capital reserve A\$'000	Fair value reserve A\$'000	Hedging reserve A\$'000	Exchange fluctuation reserve A\$'000	Retained profits A\$'000	Total attributable to equity holders of the parent A\$'000	Non-controlling interests A\$'000	Total equity A\$'000
Balance at 1 January 2015	36,671	176,563	(2,330)	5,553	572	833	(31,812)	7,762	13,325	207,137	32,522	239,659
Loss for the year	-	-	-	-	-	-	-	-	(122,101)	(122,101)	(2,940)	(125,041)
Other comprehensive (expense)/income for the year	-	-	-	-	-	(616)	(25,150)	11,956	-	(13,810)	(4,109)	(17,919)
Total comprehensive (expense)/income for the year	-	-	-	-	-	(616)	(25,150)	11,956	(122,101)	(135,911)	(7,049)	(142,960)
Capital injection from non-controlling interest	-	-	-	-	-	-	-	-	-	-	177	177
Disposal of non-controlling interests without a change in control	-	-	-	-	15,941	-	-	-	-	15,941	6,846	22,787
Balance at 31 December 2015	36,671	176,563	(2,330)	5,553	16,513	217	(56,962)	19,718	(108,776)	87,167	32,496	119,663

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Consolidated statement of cash flows

for the financial year ended 31 December 2016

	Year ended 31 December 2016 A\$'000	Year ended 31 December 2015 A\$'000
<b>Cash Flows from Operating Activities</b>		
Loss before income tax	(8,116)	(131,632)
Adjustments for:		
Amortisation of land use rights	328	327
Amortisation of mine development costs	-	4,023
Depreciation of property, plant and equipment	19,230	27,116
Write off of exploration and evaluation costs	109	605
Write-down of inventories to net realisable value	-	9,354
Write-off of inventories	-	27,167
Gain on disposal of property, plant and equipment	(11)	-
Gain on disposal of land use right	(9,574)	-
Gain on deconsolidation of a subsidiary	-	(9,009)
Gain on bargain purchase	(42,811)	-
Loss on disposal of a subsidiary	182	-
Impairment loss on:		
- Available-for-sale financial assets	581	1,313
- Property, plant and equipment	344	10,638
- Mine development costs	-	10,510
- Other assets	-	2,065
Write back of trade and other payables	-	(12,411)
Gain on extinguishment of convertible bond	(3,446)	-
Unwinding of interest income	(2,505)	-
Fair value gain on financial liabilities through profit or loss	-	(483)
Fee paid for obtaining capital grant	4,574	-
Discontinuation of cash flow hedge	24,411	-
Loss on derivative settlement	18,500	-
Interest expenses	42,418	23,637
Interest income	(170)	(241)
Share of results of associates	(10,574)	1,522
Operating loss before working capital changes	33,470	(35,499)
Increase in inventories	(41,526)	(150,709)
(Increase)/decrease in trade and bill receivables	(19,101)	2,031
Decrease/(increase) in prepayments, deposits and other receivables	12,490	(16,093)
Increase in trade and bill payables	27,019	21,291
(Decrease)/increase in other payables and accruals	(42,812)	43,465
Increase in short-term provision	-	8,318
Changes in long-term liabilities:		
- Decrease in long-term lease obligation	-	(636)
- Decrease in long-term provision (for restoration)	-	(139)
- Decrease in retirement benefit obligation	-	(858)
- Increase in other long term payable	53,793	90,164
Cash generated from/(used in) operations	23,333	(38,659)
Overseas income tax (paid)/refunded	(1,081)	3,736
Net cash generated from/(used in) operating activities	22,252	(34,923)
<b>Cash Flows from Investing Activities</b>		
Payments for exploration and evaluation costs	(299)	(802)
Purchase of property, plant and equipment	(16,900)	(91,948)
Proceeds from disposal of property, plant and equipment	121	-
Proceeds from disposal of land use right	29,885	-
Acquisition of a subsidiary (Note 26)	1,004	-
Net proceeds from disposal of subsidiaries (Note A)	747	22,787
Loan to an associate	(45)	(303)
Interest received	170	241
Net cash generated from/(used in) investing activities	14,683	(70,025)

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Consolidated statement of cash flows (Cont'd)

for the financial year ended 31 December 2016

	Year ended 31 December 2016 A\$'000	Year ended 31 December 2015 A\$'000
<b>Cash Flows from Financing Activities</b>		
Repayment of bank and other loans	(21,493)	(14,131)
Proceeds from bank loans	-	121,166
Payment to finance lease creditors	(987)	(2,934)
Capital grant received, net of cost	10,672	-
Capital contribution by non-controlling interests	38,798	177
Decrease in cash collateral	4,949	12,088
Loss on derivative settlement	(18,500)	-
Interest paid	(42,418)	(23,638)
Net cash (used in)/generated from financing activities	(28,979)	92,728
Net increase/(decrease) in cash and cash equivalents	7,956	(12,220)
Cash and cash equivalents at beginning of the year	12,711	38,751
Exchange difference on translation of cash and cash equivalents at beginning of the year	(96)	(13,820)
Cash and cash equivalents at end of the year (Note 16)	20,571	12,711

### Note A

The Group disposed of a subsidiary in 2016. The carrying value of assets and liabilities disposed of were as follows:

	2016 A\$'000
Net assets disposed of	
Property, plant and equipment	233
Deposits and other receivables	2,384
Cash and bank balances	1
Other payables and accruals	(1,688)
	930
Loss on disposal of a subsidiary	(182)
Proceeds received	748
Cash balance in subsidiaries disposed of	(1)
Cash inflow on disposal	747

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

# **Notes to the financial statements**

## **for the financial year ended 31 December 2016**

### **1 General information**

The financial statements of the Company and of the Group for the financial year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Directors on the date of the Directors' Statement.

The Company is incorporated as a limited liability company listed on the Australian Securities Exchange and domiciled in Bermuda.

The registered office is located at Clarendon House, 2 Church Street Hamilton, HM11 Bermuda.

### **2(a) Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collectively includes all applicable individual IFRSs and Interpretations approved by the IASB, and all applicable individual International Accounting Standards ("IASs") and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB.

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Australian Dollars which is the Company's functional currency. All financial information is presented in Australian Dollars, unless otherwise stated.

#### **Significant accounting estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgement are described below.

#### **Significant judgements in applying accounting policies**

##### **Management's assessment of going concern assumption**

The Group suffered net losses of A\$16,745,000 and A\$125,041,000 for 2 consecutive financial years. Total borrowings amounted to A\$617,631,000 (2015 - A\$ 570,135,000) as of year end. Notwithstanding the above condition and event, the financial statements have been prepared on a going concern basis, which assumes that the Group will be able to meet their obligations as and when they fall due in the next 12 months. Management has evaluated the above condition and event in relation to the Group's ability to meet its obligations and together with its plans to mitigate the effect of the condition and event concluded that no material uncertainty exists.

**2(a) Basis of preparation (Cont'd)**

**Significant judgements in applying accounting policies (Cont'd)**

**Management's assessment of going concern assumption (cont'd)**

Management's plans and assessment include assessing the Group's financial position and its cash flow position within the next twelve months. The Group generated a net positive operating cash flow of A\$22.3 million during the year and as at end of the reporting period has a cash position of A\$29.3 million. Management has taken, and will continue to take, appropriate measures to reduce the Group's operating costs as well as to continue to improve the Group's operating performance with the projected increase in production volume and price for manganese ore and ferro-alloys.

The Group recorded revenue of A\$414.2 million for financial year ("FY") 2016, representing a 22% increase from the A\$338.5 million recorded for FY 2015. This increase in revenue was mainly from the smelting segment as a result of higher ferrosilicon volumes produced and traded from the Group's 75% owned smelter in Sarawak, which contributed 127,515 tonnes of sales corresponding to revenue of A\$158.8 million for FY 2016.

During the year, a restructuring proposal was prepared and presented to its bankers for consent of the restructuring. At the end of the reporting period; certain bankers have given in principal approval for the restructuring and will not seek to enforce claims against the Group within the next 12 months. Accordingly, management has reclassified a total amount of A\$105.7 million from current liabilities to non-current liabilities. As at 31 December 2016, the Group's total current assets exceeded its total current liabilities by A\$155.3 million as stated in the Statement of Financial Position.

Subsequent to the financial year end, the Group has also recommenced its mining and production activities at the Bootu Creek mine site in February 2017, and two shipments of Manganese ore have been concluded at the date of this report.

At the date of authorisation of these financial statements, 10 out of 16 furnaces are in operation in the Sarawak smelter, out of which 2 furnaces are producing manganese alloy and 8 furnaces are producing ferrosilicon. Production for the remaining 6 furnaces are expected to commence by the middle of 2017. With the Sarawak smelter going into full production capacity, it is expected that the Group will be able to achieve higher sales volume with better selling price in addition to lower fixed costs in FY 2017 as compared to FY 2016.

In addition, the Group is currently in the process to investigate strategic options to realise shareholders' value from the disposal of some of its assets and will endeavour to complete this within FY 2017.

At the date of authorisation of these financial statements, the loan restructuring agreement is in the final stage of drafting and it is expected to be finalised and signed within the next month. In addition, the recommencement of mining and production activities in Bootu Creek mine site is projected to generate healthy cash flows. Management prepared and assessed the Group's cash flow position for the next twelve months, using the revised repayment terms of the approved restructured loan as well as management's judgement and assumption of the economic conditions including the market outlook for the commodity prices such as manganese ore, manganese alloy and ferrosilicon alloy, capital distribution, disposal of assets and the Group's expected performance for the next twelve months. Based on the cash flow projection, management is of the view that the Group will be able to meet its obligations as and when they fall due in the next twelve months.

**Income taxes (Note 28)**

The Group has exposures to income taxes in numerous jurisdictions. Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due.

**2(a) Basis of preparation (Cont'd)**

**Significant judgements in applying accounting policies (Cont'd)**

Income taxes (Note 28) (Cont'd)

Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Impairment of available-for-sale financial assets (Note 9)

The Group's quoted equity investments are classified as available-for-sale financial assets. These financial assets are recognised at fair value on initial recognition, with subsequent fair value changes recognised in other comprehensive income, unless there is objective evidence that the investment is impaired. The Group assesses at each reporting date whether there is significant or prolonged in recognising impairment loss of the available-for-sale financial assets. The fair value of quoted equity investments is determined primarily by reference to quoted closing bid prices on the Australian Securities Exchange at the financial reporting dates. Judgement is required to determine whether there is significant or prolonged in recognising the impairment loss of available-for-sale financial assets. In making the judgement, the Group not only evaluates the historical share price movements and the duration and extent to which the quoted prices of an investment is less than its cost, but also other factors like the volatility of market prices, published independent assessments of fair value and expected realisable on or off market sale values of the Group's equity investments. The carrying amount of the Company's and Group's available-for-sale financial assets as at 31 December 2016 is A\$Nil (2015 - A\$798,000).

Determination of functional currency

The Group measures foreign currency translation in the respective currencies of the Company and its subsidiaries. In determining the functional currencies of the entities in the Group, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the entities in the Group are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

Allowance for impairment of trade and other receivables (Note 15)

Allowance for impairment of trade and other receivables are based on the assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of judgement and estimates. Where the expected outcome is different from the original estimate, such difference will impact the carrying value of trade receivables and impairment allowance in the period in which such estimate has been changed. The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

Capitalisation of employee benefit expenses and borrowing costs in construction-in-progress (Notes 31 and 21.3)

During the year, the Group capitalised employee benefits expenses of A\$47,000 (2015 - A\$6,702,000) and borrowing costs of A\$Nil (2015 - A\$2,708,000) in construction-in-progress. The amounts of employee benefit expenses capitalised represent the proportion of salaries of certain directors, key management personnel and other staff based on their expected time cost spent on the construction of the ferrosilicon production facility in one of the subsidiaries.

Valuation of Assets and Liabilities in a Purchase Price Allocation ("PPA")

In August 2016, the Company re-acquired a former subsidiary, OM (Manganese) Ltd ("OMM") that had gone into Voluntary Administration in the prior year, and that had completed a Deed of Company Arrangement ("DOCA").

**2(a) Basis of preparation (Cont'd)**

**Significant judgements in applying accounting policies (Cont'd)**

**Valuation of Assets and Liabilities in a Purchase Price Allocation “PPA” (Cont'd)**

Control of OMM reverted to the Company on 24 August 2016. Accordingly, the results of OMM was consolidated to the Group, with effect from 24 August 2016. A purchase price allocation exercise was carried out by management to determine the fair value of the assets acquired and liabilities assumed at the date control was regained.

On initial recognition, the assets and liabilities of the acquired business are included in the consolidated statement of financial position at their fair values. In measuring fair value, management uses estimates about future cash flows and discount rates, however, the actual results may vary.

**Gain on deconsolidation of a subsidiary**

In the previous year, the mining operations of a wholly-owned subsidiary in Australia ceased and before the end of the reporting period, management put this subsidiary into Voluntary Administration (“VA”) through the appointment of an Administrator. As a result of the VA, management deemed that the Group had effectively lost control of this subsidiary as at the end of the reporting period and deconsolidated the subsidiary from the Group in accordance with the accounting policy detailed in Note 2(d). However, this subsidiary is still considered a legal subsidiary of the Company. A gain on deconsolidation of A\$9,009,000 was recognised in profit or loss. Several areas involving high degree of judgements and assumptions were used by management in deriving this gain. These are detailed below:

(a) Based on management’s computation of the estimated net proceeds available for pay outs to the subsidiary’s creditors after estimating the expected realisation from the sale of existing inventory, management assessed that a portion of the trade and other payables of this subsidiary would not be settled in full and hence, wrote back this amount to the profit or loss.

(b) An external valuation by an independent professional valuer was undertaken to assess the fair value of this subsidiary’s property, plant and equipment. The fair value was based on valuation using the market/cost approach after taking into consideration the information made available to the valuer, prevailing market conditions and other factors considered appropriate by the management. Given that the mine had ceased operations and the fair value was lower than the carrying amount of property, plant and equipment as at the date when control was lost, management was of the view that the property, plant and equipment was impaired and the fair value represented the recoverable amount of the property, plant and equipment. Accordingly, the carrying amount was reduced to its recoverable amount and the reduction recognised as impairment loss in profit or loss.

(c) Except for one category of inventories which was written down to net realisable value based on an external valuation done by an independent professional valuer, all other inventories and mine development costs in this subsidiary were fully written off and recognised in profit or loss due to the suspension of the mining operations as management was of the view that these costs may no longer be recoverable.

(d) Based on management’s assumption that this subsidiary will be returned to the Group after a successful restructuring and recommencing its mining operations within 12 months, other amounts receivable from or payable to Group companies as at the date where control was lost were impaired or written back respectively in profit or loss.

**Crystallisation of corporate guarantees (Notes 22 and 27)**

In the previous year, the Company provided corporate guarantees to a subsidiary which went into VA (as above) on its agreements with suppliers and finance lease creditors. As a result of the VA, these corporate guarantees had crystallised and management has estimated the Company’s expected liability at A\$8,318,000 based on the amount expected to be paid out to the creditors. This has been accrued for accordingly in the statements of financial position.

The Group had paid the guarantee during the current financial year.

**2(a) Basis of preparation (Cont'd)**

**Critical assumptions used and accounting estimates in applying accounting policies**

Impairment of investment in subsidiaries (Note 11)

Determining whether investment in subsidiaries is impaired requires an estimation of the value-in-use of that investment. The value-in-use calculation requires the Company to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the recoverability of the investment based on such estimates. In the previous year, one of the subsidiaries suspended its mine operations and went into Voluntary Administration during the year. Management is of the view that the investment in this subsidiary may not be recoverable and fully impaired this investment to profit or loss. The carrying amount of interests in subsidiaries is A\$107,992,000 (2015 - A\$107,303,000). If the present value of estimated future cash flows decrease by 10% from management's estimates, the Company's allowance for impairment will increase by \$10,799,200 (2015 - increase by \$10,730,700).

Mine Development Costs (Note 7)

The fair value adjustments for the mine development cost were approximately \$43,169,000, based on valuations by an independent international valuer. The fair value of the mine development costs was determined based on property highest and best use, using the income approach. . If the fair value of the mine development costs increases/decreases by 10% from management's, the Group's loss for the year will increase/decrease by approximately A\$4,316,900 (2015 - A\$Nil).

Depreciation of property, plant and equipment (Note 4)

The Group's management exercises its judgement in estimating the useful lives of the depreciable assets. The estimated useful lives reflect management's estimate of the periods the Group intends to derive future economic benefits from the use of these assets based on historical experience. Changes in expected levels of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. If the depreciation of the property, plant and equipment increases/decreases by 10% from management's, the Group's loss for the year will increase/decrease by approximately A\$1,923,000 (2015 - A\$2,711,600). The Group depreciates property, plant and equipment in accordance with the accounting policies stated in Note 2(d). The carrying amount of the Group's property, plant and equipment as at 31 December 2016 is A\$639,825,000 (2015 - A\$613,023,000).

Fair value of financial instruments

The Group carries certain financial assets and liabilities at fair value. Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of the mathematical models. The input to these models are derived from observable market data where possible. Where observable data are not available, judgement are required to establish the fair value. The judgement includes considerations of liquidity and model inputs such as volatility and discount rate, prepayment rates and default rate assumptions, which fair value would differ if the Group utilised different valuation methodology. Any changes in fair values of these financial assets and liabilities would affect directly the Group's profit or loss.

**2(a) Basis of preparation (Cont'd)**

**Critical assumptions used and accounting estimates in applying accounting policies (Cont'd)**

Fair value of financial instruments (Cont'd)

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 : quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 : inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 : inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (with Level 3 being the lowest).

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring the fair values is included in the following notes:

- Note 14 - Derivative financial instruments

The carrying amount of the Group's financial liabilities carried at fair value is A\$Nil (2015 - A\$103,925,000) respectively. If the fair value of the Group's derivative financial liabilities increase/decrease by 10%, the Group's loss and other comprehensive expenses for the year will increase/decrease by A\$Nil (2015 - A\$10,393,000) respectively.

Net realisable value of inventories (Note 13)

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less the estimated cost necessary to make the sale. These estimates are based on the current market conditions and historical experiences of selling products of similar nature. It could change significantly as a result of competitor actions in response to the changes in market conditions. Management reassesses the estimations at the end of each reporting date. If the net realisable value of the inventories increases or decreases by 10% from management's estimates, the Group's loss for the year will decrease or increase by A\$Nil or A\$Nil (2015 - A\$2,971,000 or A\$3,705,000) respectively. The carrying amount of the inventories as at 31 December 2016 is A\$302,817,000 (2015 - A\$259,848,000).

**Notes to the financial statements for the financial year ended 31 December 2016**

**2(b) Interpretations and amendments to published standards effective in 2016**

The directors do not anticipate that the adoption of the IFRSs will have a material impact on the financial statements of the Group and the Company in the period of their initial adoption except for the following new or amended IFRS and INT FRS issued and effective in year 2016:

Reference	Description
Amendments to IAS 1	<i>Disclosure Initiatives</i>

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities should adopt a systemic order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. As this is a disclosure standard, it will have no impact to the financial position and performance of the Group when applied in.

**2(c) FRS not yet effective**

The following are the new or amended FRS and INT FRS issued in 2016 that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual Periods beginning on)
Amendments to IAS 7	<i>Statement of Cash Flows</i>	1 January 2017
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrecognised Losses</i>	1 January 2017
Amendments to IAS 102	<i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
IFRS 15	<i>Revenue from Contracts with Customers</i>	1 January 2018
Clarifications to IFRS 15	<i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 9	<i>Financial Instruments</i>	1 January 2018
FRS 16	<i>Leases</i>	1 January 2019
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018

**Amendments to IAS 7 *Statement of Cash Flows***

The Amendments to IAS 7 *Statement of Cash Flows* required entities to reconcile cash flows arising from financing activities as reported in the statement of cash flows – excluding contributed equity – to the corresponding liabilities in the opening and closing statements of financial position and to disclose any restrictions over the decisions of an entity to use cash and cash equivalent balances, in particular way - e.g. any tax liabilities that would arise on repatriation of foreign cash and cash equivalent balances. These amendments are effective on beginning or after 1 January 2017. As this is a disclosure standard, it will have no impact to the financial position and performance of the Group when applied in.

**2(c) FRS not yet effective (Cont'd)**

**Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions***

The amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- (i) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments
- (ii) Share-based payment transactions with a net settlement feature for withholding tax obligations and
- (iii) A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Companies are required to apply the amendments for annual periods beginning on or after January 1, 2018. The Group is currently assessing the impact to the consolidated financial statements.

**IFRS 15 *Revenue Contracts with Customers***

IFRS 15 *Revenue from Contracts with Customers* establishes a framework for determining when and how to recognise revenue. The objective of the standard is to establish the principles that an entity shall apply to report useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer.

The standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC 31 *Revenue – Barter Transactions involving Advertising Services*. The new standard applies to contracts with customers. However, it does not apply to insurance contracts, financial instruments or lease contracts, which fall into the scope of other standards.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements

**Clarifications to IFRS 15 *Revenue Contracts with Customers***

The amendments clarify how to:

- Identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract
- Determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided)
- Determine whether the revenue from granting a licence should be recognised at a point in time or over time.

The amendments have the same effective date as the Standard, IFRS 15, i.e. on 1 January 2018.

**2(c) FRS not yet effective (Cont'd)**

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments replaces the IAS 39 and it is a package of improvements introduced by IFRS 9 which include a logical model for:

- Classification and measurement;
- A single, forward – looking “expected loss” impairment model and
- A substantially reformed approach to hedge accounting

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact to the consolidated financial statements.

**IFRS 16 Leases**

IFRS 16 Leases replaces accounting requirements introduced more than 30 years ago in accordance with IAS 17 Leases that are no longer considered fit for purpose, and is a major revision of the way in which companies where it is required lessees to recognise most leases on their balance sheets. Lessor accounting is substantially unchanged from current accounting in accordance with IAS 17. IFRS 16 Leases will be effective for accounting periods beginning on or after 1 January 2019. Early adoption will be permitted, provided the company has adopted IFRS 15. The Group is currently assessing the impact to the consolidated financial statements.

**IFRIC 22 Foreign Currency Transactions and Advance Consideration**

This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The Group is currently assessing the impact to the consolidated financial statements.

**2(d) Summary of significant accounting policies**

**Consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Losses and other comprehensive income are attributable to the non-controlling interest even if that results in a deficit balance.

**2(d) Summary of significant accounting policies (Cont'd)**

**Consolidation (Cont'd)**

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- de-recognises the assets (including goodwill) and liabilities of the subsidiary at their carrying amounts as at that date when control is lost;
- de-recognises the carrying amount of any non-controlling interest;
- de-recognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- re-classifies the Group's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

A subsidiary is an investee that is controlled by the Group. The Group controls an investee when it is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Group controls an investee if and only if the Group has all of the following:

- power over the investee;
- exposure, or rights to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

**2(d) Summary of significant accounting policies (Cont'd)**

**Consolidation (Cont'd)**

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when the control is lost is regarded as the fair value on the initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Transactions with Non-Controlling Interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Company, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the Company.

Changes in the Company owners' ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Business combinations are accounted for by applying the acquisition method identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in profit or loss. The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any), that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation, is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquire (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

**2(d) Summary of significant accounting policies (Cont'd)**

**Subsidiaries**

In the Company's separate financial statements, investments in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis.

**Associates**

An associate is an entity over which the Group has the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The Group accounts for its investments in associates using the equity method from the date on which it becomes an associate.

On acquisition of the investment, any excess of the cost of the investment over the Group's share of the net fair value of the investee's identifiable assets and liabilities is accounted as goodwill and is included in the carrying amount of the investment. Any excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in associates are carried in the Group's statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. The profit or loss reflects the share of results of operations of the associates. Distributions received from associates reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the associates, the Group recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transaction between the Group and the associate are eliminated to the extent of the interest in the associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss, on the Group's investment in associate. The Group determines at the end of each reporting period whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss.

The financial statements of the associates are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Upon loss of significant influence or joint control over the associate, the Group measures any retained interest at fair value. Any difference between the fair value of the aggregate of the retained interest and proceeds from disposal and the carrying amount of the investment at the date the equity method was discontinued is recognised in profit or loss.

The Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if that associate or joint venture had directly disposed of the related assets or liabilities.

When an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

If the Group's ownership interest in an associate is reduced, but the Group continues to apply the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

**2(d) Summary of significant accounting policies (Cont'd)**

**Intangible assets**

Intangible assets are accounted for using the cost model with the exception of goodwill. Capitalised costs are amortised on a straight-line basis over their estimated useful lives for those considered as finite useful lives. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. In addition, they are subject to annual impairment testing. Indefinite life intangibles are not amortised but are subject to annual impairment testing.

Intangible assets are written off where, in the opinion of the Directors, no further future economic benefits are expected to arise.

Goodwill

Goodwill on acquisition of subsidiaries on or after 1 January 2010 represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired.

Goodwill on subsidiaries and joint ventures is recognised separately as intangible assets

Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisition prior to 1 January 2001. Such goodwill was adjusted against retained profits in the year of acquisition and is not recognised in profit or loss on disposal.

Goodwill arising on an acquisition of a subsidiary is subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

For the purpose of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

An impairment loss is recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below the higher of its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to its present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

Impairment losses recognised in an interim period in respect of goodwill is not reversed in a subsequent period.

**2(d) Summary of significant accounting policies (Cont'd)**

**Intangible assets (Cont'd)**

Exploration and evaluation costs

Exploration and evaluation costs relate to mineral rights acquired and exploration and evaluation expenditures capitalised in respect of projects that are at the exploration/pre-development stage.

Exploration and evaluation assets are initially recognised at cost. Subsequent to initial recognition, they are stated at cost less any accumulated impairment losses. These assets are reclassified as mine development assets upon the commencement of mine development, when technical feasibility and commercial viability of extracting mineral resources becomes demonstrable.

Exploration and evaluation expenditures in the relevant area of interest comprises costs which are directly attributable to acquisition, surveying, geological, geochemical and geophysical, exploratory drilling, land maintenance, sampling, and assessing technical feasibility and commercial viability.

Exploration and evaluation expenditures also include the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalised costs, including general and administrative costs, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest, where the existence of a technically feasible and commercially viable mineral deposit has been established.

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with IAS 36 "Impairment of Assets" whenever one of the following events or changes in facts and circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- (a) the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be recovered;
- (b) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- (c) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- (d) sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Mine development costs

Costs arising from the development of the mine site (except for the expenditures incurred for building the mine site and the purchases of machinery and equipment for the mining operation which are included in property, plant and equipment) are accumulated in respect of each identifiable area of interest and are capitalised and carried forward as an asset to the extent that they are expected to be recouped through the successful mining of the areas of interest.

Accumulated costs in respect of an area of interest subsequently abandoned are written off to the profit or loss in the reporting period in which the Directors' decision to abandon is made.

**2(d) Summary of significant accounting policies (Cont'd)**

**Intangible assets (Cont'd)**

Mine development costs (Cont'd)

Amortisation is not charged on the mine development costs carried forward in respect of areas of interest until production commences. Where mining of a mineral deposit has commenced, the related exploration and evaluation costs are transferred to mine development costs. When production commences, carried forward mine development costs are amortised on a unit of production basis. The unit of production basis results in an amortisation charge proportional to the depletion of the estimated economically recoverable mineral resources.

Pre-production operating expenses and revenues were accumulated and capitalised into mine development costs until 31 August 2006 as the mine was involved in the commissioning phase which commenced in November 2005. Subsequent to 31 August 2006, the Directors of the Company determined that the processing plant was in the condition necessary for it to be capable of operating in the manner intended so as to seek to achieve design capacity rates. These costs were carried forward to the extent that they are expected to be recouped through the successful mining of the area of interest.

The amortisation of capitalised mine development costs commenced from 1 September 2006 and continues to be amortised over the life (approximately 17 years) of the mine according to the rate of depletion of the economically recoverable mineral resources.

**Property, plant and equipment**

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the straight-line method to allocate their depreciable amount of these assets over their estimated useful lives as follows:

Leasehold building and improvements	3 to 73 years (based on original lease period)
Plant and machinery	3 to 20 years
Computer equipment, office equipment and furniture	1 to 10 years
Motor vehicles	5 to 10 years

Plant and equipment- process facility, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is computed using the unit of production method to allocate their depreciable amount of these assets over their estimated useful lives as follows:

Plant and equipment - Process facility	Life of mine
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Previously, the depreciation is computed using the straight-line method. The effect of this change in estimate was an increase in the net profit for the financial year and the net book value of property, plant and equipment by A\$13,980,909 and a corresponding decrease in the accumulated depreciation account by the same amount

CIP represents assets in the course of construction for production or for its own use purpose. CIP is stated at cost less any impairment loss and is not depreciated. Cost includes direct costs incurred during the periods of construction, installation and testing plus interest charges arising from borrowings used to finance these assets during the construction period. CIP is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

**2(d) Summary of significant accounting policies (Cont'd)**

**Property, plant and equipment (Cont'd)**

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial period in which it is incurred.

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at end of each reporting period. The effects of any revision are recognised in profit or loss when the changes arise.

**Land use rights**

Costs incurred to acquire interests in the usage of land in the People's Republic of China ("PRC") and Malaysia under operating leases are classified as "land use rights" and are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line method over the term of use being 50 - 60 years.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs include all direct expenditure and production overheads based on the normal level of activity. The costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- (a) Raw materials at purchase cost on a weighted average basis; and
- (b) Finished goods and work in progress at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

**Financial assets**

Financial assets, other than hedging instruments, can be divided into the following categories: financial assets at fair value through the profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the assets were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through the profit or loss, which are recognised at fair value.

De-recognition of financial assets occurs when the rights to receive cash flows from the financial assets expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

**2(d) Summary of significant accounting policies (Cont'd)**

**Financial assets (Cont'd)**

An assessment for impairment is undertaken at least at the end of each reporting period whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets.

Loans and receivables include trade and other receivables. Loan and receivables are recognised initially at fair value, plus any directly attributable costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write-back is recognised in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investments within 12 months of the end of reporting period.

All financial assets within this category are subsequently measured at fair value with changes in value recognised in other comprehensive income, net of any effects arising from income taxes, until the financial assets is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income is included in the profit or loss for the period.

When a decline in the fair value of an available-for sale financial asset has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income shall be removed from other comprehensive income and recognised in the profit or loss even though the financial asset has not be de-recognised.

The amount of the cumulative loss that is removed from other comprehensive income and recognised in the profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss.

Impairment losses recognised in the profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

**2(d) Summary of significant accounting policies (Cont'd)**

**Financial assets (Cont'd)**

Available-for-sale financial assets (cont'd)

Impairment losses recognised in a previous interim period in respect of available-for-sale equity investments are not reversed even if the impairment losses would have been reduced or avoided had the impairment assessment been made at a subsequent reporting period or end of reporting period.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty or probable bankruptcy of the investee;
- a breach of contract;
- structural changes in the industry in which the investee operates, such as changes in production technology or the number of competitors;
- changes in the political or legal environment affecting the investee's business;
- changes in the investee's financial condition evidenced by changes in factors such as liquidity, credit ratings, profitability, cash flows, debt/equity ratio and level of dividend payments; and
- whether there has been a significant or prolonged decline in the fair value below cost.

Determination of fair value

The fair values of quoted financial assets are based on quoted market prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs. Where fair value of unquoted instruments cannot be measured reliably, fair value is determined by the transaction price.

**Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

There are 3 types of hedges as follows:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- (c) hedges of a net investment in a foreign operation (net investment hedge).

However, the Group only designates certain derivatives as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

**2(d) Summary of significant accounting policies (Cont'd)**

**Derivative financial instruments and hedging activities (Cont'd)**

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 14. Movements on the hedging reserve in other comprehensive income are shown in Note 19. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. For hedging instruments used to hedge the bank borrowings that finance the construction of a subsidiary's ferrosilicon production facility, any ineffective portion is capitalised as part of the cost of the ferrosilicon production facility ("construction-in-progress").

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit or loss within 'finance income/cost'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of the fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

Derivatives financial instruments not designated as hedging instrument

Derivative financial instruments are not designated as hedging instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date of the derivative contract is entered into and subsequently re-measured at fair value. Such derivative financial instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are recorded directly in profit or loss for the year.

The changes in fair value of the derivative financial instruments not designated as hedges are capitalised as part of the cost of ferrosilicon production facility ("construction-in-progress") if these derivatives are used to hedge the bank borrowings that finance the construction of the ferrosilicon production facility.

**Cash and cash equivalents**

Cash and cash equivalents include cash at bank and balances on hand, demand deposits with banks and highly liquid investments with original maturities of 3 months or less which are readily convertible to cash and which are subject to an insignificant risk of changes in value.

**Share capital and treasury shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued

**2(d) Summary of significant accounting policies (Cont'd)**

**Share capital and treasury shares (Cont'd)**

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the treasury share reserve. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

**Share premium**

Any excess of the proceeds received over the par value of the shares is recorded in share premium.

**Financial liabilities**

The Company's and the Group's financial liabilities include borrowings, trade and bill payables, accruals and other payables.

Financial liabilities are recognised when the Company and the Group become a party to the contractual agreements of the instrument. All interest-related charges are recognised as an expense in "finance cost" in the profit or loss.

Financial liabilities are de-recognised if the Company's and the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Non-compounding interest and other cash flows resulting from holding financial assets are recognised in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

**Borrowings**

Borrowings are recognised initially at the fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to profit or loss over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well as through the amortisation process.

Borrowings which are due to be settled within 12 months after the end of the reporting period are included in current borrowings in the statements of financial position even though the original terms were for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the end of the reporting period. Borrowings to be settled within the Company's and the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the end of reporting period are included in non-current borrowings in the statements of financial position.

**2(d) Summary of significant accounting policies (Cont'd)**

**Financial liabilities (Cont'd)**

Borrowings (cont'd)

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the related asset. Otherwise, borrowing costs are recognised as expenses when incurred. Borrowing costs consist of interests and other financing charges that the Company and the Group incur in connection with the borrowing of funds.

Capitalisation of borrowing costs commences when the activities to prepare the qualifying asset for its intended use are in progress and the expenditures for the qualifying asset and the borrowing costs have been incurred. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying assets are substantially completed for their intended use.

Foreign exchange differences arising from foreign currency borrowings are capitalised to the extent that they are regarded as an adjustment to interest costs.

Trade and bill payables/accruals and other payables

Trade and bill payables/accruals and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

5% Convertible Note

Convertible notes are initially recorded at fair value. The fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible bond; this amount is recorded as a non-current liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option, which is recognised and included as a current liability as the convertible note is issued in a currency that is not the functional currency of the issuer and hence, cannot be classified as equity.

Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair value plus transaction costs in the statement of financial position.

Financial guarantee contracts are subsequently amortised to the profit or loss over the period of the subsidiaries' borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

**Government grants**

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

**Provisions and contingent liabilities**

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

**2(d) Summary of significant accounting policies (Cont'd)**

**Provisions and contingent liabilities (Cont'd)**

The Directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

Where the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognised as finance costs.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are not recognised in the statements of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably measured. Contingent liabilities are recognised in the course of the allocation of the purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

**Leases**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group is the lessee,

Finance leases

Where assets are financed by lease agreements that give rights approximating to ownership, the assets are capitalised as if they had been purchased outright at values equivalent to the lower of the fair values of the leased assets and the present value of the total minimum lease payments during the periods of the leases. The corresponding lease commitments are included under liabilities. The excess of lease payments over the recorded lease obligations are treated as finance charges which are amortised over each lease to give a constant effective rate of charge on the remaining balance of the obligation.

The leased assets are depreciated on a straight-line basis over their estimated useful lives as detailed in the accounting policy on "Property, plant and equipment".

Operating leases

Rentals on operating leases are charged to profit or loss on a straight-line basis over the lease term. Lease incentives, if any, are recognised as an integral part of the net consideration agreed for the use of the leased asset. Penalty payments on early termination, if any, are recognised in profit or loss when incurred.

**Income taxes**

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period.

**2(d) Summary of significant accounting policies (Cont'd)**

**Income taxes (Cont'd)**

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting or taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that a future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the end of reporting period, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised either in other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Current tax assets and current tax liabilities are presented net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities net if, and only if,

- (a) the Group has a legally enforceable right to set off deferred tax assets against deferred tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amount of deferred tax liabilities or assets are expected to be settled or recovered.

**Royalties and Special Mining Taxes**

Other tax expense includes the cost of royalty and special mining taxes payable to governments that are calculated on a percentage of taxable profit whereby profit represents net income adjusted for certain items defined in applicable legislation.

**2(d) Summary of significant accounting policies (Cont'd)**

**Employee benefits**

Defined contribution plan

Retirement benefits to employees are provided through defined contribution plans, as provided by the laws of the countries in which it has operations. The Singapore incorporated companies in the Group contribute to the Central Provident Fund ("CPF"). The Australian subsidiary in the Group is required to contribute to employee superannuation plans and such contributions are charged as an expense as the contributions are paid or become payable.

The Australian subsidiary contributes to individual employee accumulation superannuation plans at the statutory rate of the employees' wages and salaries, in accordance with statutory requirements, so as to provide benefits to employees on retirement, death or disability. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme.

These contributions are charged to the profit or loss in the period to which the contributions relate. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the unconsumed leave as a result of services rendered by employees up to the end of reporting period.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain general managers are considered key management personnel.

**Related parties**

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Company and the Group if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Group or of a parent of the Company.
- (b) An entity is related to the Company and the Group if any of the following conditions applies:
  - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a);
  - (vii) a person identified in (a) (i) has significant influence over the entity or (ii) is a member of the key management personnel of the entity (or of a parent of the entity); or
  - (viii) the entity, or any member of a group which is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

**2(d) Summary of significant accounting policies (Cont'd)**

**Impairment of non-financial assets**

The carrying amounts of the Company's and the Group's non-financial assets subject to impairment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the company at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets or cash-generating units' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value-in-use, based on an internal discounted cash flow evaluation.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to equity.

With the exception of goodwill,

- An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.
- An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.
- A reversal of an impairment loss on a revalued asset is credited directly to equity under the heading revaluation surplus. However, to the extent that an impairment loss on the same revalued asset was previously recognised as an expense in the profit or loss, a reversal of that impairment loss is recognised as income in the profit or loss.

An impairment loss in respect of goodwill is not reversed, even if it relates to impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or end of reporting period.

**2(d) Summary of significant accounting policies (Cont'd)**

**Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods, net of rebates and discounts, goods and services tax and other sale taxes. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably and there is no continuing management involvement with the goods, revenue is recognised in the consolidated statement of comprehensive income as follows:

Revenue from the sale of goods is recognised upon the transfer of significant risks and rewards of ownership to the customers. The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For sales of ores in the domestic markets, transfer occurs upon satisfaction of (i) full payments by customers and, (ii) notifications issued to customers to take deliveries; for international shipments, transfer occurs upon loading of the goods onto the relevant carrier at the port.

Interest income is recognised on a time-apportioned basis using the effective interest rate method.

Dividend income is recognised when the right to receive the dividend has been established.

**Functional currencies**

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The financial statements of the Company and the Group are presented in Australian Dollars, which is also the functional currency of the Company.

**Conversion of foreign currencies**

Transactions and balances

Transactions in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the end of the reporting period are recognised in profit or loss.

However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

All other foreign exchange gains and losses impacting profit or loss are presented in the consolidated statement of comprehensive income within “other operating expenses”.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the transactions.

**2(d) Summary of significant accounting policies (Cont'd)**

**Conversion of foreign currencies (Cont'd)**

Group entities

The results and financial position of all the entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the end of the reporting period;
- (ii) Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and
- (iii) All resulting currency translation differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date. For acquisitions prior to 1 January 2010, the goodwill and fair value adjustments are translated at the exchange rates at the dates of acquisition.

**Operating segments**

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive Directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive Directors are determined following the Group's major products and services.

The Group has identified the following reportable segments:

Mining	Exploration and mining of manganese ore
Smelting	Production of manganese ferroalloys, ferrosilicon and manganese sinter ore
Marketing and trading	Trading of manganese ore, manganese ferroalloys, ferrosilicon, sinter ore, chrome ore and iron ore

Each of these operating segments is managed separately as they require different resources as well as operating approaches.

The reporting segment results exclude the change in fair value of derivative financial instruments, finance income and costs, share of results of associate, income tax and corporate income and expenses which are not directly attributable to the business activities of any operating segment, and are not included in arriving at the operating results of the operating segment.

Segment assets include property, plant and equipment, land use rights, mine development costs, inventories, receivables and operating cash and mainly exclude available-for-sale financial assets, deferred tax assets, interest in an associate, goodwill and corporate assets which are not directly attributable to the business activities of any operating segment, which primarily applies to the Group's headquarters.

Segment liabilities comprise operating liabilities and exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include income tax payables, deferred tax liabilities and corporate borrowings.

**Notes to the financial statements for the financial year ended 31 December 2016**

**3 Principal activities and revenue**

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are as stated in Note 11.

Revenue is turnover from the sales of ore and ferroalloy products which represent the invoiced value of goods sold, net of discounts, goods and services tax and other sales taxes.

**4 Property, plant and equipment**

The Group	Construction -in-progress A\$'000	Leasehold buildings and improvements A\$'000	Plant and machinery A\$'000	Computer equipment, office equipment and furniture A\$'000	Motor vehicles A\$'000	Total A\$'000
<u>Cost</u>						
At 1 January 2015	384,157	23,136	213,608	4,030	2,153	627,084
Additions	89,387	313	1,480	410	358	91,948
Transfers	(198,353)	-	198,353	-	-	-
Adjustment for loss of control of subsidiary*	(1,668)	(8)	(107,960)	(3,190)	-	(112,826)
Written off	-	-	-	(29)	-	(29)
Exchange realignment	41,783	1,342	10,171	70	155	53,521
At 31 December 2015	<b>315,306</b>	<b>24,783</b>	<b>315,652</b>	<b>1,291</b>	<b>2,666</b>	<b>659,698</b>
Additions	9,773	149	6,732	240	6	16,900
Transfers	(311,506)	-	311,506	-	-	-
Acquisition of subsidiary#	520	-	109,018	2,014	-	111,552
Disposal	-	(835)	(644)	(11)	(391)	(1,881)
Written off	-	-	-	(29)	(2)	(31)
Exchange realignment	3,391	(1,235)	1,480	(22)	(62)	3,552
<b>At 31 December 2016</b>	<b>17,484</b>	<b>22,862</b>	<b>743,744</b>	<b>3,483</b>	<b>2,217</b>	<b>789,790</b>
<u>Accumulated depreciation</u>						
At 1 January 2015	-	6,870	83,581	3,330	1,251	95,032
Depreciation for the year (Note 27)	-	1,315	24,877	534	390	27,116
Adjustment for loss of control of subsidiary*	-	-	(84,359)	(3,223)	-	(87,582)
Written off	-	-	-	(29)	-	(29)
Exchange realignment	-	381	991	34	94	1,500
At 31 December 2015	-	<b>8,566</b>	<b>25,090</b>	<b>646</b>	<b>1,735</b>	<b>36,037</b>
Depreciation for the year (Note 27)	-	1,270	17,285	349	326	19,230
Acquisition of subsidiary#	-	-	84,152	1,971	-	86,123
Disposal	-	(640)	(555)	(11)	(332)	(1,538)
Written off	-	-	-	(29)	(2)	(31)
Exchange realignment	-	(448)	(329)	(20)	(41)	(838)
<b>At 31 December 2016</b>	-	<b>8,748</b>	<b>125,643</b>	<b>2,906</b>	<b>1,686</b>	<b>138,983</b>
<u>Impairment loss</u>						
At 1 January 2015	-	-	-	-	-	-
Impairment loss recognised (Note 27)	-	-	10,638	-	-	10,638
As at 31 December 2015	-	-	<b>10,638</b>	-	-	<b>10,638</b>
Impairment loss recognised (Note 27)	344	-	-	-	-	344
<b>At 31 December 2016</b>	<b>344</b>	-	<b>10,638</b>	-	-	<b>10,982</b>
<u>Net book value</u>						
<b>At 31 December 2016</b>	<b>17,140</b>	<b>14,114</b>	<b>607,463</b>	<b>577</b>	<b>531</b>	<b>639,825</b>
At 31 December 2015	315,306	16,217	279,924	645	931	613,023

\* This relates to a subsidiary in which the Group had lost control in the previous period.

# This relates to a subsidiary in which the Group had regained control at the end of the reporting period, previously de-consolidated.

**Notes to the financial statements for the financial year ended 31 December 2016**

**4 Property, plant and equipment (Cont'd)**

The net book value of motor vehicles and plant and equipment acquired under finance lease for the Group amounted to A\$301,000 and A\$1,951,000 (2015 - A\$454,000 and A\$Nil) (Note 21.1) respectively.

Leasehold buildings are located in Singapore, Malaysia and the People's Republic of China ("PRC").

As of 31 December 2016, property, plant and equipment with a total carrying amount of A\$582,635,000 (2015- A\$281,250,000) had been pledged for banking facilities granted to a subsidiary.

Impairment assessment

During the year an impairment loss of A\$344,000 was recognised for the construction-in-progress in a subsidiary, due to the suspension of works in building the construction-in-progress. In the previous year, the impairment loss represent the impairment of certain property, plant and equipment recognised in profit or loss due to the suspension of mining operations in one of the subsidiaries during the year (see Note 2(a)).

The Group evaluates any indication of impairment in the property, plant and equipment at the end of each reporting period. Cash flow projections used in these calculations were based on financial budgets approved by management covering the useful life of the property, plant and equipment. Cash flows beyond the useful life of the property, plant and equipment were extrapolated using the estimated growth rates stated below. The growth rate did not exceed the long-term average growth rate in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2016
Gross margin <sup>1</sup>	14%
Growth rate <sup>2</sup>	2.5% to 3% before 2021, 0% after 2021
Discount rate <sup>3</sup>	8%

<sup>1</sup> Budgeted gross margin

<sup>2</sup> Weighted average growth rate used to extrapolate cash flows beyond the budget period

<sup>3</sup> Pre-tax discount rate applied to the pre-tax cash flow projections

These assumptions were used for the analysis. Management determined budgeted gross margin based on past performance and its expectations of the market developments. The weighted average growth rates used were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments. Based on the assessment, no impairment is required.

**Notes to the financial statements for the financial year ended 31 December 2016**

**5 Land use rights**

The Group	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
<b>Non-current</b>		
At the beginning of the year	<b>18,112</b>	32,164
Amortisation for the year (Note 27)	<b>(328)</b>	(327)
Incentives by government	<b>(8,038)</b>	-
Reclassification	-	(15,629)
Exchange realignment	<b>67</b>	1,904
At the end of the year	<b>9,813</b>	18,112
<b>Current – land use rights classified as held-for-sale</b>		
At the beginning of the year	<b>20,311</b>	6,698
Disposal	<b>(20,311)</b>	-
Reclassification	-	15,629
Exchange realignment	-	(2,016)
At the end of the year	-	20,311
	<b>9,813</b>	<b>38,423</b>
At the end of the year		
Cost	<b>11,456</b>	40,444
Accumulated amortisation	<b>(1,643)</b>	(2,021)
Net carrying value	<b>9,813</b>	<b>38,423</b>

The land use rights are for leasehold land located in the PRC and Malaysia.

The land use rights for leasehold land located in Malaysia had a net carrying value of A\$36,823,000 and were pledged as security for borrowings referred to in Note 21.2(a) and (c). During the year, the land use rights amounting to \$20,311,000 were sold and the related borrowings were fully repaid.

**6 Exploration and evaluation costs**

The Group	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
At beginning of the year	<b>1,676</b>	1,479
Costs incurred during the year	<b>299</b>	802
Written off during the year (Note 27)	<b>(109)</b>	(605)
At end of the year	<b>1,866</b>	1,676

The summarised financial information in relation to exploration and evaluation costs is as follows:

The Group	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
Assets	<b>16</b>	23
Income and expenses	<b>(39)</b>	(46)
Operating cash flows	<b>283</b>	360
Investing cash flows	<b>(243)</b>	(376)

**Notes to the financial statements for the financial year ended 31 December 2016**

**7 Mine development costs**

The Group	<b>2016 A\$'000</b>	2015 A\$'000
At beginning of the year	-	14,076
Costs incurred during the year	-	457
Amortisation for the year (Note 27)	-	(4,023)
Acquisition of subsidiary#	<b>43,169</b>	-
Impairment during the year (Note 27)	-	(10,510)
At end of the year	<b>43,169</b>	-

The Group	<b>2016 A\$'000</b>	2015 A\$'000
At the end of the year	-	-
Costs	<b>43,169</b>	-
Net carrying value	<b>43,169</b>	-

# This relates to a subsidiary in which the Group regained control at the end of the reporting period, previously de-consolidated.

**8 Goodwill**

The Group	<b>2016 A\$'000</b>	2015 A\$'000
At beginning of the year	-	2,065
Impairment recognised (Note 27)	-	(2,065)
At end of the year	-	-

**9 Available-for-sale financial assets**

The Company and The Group	<b>2016 A\$'000</b>	2015 A\$'000
Quoted equity investments, at fair value		
At beginning of the year	<b>798</b>	2,727
Impairment loss recognised directly in profit or loss (Note 27)	<b>(581)</b>	(1,313)
Fair value loss recognised directly in other comprehensive income	<b>(217)</b>	(616)
	<b>(798)</b>	(1,929)
At end of the year	-	798

Represented by:

The Company and The Group	<b>2016 A\$'000</b>	2015 A\$'000
Quoted equity investments, at costs	<b>81,899</b>	81,899
Impairment loss		
At beginning of the year	<b>(81,101)</b>	(79,172)
Impairment loss recognised directly in profit or loss	<b>(581)</b>	(1,313)
Fair value loss recognised directly in other comprehensive income	<b>(217)</b>	(616)
At end of the year	<b>(81,899)</b>	(81,101)
At end of the year	-	798

The fair value of quoted equity investments is determined by reference to quoted closing bid prices on the Australian Securities Exchange at the financial reporting dates.

During the year, the available-for-sale financial assets had been fully written off, as the investments went into voluntary administration.

**Notes to the financial statements for the financial year ended 31 December 2016**

**10 Deferred taxation**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred income tax assets against deferred income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the statement of financial position as follows:

	<b>2016 A\$'000</b>	2015 A\$'000
The Group		
<b>Deferred tax assets</b>		
To be recovered within one year	-	-
To be recovered after one year	-	4,608
	-	4,608
Balance at beginning of the year	<b>4,608</b>	2,730
(Charged)/credited to the profit or loss (Note 28)	<b>(4,608)</b>	1,760
Exchange difference on translation	-	118
Balance at end of the year	-	4,608

The balance comprises tax on the following temporary differences:

	Tax losses A\$'000	Northern Territory Government Royalty Benefit A\$'000	Total A\$'000
The Group			
At 1 January 2015	2,730	6,266	8,996
Credited/(charged) to the profit or loss (Note 28)	1,760	(6,266)	(4,506)
Exchange difference on translation	118	-	118
At 31 December 2015	<b>4,608</b>	-	<b>4,608</b>
Charged to the profit or loss (Note 28)	<b>(4,608)</b>	-	<b>(4,608)</b>
<b>At 31 December 2016</b>	-	-	-

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	<b>2016 A\$'000</b>	2015 A\$'000
The Group		
Tax losses	<b>104,078</b>	112,467
Deductible temporary differences	<b>44,424</b>	17,658

**Notes to the financial statements for the financial year ended 31 December 2016**

**10 Deferred taxation (Cont'd)**

The tax losses are subject to agreement by the tax authorities and compliance with tax regulations in the respective countries in which certain subsidiaries operate. The deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits.

Unrecognised taxable temporary differences associated with investments in subsidiaries

Deferred income tax liabilities of A\$1,771,000 (2015 - A\$1,357,000) have not been recognised for withholding and other taxes that will be payable on the earnings of an overseas subsidiary when remitted to the holding company.

**11 Subsidiaries**

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Company		
Unquoted equity investments, at cost	<b>4,961</b>	4,961
Amounts due from subsidiaries	<b>103,031</b>	102,342
	<b>107,992</b>	107,303

The amounts due from subsidiaries are loans to subsidiaries, representing an extension of its investments in the subsidiaries. These amounts are unsecured with indeterminate repayment terms.

Management has determined that a subsidiary is considered material to the Group if the Group's share of its net tangible assets represents 20% or more of the Group's consolidated net tangible assets, or if the Group's share of its revenue accounts for 10% or more of the Group's consolidated revenue.

**Notes to the financial statements for the financial year ended 31 December 2016**

**11 Subsidiaries (Cont'd)**

Details of the Group's material subsidiaries at the end of the reporting period are set out below:

<u>Name</u>	<u>Place of incorporation/ and operation</u>	<u>Proposition of ownership interest and voting rights held by the Group</u>		<u>Principal activities</u>
		<u>2016</u> %	<u>2015</u> %	
<u>Held by the Company</u>				
OM (Manganese) Ltd. <sup>(1)</sup>	Australia	100	-	Operation of manganese mine
<u>Held by OM Resources (HK) Limited</u>				
OM Materials (S) Pte. Ltd. <sup>(2)</sup>	Singapore	100	100	Investment holding and trading of metals and ferroalloy products
<u>Held by OM Materials (S) Pte. Ltd.</u>				
OM Materials (Sarawak) Sdn. Bhd. <sup>(3)</sup>	Malaysia	75	75	Sales and processing of ferroalloys and ores
OM Materials (Qinzhou) Co. Ltd. <sup>(4)</sup>	PRC	100	100	Sales and processing of ferroalloys and ores
<u>Held by OM Trade (S) Pte. Ltd.</u>				
OM Materials Trading (Qinzhou) Co. Ltd. <sup>(4)</sup>	PRC	100	100	Sales and processing of ferroalloys and ores

Note:

- (1) audited by Grant Thornton Audit Pty. Ltd.  
(2) audited by Foo Kon Tan LLP.  
(3) audited by Ernst & Young  
(4) audited by Guangxi JiaHai Accountant Affairs Office Co. Ltd.

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities of these subsidiaries are summarised as follows:

<u>Principal activities</u>	<u>Place of incorporation/ and operation</u>	<u>Number of subsidiaries</u>	
		<u>2016</u>	<u>2015</u>
Investment holding	The British Virgin Islands	2	2
Investment holding	Mauritius	1	1
Investment holding	Hong Kong	1	1
Investment holding	Singapore	1	1
Trading of metals and ferroalloy products	Malaysia	1	1
Trading of metals and ferroalloy products	Singapore	1	1
Trading of metals and ferroalloy products	PRC	1	2
Sales and processing of ferroalloys and ores	Malaysia	2	2
Exploration and mining of minerals	Malaysia	2	2
		<b>12</b>	<b>13</b>

The table below shows details of a non-wholly owned subsidiary of the Group that has material non-controlling interests:

<u>Name</u>	<u>Place of Incorporation and principal place of business</u>	<u>Proportion of ownership interests and voting rights held by non-controlling interests</u>		<u>Loss allocated to non-controlling interests</u>		<u>Accumulated non-controlling interests</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u> <u>A\$'000</u>	<u>2015</u> <u>A\$'000</u>	<u>2016</u> <u>A\$'000</u>	<u>2015</u> <u>A\$'000</u>
OM Materials (Sarawak) Sdn. Bhd.	Malaysia	25%	25%	(20,921)	(3,154)	51,615	17,613

**Notes to the financial statements for the financial year ended 31 December 2016**

**11 Subsidiaries (Cont'd)**

Summarised financial information in respect of the above subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

<b>OM Materials (Sarawak) Sdn. Bhd.</b>	<b>2016</b>	<b>2015</b>
<u>Summarised Statement of Financial Position</u>	<b>A\$'000</b>	<b>A\$'000</b>
Current assets	<b>326,180</b>	260,058
Non-current assets	<b>592,290</b>	595,936
Current liabilities	<b>(154,681)</b>	(194,868)
Non-current liabilities	<b>(657,377)</b>	(590,982)
Equity attributable to owners of the Company	<b>79,809</b>	52,608
Non-controlling interests	<b>26,603</b>	17,536
<u>Summarised Statement of Comprehensive Income</u>		
Revenue	<b>156,841</b>	59,715
Expenses	<b>(240,527)</b>	(70,825)
Loss for the year	<b>(83,686)</b>	(11,110)
Loss attributable to owners of the Company	<b>(62,765)</b>	(8,333)
Loss attributable to the non-controlling interest	<b>(20,921)</b>	(2,778)
Loss for the year	<b>(83,686)</b>	(11,111)
Other comprehensive income/(expense) attributable to owners of the Company	<b>53,846</b>	(6,536)
Other comprehensive income/(expense) attributable to the non-controlling interests	<b>17,949</b>	(2,179)
Other comprehensive income/(expense) for the year	<b>71,795</b>	(8,715)
<u>Summarised Statement of Comprehensive Income</u>		
Total comprehensive expense attributable to owners of the Company	<b>(8,919)</b>	(14,869)
Total comprehensive expense attributable to the non-controlling interests	<b>(2,972)</b>	(4,957)
	<b>(11,891)</b>	(19,826)
<u>Other summarised information</u>		
Net cash outflow from operating activities	<b>(2,972)</b>	(20,798)
Net cash outflow from investing activities	<b>(8,019)</b>	(63,645)
Net cash inflow from financing activities	<b>17,839</b>	69,134
Net cash inflow/(outflow)	<b>6,848</b>	(15,309)

**12 Interests in associates**

	<b>2016</b>	<b>2015</b>
	<b>A\$'000</b>	<b>A\$'000</b>
The Group		
Unquoted equity investment, at cost	<b>106,707</b>	100,430
Share of post-acquisition profits and reserves	<b>10,574</b>	6,232
	<b>117,281</b>	106,662

**Notes to the financial statements for the financial year ended 31 December 2016**

**12 Interests in associates (Cont'd)**

Details of each of the Group's material associates at the end of the reporting period are as follows:-

<u>Name of company</u>	<u>Country of incorporation</u>	<u>Percentage of equity held</u>		<u>Principal activities</u>
		<b>2016 %</b>	<b>2015 %</b>	
Main Street 774 (Pty) Limited (1)	South Africa	<b>26</b>	26	Investment holding
OM Tshipi (S) Pte Ltd (2)	Singapore	<b>33</b>	33	Trading of metals and ferroalloy products

(1) audit by KPMG Inc.

(2) audit by Ernst & Young

Shares in the associates are held by wholly-owned subsidiaries of the Group, OMH (Mauritius) Corp., and OM Materials Trade (S) Pte Ltd.

All of these associates are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of each of the Group's material associates are set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

	Main Street 774 (Pty) Limited		OM Tshipi (S) Pte Ltd		Total	
	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>
- Current assets	<b>6</b>	34	<b>43,272</b>	12,784	<b>43,878</b>	12,818
- Non-current assets	<b>167,776</b>	115,351	-	-	<b>167,776</b>	115,351
- Current liabilities	<b>91,951</b>	82,551	<b>30,274</b>	3,122	<b>122,225</b>	85,673
- Revenue	-	-	<b>150,930</b>	5,693	<b>150,930</b>	5,693
- Profit/(loss) for the year	<b>31,935</b>	(9,087)	<b>3,732</b>	2,486	<b>35,667</b>	(6,601)
- Other comprehensive income for the year	-	-	-	-	-	-
- Total comprehensive income/(expense) for the year	<b>31,935</b>	(9,087)	<b>3,732</b>	2,486	<b>35,667</b>	(6,601)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	Main Street 774 (Pty) Limited		OM Tshipi (S) Pte Ltd		Total	
	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>
Net assets of the associate	<b>167,740</b>	115,380	<b>13,597</b>	9,662	<b>181,338</b>	125,042
Proportion of the Group's ownership interest in the associate	<b>43,612</b>	29,999	<b>4,532</b>	3,221	<b>48,144</b>	33,220
Goodwill	<b>59,842</b>	59,842	-	-	<b>59,842</b>	59,842
Currency translation difference	<b>9,269</b>	13,570	<b>(12)</b>	(10)	<b>9,257</b>	13,560
Carrying value	<b>112,723</b>	103,411	<b>4,520</b>	3,211	<b>117,243</b>	106,622
Add:						
Carrying value of individually immaterial associated company					<b>38</b>	40
Carrying value of Group's interest in associated companies					<b>117,281</b>	106,662

**Notes to the financial statements for the financial year ended 31 December 2016**

**12 Interests in associates (Cont'd)**

Aggregate information of associates that are not individually material

	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>
The Group's share of profit, representing total comprehensive income	<b>1</b>	<b>12</b>

**13 Inventories**

	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>
The Group		
Raw materials, at cost	<b>250,520</b>	176,007
Finished goods, at cost	<b>52,297</b>	83,841
	<b>302,817</b>	259,848
Cost of inventories recognised as an expense and included in cost of sales	<b>354,161</b>	332,348

During the year, inventories of A\$Nil (2015 - A\$9,354,000) were written down to net realisable value and recognised as expense in profit or loss (Note 27).

**14 Derivative financial instruments**

	<b>2016</b>			<b>2015</b>		
	<b>Notional Principal Amount A\$'000</b>	<b>Assets A\$'000</b>	<b>Liabilities A\$'000</b>	<b>Notional Principal Amount A\$'000</b>	<b>Assets A\$'000</b>	<b>Liabilities A\$'000</b>
The Group						
<b>Current</b>						
Foreign currency forward contracts [Note (a)]	-	-	-	127,835	-	30,461
<b>Non-current</b>						
Foreign currency forward contracts [Note (a)]	-	-	-	133,570	-	34,557
Cross Currency Swap [Note (b)]	-	-	-	98,704	-	37,501
Interest Rate Swap [Note (c)]	-	-	-	144,681	-	1,406
	-	-	-	376,955	-	73,464

Derivative financial instruments are denominated in the following currencies:

	<b>The Company</b>		<b>The Group</b>	
	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>	<b>2016 A\$'000</b>	<b>2015 A\$'000</b>
United States dollar	-	-	-	66,424
Malaysian Ringgit	-	-	-	37,501
	-	-	-	103,925

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

In the previous financial year, the changes in fair value of the derivatives not designated as cash flow hedges amounted to A\$2,687,000 and were capitalised in construction-in-progress.

**Notes to the financial statements for the financial year ended 31 December 2016**

**14 Derivative financial instruments (Cont'd)**

- (a) The nature of the risk being hedged is currency mismatch between future earnings denominated in United States dollar ("USD") and forecasted purchases in Malaysian Ringgit ("MYR") in respect of bank loans [Note 21.2 (c)]. Due to this exposure to the variation in cash flows, forward contracts are entered into to exchange such forecasted payments denominated in the two different currencies. The hedge is designed to swap 55% of the Group's MYR obligations into USD obligations, thus removing future currency risk for 55% of the payments.
- (b) Cross currency swap is entered into to exchange interest payments and loan principals denominated in USD and MYR in respect of bank loans [Note 21.2 (c)]. The outstanding cross currency swap at the end of the previous financial year has a notional value that hedges 100% of such interest and principal repayments.
- (c) Interest rate swaps are used to manage the interest rate risk exposures arising from the loans and borrowings at floating rates in respect of Note 21.2 (c). The Group has interest rate swaps with notional values that hedge 55% of the exposure to the cash flow risk in connection with the floating interest rate of loans and borrowings.

During the current financial year, the Group entered into Deeds of Acknowledgement of Debt to close out the hedging facilities as disclosed in Note 21.2.

**15 Trade and other receivables**

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
Trade receivables	-	-	41,058	4,475
Bills receivable	-	-	-	42
Net trade receivables (i)	-	-	41,058	4,517
Other receivables				
Amounts due from subsidiaries (non-trade)	185,408	100,257	-	-
Amount due from a legal subsidiary (non-trade) (Note 2(a))	-	82,925	-	-
Deposits and other receivables	-	-	9,116	49,501
	185,408	183,182	50,174	49,501
Allowance for impairment of other receivables				
At beginning of the year	(57,227)	-	-	-
Allowance for the year	-	(57,227)	-	-
At end of the year	(57,227)	(57,227)	-	-
Net other receivables (ii)	128,181	125,955	9,116	49,501
Total (i) + (ii)	128,181	125,955	50,174	54,018

The non-trade amounts due from subsidiaries, representing advances, are interest-free, unsecured and repayable on demand.

Trade and other receivables are denominated in the following currencies:

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
Australian dollar	87,918	125,955	158	26,085
Renminbi	-	-	4,554	6,900
United States dollar	40,263	-	40,588	13,783
Malaysian Ringgit	-	-	4,388	7,108
Others*	-	-	486	142
	128,181	125,955	50,174	54,018

\* Others include Singapore dollar and South African rand.

**Notes to the financial statements for the financial year ended 31 December 2016**

**15 Trade and other receivables (Cont'd)**

The credit risk for trade and other receivables based on the information provided by key management is as follows:

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
<u>By geographical areas</u>				
People's Republic of China	-	-	37,885	7,733
Australia	27,897	25,698	391	26,085
Singapore	-	-	105	-
Malaysia	-	-	6,536	18,240
Mauritius	100,284	100,257	-	-
Others*	-	-	5,257	1,960
	<b>128,181</b>	<b>125,955</b>	<b>50,174</b>	<b>54,018</b>

\* Others include India, Netherlands and Taiwan.

Financial assets that are neither past due nor impaired

Trade and other receivables that were neither past due nor impaired amounting to A\$121,181,000 (2015 - A\$125,955,000) and A\$42,505,000 (2015 - A\$54,018,000) for the Company and the Group related to a wide range of customers for whom there was no recent history of default.

Financial assets that are past due but not impaired

The ageing analysis of trade and other receivables past due but not impaired is as follows:

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
Past due 0 to 3 months	-	-	8,266	-
Past due 3 to 6 months	-	-	71	-
Past due over 6 months	-	-	144	50
	-	-	<b>8,481</b>	<b>50</b>

Trade and other receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due over 6 months. These receivables are mainly arising from customers that have a good credit record with the Group.

Included in the amount due from legal subsidiary (non-trade) is an amount of A\$82,925,000 which is not past due but impaired as the Company believes that this amount may not be recoverable.

**16 Cash and bank balances**

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
Cash at bank and on hand	21	55	23,082	15,310
Short-term bank deposits	-	-	6,253	8,603
Total cash and bank balances	-	-	<b>29,335</b>	<b>23,913</b>
Less: Cash collateral	-	-	<b>(8,764)</b>	<b>(11,202)</b>
Cash and cash equivalents	<b>21</b>	<b>55</b>	<b>20,571</b>	<b>12,711</b>

**Notes to the financial statements for the financial year ended 31 December 2016**

**16 Cash and bank balances (Cont'd)**

Included in the cash collateral is an amount of A\$6,254,000 (2015 – A\$11,202,000) which was pledged to banks as security for banking facilities, and land authority for the rights to fair wages and land.

During the financial year, cash collateral of A\$2,410,000 was pledged to secure the issuance of environmental bonds.

Cash and bank balances are denominated in the following currencies:

	The Company		The Group	
	2016 A\$'000	2015 A\$'000	2016 A\$'000	2015 A\$'000
Australian dollar	20	53	2,920	88
Renminbi	-	-	2,962	4,380
United States dollar	1	2	22,027	17,577
Malaysian Ringgit	-	-	1,342	1,761
Others	-	-	84	107
	<b>21</b>	<b>55</b>	<b>29,335</b>	<b>23,913</b>

\*Others include Singapore dollar, Hong Kong dollar, South African rand and Euro.

The short term bank deposits have an average maturity of 3 months (2015 - 3 months) from the end of the financial year with the following weighted average effective interest rates:

The Group	2016	2015
United States dollar	0.40%	0.40%
Malaysian Ringgit	3.00%	3.00%

**17 Share capital**

	No. of ordinary shares		Amount	
The Company and The Group	2016 '000	2015 '000	2016 A\$'000	2015 A\$'000
<b>Authorised:</b>				
Ordinary shares of A\$0.05 (2015 - A\$0.05) each	2,000,000	2,000,000	100,000	100,000
<b>Issued and fully paid:</b>				
Ordinary shares of A\$0.05 each as at 1 January and 31 December	733,423	733,423	36,671	36,671

The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

**18 Treasury shares**

	No. of ordinary shares		Amount	
The Company and The Group	2016 '000	2015 '000	2016 A\$'000	2015 A\$'000
At beginning and end of year	1,933	1,933	2,330	2,330

Treasury shares relate to ordinary shares of the Company that is held by the Company. The Company acquired Nil shares (2015 – Nil shares) in the Company through purchase on the Australia Stock Exchange.

**Notes to the financial statements for the financial year ended 31 December 2016**

**19 Reserves**

	The Company		The Group	
	31 December 2016 A\$'000	31 December 2015 A\$'000	31 December 2016 A\$'000	31 December 2015 A\$'000
Share premium	176,563	176,563	176,563	176,563
Non-distributable reserves [Note (i)]	-	-	5,534	5,553
Capital reserve [Note (ii)]	449	449	16,513	16,513
Fair value reserve [Note (iii)]	-	217	-	217
Contributed surplus [Note (iv)]	3,312	3,312	-	-
Hedging reserve [Note (v)]	-	-	(7,906)	(56,962)
Exchange fluctuation reserve	-	-	15,493	19,718
Accumulated losses	(190,460)	(173,264)	(100,827)	(108,776)
	(10,136)	7,277	105,370	52,826
<b>Share premium</b>				
At 1 January and 31 December	176,563	176,563	176,563	176,563
<b>Non-distributable reserve</b>				
At 1 January	-	-	5,553	5,553
Movement for the year	-	-	114	-
Disposal of a subsidiary	-	-	(133)	-
At 31 December	-	-	5,534	5,553
<b>Capital reserve</b>				
At 1 January and 31 December	449	449	16,513	16,513
<b>Fair value reserve</b>				
At 1 January	217	833	217	833
Fair value loss recognised directly in other comprehensive income	(217)	(616)	(217)	(616)
At 31 December	-	217	-	217
<b>Contributed surplus</b>				
At 1 January and 31 December	3,312	3,312	-	-
<b>Hedging reserve</b>				
At 1 January	-	-	(56,962)	(31,812)
Cash flow hedges	-	-	49,056	(25,150)
At 31 December	-	-	(7,906)	(56,962)
<b>Exchange fluctuation reserve</b>				
At 1 January	-	-	19,718	7,762
Currency translation differences	-	-	(4,225)	11,956
At 31 December	-	-	15,493	19,718
<b>(Accumulated losses)/retained profits</b>				
At 1 January	(173,264)	51,756	(108,776)	13,325
Profit/(loss) for the year	(17,196)	(225,020)	7,936	(122,101)
Transfer to non-distributable reserves	-	-	(114)	-
Dividend forfeited	-	-	127	-
At 31 December	(190,460)	(173,264)	(100,827)	(108,776)
Total reserves	(10,136)	7,277	105,370	52,826

Notes:

- (i) In accordance with the accounting principles and financial regulations applicable to Sino-foreign joint venture enterprises, the subsidiaries in the PRC are required to transfer part of their profit after tax to the "Statutory Reserves Fund", the "Enterprise Expansion Fund" and the "Staff Bonus and Welfare Fund", which are non-distributable, before profit distributions to joint venture partners. The quantum of the transfers is subject to the approval of the board of Directors of these subsidiaries.

**Notes to the financial statements for the financial year ended 31 December 2016**

**19 Reserves (Cont'd)**

Notes (Cont'd):

- (i) The annual transfer to the Statutory Reserves Fund should not be less than 10% of profit after tax, until it aggregates to 50% of the registered capital. However, foreign enterprises may choose not to appropriate profits to the Enterprise Expansion Fund.

The Statutory Reserves Fund can be used to make good previous years' losses while the Enterprise Expansion Fund can be used for acquisition of property, plant and equipment and financing daily funds required. The Staff Bonus and Welfare Fund is utilised for employees collective welfare benefits and is included in other payables under current liabilities in the statements of financial position.

- (ii) This arose from the capitalisation of various reserves and retained profits in one of the Sino-foreign joint ventures of the Group. The purpose of the capitalisation is to increase the registered capital of the joint venture. In the previous financial year, there were changes in ownership interest in subsidiaries which did not result in loss of control. As a result, the impact of these changes was recognised in capital reserves.
- (iii) The fair value reserve of the Company and the Group represents the changes in fair value of available-for-sale financial asset.
- (iv) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued for acquisition of the subsidiaries and the aggregate net asset value of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus can be distributable to shareholders under certain circumstances.
- (v) The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge recognised in other comprehensive income and accumulated hedging reserves is reclassified to profit or loss when the forecast transaction is ultimately recognised in the profit or loss.

**20 Land use rights obligation**

In the previous financial year, the land use rights obligations pertain to the present value of the remaining unpaid land premium for a land use right in Sarawak, Malaysia.

**21 Borrowings**

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
<b>Non-current</b>				
Obligations under finance leases (Note 21.1)	-	-	1,156	1,741
Bank loans, secured (Note 21.2)	42,391	39,024	493,955	389,325
5% Convertible Note (Note 21.3)	27,346	-	27,346	-
Other loans (Note 21.4)	16,563	15,367	37,891	44,183
	<b>86,300</b>	<b>54,391</b>	<b>560,348</b>	<b>435,249</b>
<b>Current</b>				
Obligations under finance leases (Note 21.1)	-	-	1,832	600
Bank loans, secured (Note 21.2)	-	-	46,577	111,871
5% Convertible Note (Note 21.3)	-	20,362	-	20,362
Other loans (Note 21.4)	-	-	8,874	2,053
	<b>-</b>	<b>20,362</b>	<b>57,283</b>	<b>134,886</b>
	<b>86,300</b>	<b>74,753</b>	<b>617,631</b>	<b>570,135</b>

**Notes to the financial statements for the financial year ended 31 December 2016**

**21 Borrowings (Cont'd)**

**21.1 Obligations under finance leases**

The Group	<b>2016 A\$'000</b>	2015 A\$'000
Minimum lease payments payable:		
Due not later than one year	<b>2,017</b>	736
Due later than one year and not later than five years	<b>1,238</b>	1,919
	<b>3,255</b>	2,655
Less: Finance charges allocated to future periods	<b>(267)</b>	(314)
Present value of minimum lease payments	<b>2,988</b>	2,341
Present value of minimum lease payments:		
Due not later than one year	<b>1,832</b>	600
Due later than one year and not later than five years	<b>1,156</b>	1,741
	<b>2,988</b>	2,341

The Group leases motor vehicles, plant and equipment from non-related parties under finance leases. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets at nominal values at the end of the lease term. The finance lease obligations are secured by the underlying assets (Note 4).

The average interest rate per annum ranges from 4.87% to 7.07% (2015 – 4.87% to 7.07%)

**21.2 Bank loans**

	The Company		The Group	
	<b>2016 A\$'000</b>	2015 A\$'000	<b>2016 A\$'000</b>	2015 A\$'000
Bank loans, secured [Note (a)]	-	-	-	13,309
Bank loans, secured [Note (b)]	-	-	<b>76,260</b>	58,424
Bank loans, secured [Note (c)]	-	-	<b>405,368</b>	359,227
Bank loans, secured [Note (d)]	<b>42,391</b>	39,024	<b>58,904</b>	70,236
	<b>42,391</b>	39,024	<b>540,532</b>	501,196
Amount repayable not later than one year	-	-	<b>46,577</b>	111,871
Amount repayable after one year	<b>42,391</b>	39,024	<b>493,955</b>	389,325
	<b>42,391</b>	39,024	<b>540,532</b>	501,196

Notes:

- (a) In the previous financial year, the loan was secured by a charge over leasehold land as disclosed in Note 5, and an irrevocable and unconditional corporate guarantee provided by the Company. During the current year, the loan had been repaid, and the charge was discharged.
- (b) The loans are secured by charges over certain bank deposits as disclosed in Note 16.

**Notes to the financial statements for the financial year ended 31 December 2016**

**21 Borrowings (Cont'd)**

Notes:

(c) These loans are project finance loans for OM Sarawak ferroalloy projects and are secured by:

- shares of OM Materials (Sarawak) Sdn Bhd, a company incorporated in Malaysia;
- charge over certain bank accounts;
- charge over land use rights;
- debenture;
- borrower assignment;
- assignment of insurances;
- shareholder assignment;
- assignment of reinsurances; and
- corporate guarantee from OM Holdings Limited and Chaya Mata Sarawak Berhad.

The Group had signed a modified Facilities Agreement on 28 October 2016, which amongst the salient terms, deferred the repayment period of the existing loans. The difference of the net present value of cash flow of the restructured loan is less than 10% from the discounted present value of the remaining cash flow of the original loans and hence, the loans were accounted for as modification of liabilities during the year. The repayment of the loans commences from year 2019.

(d) The loans are secured by:

- charge over certain bank deposits as disclosed in Note 16;
- certain subsidiaries and associated companies and corporate guarantees from the Company and a subsidiary

Other than the loans disclosed in Note 21.2(b), the Company and the Group went into negotiations with the lenders to restructure the remaining loan facilities as disclosed in Note 2(a).

**21.3 5% Convertible Note**

On 7 March 2012 the Company issued to Hanwa Co. Ltd 25,000,000 convertible notes at an aggregate principal amount of A\$19,945,953 (US\$21,447,261) with a nominal interest of 5%, due on 6 March 2016 and convertible in accordance with the terms and conditions of issue including an initial conversion price of A\$0.80 per share. As at the end of the reporting period, the host debt contract is recognised as a non-current liability amounting to A\$27,346,000 (2015 - current liability amounting to A\$20,362,000), to be amortised over 3 years while the conversion option (Note 14) valued at A\$Nil (2015 - A\$Nil) is recognised as current liability. During the year, interest expense of A\$Nil (2015 - A\$2,708,000) was capitalised in construction-in-progress as the convertible note was used to finance the construction of the ferrosilicon production facility.

<sup>p</sup>

On 4 March 2016, the Company executed an amendment and restatement agreement with Hanwa Co. Ltd to extend the Convertible Note for 4 years to 6 March 2020. A resultant gain of A\$3,446,000 was recognised as the extension was accounted for as an extinguishment in the convertible note.

**Notes to the financial statements for the financial year ended 31 December 2016**

**21 Borrowings (Cont'd)**

**21.4 Other loans**

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
Shareholder loan, unsecured [Note (a)]	-	-	21,910	20,605
Loan, secured [Note (b)]	-	-	8,292	10,264
Loan, secured [Note (c), (i)]	16,563	15,367	16,563	15,367
	<b>16,563</b>	<b>15,367</b>	<b>46,765</b>	<b>46,236</b>
Amount repayable not later than one year	-	-	8,874	2,053
Amount repayable after one year	16,563	15,367	37,891	44,183
	<b>16,563</b>	<b>15,367</b>	<b>46,765</b>	<b>46,236</b>

- (a) The loan is unsecured and interest bearing at 4.75% to 5.26% per annum. Until all the secured borrowings as disclosed in Note 21.2(c) have been irrevocably paid in full, neither shareholders shall demand or receive payment or any distribution in respect of these loans.
- (b) The loan is repayable on 4 January 2018. Interest is charged at 1.55% per annum. The loan is guaranteed by the Company.
- (c) The loan has similar securities as disclosed in Note 21.2 (d).

**21.5 Currency risk**

Total borrowings are denominated in the following currencies:

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
Australian dollar	-	-	1,265	-
United States dollar	86,300	74,753	527,884	471,696
Renminbi	-	-	-	2
Malaysian Ringgit	-	-	88,482	98,437
	<b>86,300</b>	<b>74,753</b>	<b>617,631</b>	<b>570,135</b>

**21.6 Effective interest rates**

The weighted average effective interest rates of total borrowings at the end of the reporting period are as follows:

	The Company		The Group	
	2016	2015	2016	2015
Obligations under finance leases	-	-	4.71% to 7.17%	4.71% to 7.07%
Bank loans	11.03%	12.74%	3.18% to 11.03%	2.23% to 12.74%
5% convertible note	5.00%	5.00%	5.00%	5.00%

The carrying amounts of the Company's and Group's borrowings approximate their fair value.

**Notes to the financial statements for the financial year ended 31 December 2016**

**21 Borrowings (Cont'd)**

**21.7 Carrying amounts and fair values**

The carrying amounts of current borrowings approximate their fair value. The carrying amounts and fair values of non-current borrowings are as follows:

	The Company		The Group	
	Carrying amounts	Fair values	Carrying amounts	Fair values
<b>2016</b>				
Obligations under finance leases	-	-	<b>1,156</b>	1,156
Bank loans, secured	<b>42,391</b>	39,108	<b>493,955</b>	491,246
5% convertible note	<b>27,346</b>	27,336	<b>27,346</b>	27,336
Other loans	<b>16,563</b>	15,280	<b>37,891</b>	36,646
<b>2015</b>				
Obligations under finance leases	-	-	1,741	1,741
Bank loans, secured	39,024	39,558	389,325	385,651
Other loans	15,367	15,576	44,183	45,322

The fair values above are determined from the discounted cash flow analysis, discounted at market borrowing rates (per annum) of an equivalent instrument at the end of reporting period which the directors expect to be available to the Group.

**22 Provisions**

	The Group	
	<b>2016</b> <b>A\$'000</b>	<b>2015</b> <b>A\$'000</b>
<b>Non-current</b>		
<u>Rehabilitation (Note a)</u>		
At the beginning of the year	-	5,744
Provision made for the year (Note 27)	-	366
Payments during the year	-	(6,110)
Acquisition of a subsidiary	<b>6,069</b>	-
At end of the year (i)	<b>6,069</b>	-
<u>Employee long service leave</u>		
At the beginning of the year	-	816
Provision made for the year (Note 27)	-	1,392
Adjustment for loss of control in subsidiary	-	(2,208)
At end of the year (ii)	-	-
Total (i) + (ii)	<b>6,069</b>	-
	The Company and The Group	
	<b>2016</b> <b>A\$'000</b>	<b>2015</b> <b>A\$'000</b>
<b>Current</b>		
<u>Corporate guarantee</u>		
At the beginning of the year	<b>8,318</b>	-
Provision made for the year (Note 27)	-	8,318
Payments during the year	<b>(8,318)</b>	-
At end of the year	-	8,318

**Notes to the financial statements for the financial year ended 31 December 2016**

**22 Provisions (Cont'd)**

Note:

- (a) According to the Mine Management and Environment Management Plans submitted to the Northern Territory Government in Australia, the Group is obligated for the rehabilitation/restoration of areas disturbed arising from mining activities conducted by OM (Manganese) Ltd, a wholly-owned subsidiary. Mine rehabilitation costs are provided for at the present value of future expected expenditure when the liability is incurred. Although the ultimate cost to be incurred is uncertain, the Group has estimated its costs based on the rates outlined by the Northern Territory Department of Resources and Mineral Energy using current restoration standards and techniques.

**23 Trade and other payables**

	The Company		The Group	
	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000
<b>Non-current</b>				
Trade payables – third party payables	-	-	165,972	131,528
Other payables	-	-	17,817	-
Retention monies	-	-	68	35
Amount due to subsidiaries (non-trade)	-	12,291	-	-
	-	12,291	183,857	131,563
<b>Current</b>				
Trade payables				
- Third party payables	-	-	104,804	64,838
- Bill payables	-	-	-	12,573
			104,804	77,411
Amount due to subsidiaries (non-trade)	123,563	95,110	-	-
Accruals	2,749	1,878	12,995	10,379
Other payables	239	144	48,213	33,133
Retention monies	-	-	262	41,579
Welfare expense payable	-	-	45	49
	126,551	97,132	166,319	162,551

Non-current trade payables relate to payables to vendors which bear interest of 6% to 6.8% (2015 - 4% to 7%) per annum.

Included in the current and non-current amount due to subsidiaries is an amount due to a wholly-owned subsidiary - OM Materials (S) Pte Ltd of A\$123,352,000 (2015 - A\$46,190,000) which bears interest of 5.58% to 13.52% (2015 - 4.64% to 12.74%) per annum. The current amount due to subsidiaries represents advances which is non-trade, unsecured and repayable on demand. The non-current amount represents advances which are non-trade, unsecured and repayable upon maturity in 2017.

Included in the Group's other payables are advances from customers of A\$8,522,000 (2015 - A\$3,889,000) and freight payable of A\$13,901,000 (2015 - A\$13,988,000).

**Notes to the financial statements for the financial year ended 31 December 2016**

**23 Trade and other payables (Cont'd)**

Trade and other payables are denominated in the following currencies:

	The Company		The Group	
	2016 A\$'000	2015 A\$'000	2016 A\$'000	2015 A\$'000
Australian dollar	60,346	45,878	3,193	3,044
Renminbi	-	-	6,087	11,061
United States dollar	66,120	63,462	129,531	67,758
Malaysian Ringgit	-	-	210,820	211,822
Others*	85	83	545	429
	<b>126,551</b>	<b>109,423</b>	<b>350,176</b>	<b>294,114</b>

\* Others include Singapore dollar, Hong Kong dollar and South African rand.

All trade payables are generally on 30 to 120 (2015 - 30 to 120) days' credit terms.

The carrying amounts of current trade and other payables approximate their fair value. The carrying amounts and fair values of non-current trade and other payables are as follows:

	The Company		The Group	
	Carrying amounts	Fair values	Carrying amounts	Fair values
<b>2016</b>				
Trade payables - third party payables	-	-	165,972	163,702
Other payables	-	-	17,817	17,817
Retention monies	-	-	68	68
Amount due to subsidiaries (non-trade)	-	-	-	-
<b>2015</b>				
Trade payables - third party payables	-	-	131,528	131,528
Other payables	-	-	-	-
Retention monies	-	-	35	35
Amount due to subsidiaries (non-trade)	12,291	12,291	-	-

**24 Deferred capital grant**

	2016 A\$'000	2015 A\$'000
The Group		
Government grant	15,337	-
Non-current	14,554	-
Current	783	-
	<b>15,337</b>	<b>-</b>

Government grant of A\$15,663,699 (US\$11,334,080) was received during the year to finance the construction of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached to the grant.

**Notes to the financial statements for the financial year ended 31 December 2016**

**25 Other income**

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Interest income from banks	<b>170</b>	241
Sundry income	<b>4,250</b>	2,673
Write back of trade and other payables (Note 2(a))	<b>-</b>	12,411
Unwinding interest income	<b>2,505</b>	-
Gain on extinguishment of convertible bond	<b>3,446</b>	-
Gain on disposal of land use rights	<b>9,574</b>	-
Gain on bargain purchase	<b>42,811</b>	-
Gain from de-consolidation of a subsidiary (Note 2(a))	<b>-</b>	9,009
	<b>62,756</b>	24,334

**26 Business combinations**

In the previous year, a wholly-owned subsidiary, OMM went into voluntary administration (“VA”), and the Company lost control over this subsidiary. On 24 August 2016, the VA has completed, and the Company regained control over this subsidiary. This is accounted as a business combination of a new subsidiary. A purchase price allocation exercise was carried out by management to determine the fair value of the assets acquired and liabilities assumed at the date control was recognised.

The following summarises the major classes of consideration transferred and the fair value of identifiable assets acquired and liabilities assumed at the acquisition date:

	<b>2016</b>
	<b>A\$'000</b>
The Group	
Property, plant and equipment	<b>25,429</b>
Mine development costs	<b>43,169</b>
Inventories	<b>2,002</b>
Trade receivables	<b>108</b>
Cash and cash equivalents	<b>1,004</b>
Cash collateral	<b>2,511</b>
Finance leases	<b>(1,634)</b>
Long-term provisions	<b>(29,778)</b>
Total identifiable net assets	<b>42,811</b>
Gain on consolidation of a subsidiary previously de-consolidated	<b>(42,811)</b>
Consideration transferred	<b>-</b>

The effect on cash flows of the Group is as follows:

Consideration paid	<b>-</b>
Less: Cash and cash equivalents in subsidiary acquired	<b>(1,004)</b>
Net cash inflow on acquisition	<b>(1,004)</b>

From the acquisition date, OMM contributed A\$Nil of revenue and A\$40,169,000 to the Group’s profit for the year. If the business combination had taken place at the beginning of the year, the revenue from the subsidiary would have been A\$23,795,000 and the Group’s profit net of tax would have been A\$36,970,000.

**Notes to the financial statements for the financial year ended 31 December 2016**

**27 Loss before income tax**

The Group	Note	2016 A\$'000	2015 A\$'000
Loss before income tax has been arrived at after charging/(crediting):			
Amortisation of land use rights*	5	328	327
Amortisation of mine development costs*	7	-	4,023
Cost of inventories recognised as expenses and included in cost of sales	13	354,161	332,348
Depreciation of property, plant and equipment*	4	19,230	27,116
Fair value gain on derivative financial instruments*		-	(483)
Impairment loss on:			
- available-for-sale financial assets*	9	581	1,313
- property, plant and equipment*	4	344	10,638
- mine development costs	7	-	10,510
- goodwill*	8	-	2,065
Exchange loss*		46,269	4,219
Exploration and evaluation costs written off*	6	109	605
Finance costs:			
- loans		40,643	21,432
- others		1,775	2,205
Operating lease charges in respect of land and buildings *		605	402
Provision for rehabilitation *	22	-	366
Provision for long service leave*	22	-	1,392
Employee benefits expenses	29	25,399	44,537
Write-down of inventories to net realisable value*	13	-	9,354
Write-off of inventories*		-	27,167
Crystallisation of corporate guarantees*	22	-	8,318

\* Included in other operating expenses.

**Notes to the financial statements for the financial year ended 31 December 2016**

**28 Income tax (benefit)/expense**

Provision for enterprise income tax of the subsidiaries operating in the People's Republic of China (the "PRC") is made in accordance with the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws.

Global Trader Programme granted by Singapore Ministry of Trade and Industry to a Singapore subsidiary, OM Materials (S) Pte Ltd for a concessionary rate of 10% has been extended for another 5 year period to June 2019, subject to fulfilment of specific conditions.

Taxation has been provided at the appropriate tax rates prevailing in Australia, Singapore, Malaysia, Hong Kong and the PRC in which the Group operates on the estimated assessable profits for the year. These rates generally range from 17% to 30% for the reporting period. However as noted above, OMS enjoyed concessionary tax rates of 10% during the period.

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Current taxation		
- Singapore income tax	<b>2,872</b>	901
- PRC tax	<b>791</b>	-
- others	<b>50</b>	43
Deferred taxation (Note 10)	<b>4,608</b>	(1,760)
	<b>8,321</b>	(816)
Under/(over) provision in prior years		
- current year income tax	<b>42</b>	(6,208)
Income tax	<b>8,363</b>	(7,024)
Other tax expense/(benefit)		
- Withholding tax	<b>266</b>	(5,833)
- Profits-based royalty (Note 10)	<b>-</b>	6,266
	<b>8,629</b>	(6,591)

A reconciliation of the income tax expense applicable to the loss before income tax at the statutory income tax rates to the income tax expense for the reporting period, is as follows:

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Loss before income tax	<b>(8,116)</b>	(131,632)
Tax at applicable tax rates	<b>1,620</b>	(31,427)
Tax effect of non-taxable revenue <sup>#</sup>	<b>(21,526)</b>	(2,382)
Tax effect of non-deductible expenses <sup>*</sup>	<b>11,448</b>	31,595
Tax effect of allowances given by tax jurisdiction	<b>(1,574)</b>	(1,470)
Deferred tax assets on temporary difference not recognised	<b>18,528</b>	2,897
Utilisation of deferred tax assets on temporary difference not recognised in previous years	<b>(151)</b>	-
Tax rebate	<b>(24)</b>	(29)
Under/(over) provision in prior years	<b>42</b>	(6,208)
	<b>8,363</b>	(7,024)

<sup>#</sup> Non-taxable revenue relates mainly to unrealised exchange gain and gain on bargain purchase.

<sup>\*</sup> Non-deductible expenses relates mainly to unrealised exchange loss, overseas interest expenses and provision of expenses.

**Notes to the financial statements for the financial year ended 31 December 2016**

**29 Cash flow hedges**

	<b>2016 A\$'000</b>	2015 A\$'000
The Group		
Cash flow hedges:		
Gain/(loss) arising during the year	<b>49,056</b>	(25,150)
Non-controlling interests*	<b>16,352</b>	(6,901)
	<b>65,408</b>	(32,051)

\* The Group has a 75% (2015 - 75%) shareholding in OM Materials (Sarawak) Sdn. Bhd., a subsidiary in which hedging takes place.

**30 Profit/(loss) per share**

The Group

The profit/(loss) per share is calculated based on the consolidated profit/(loss) attributable to owners of the parent divided by the weighted average number of shares on issue of 731,490,042 (2015 - 731,490,042) shares during the financial year.

The following table reflects the profit or loss and share data used in the computation of basic and diluted profit/(loss) per share from continuing operations for the years ended 31 December:

	<b>2016 '000</b>	2015 '000
The Group		
Weighted average number of ordinary shares for the purpose of calculating diluted profit/(loss) per share	<b>731,490</b>	<b>731,490</b>

Options do not carry a dilutive effect as the average market price of ordinary shares during the year below the exercise price of the option of A\$0.40 as at 31 December 2016.

As 31 December 2016, 25,000,000 convertible notes that could potentially dilute basic profit per share were not included in the computation of dilution profit per share because the effect would have been anti-dilutive for the period presented.

Profit/(loss) figures are calculated as follows:

	<b>2016 A\$'000</b>	2015 A\$'000
The Group		
Profit/(loss) for the purpose of calculating basic and diluted loss per share	<b>7,936</b>	(122,101)

**31 Employee benefits expense**

	<b>2016 A\$'000</b>	2015 A\$'000
The Group		
Directors' fees	<b>440</b>	440
Directors' remuneration other than fees		
- Directors of the Company	<b>999</b>	896
- Directors of the subsidiaries	<b>1,058</b>	1,145
- Defined contributions plans	<b>60</b>	74
Key management personnel (other than Directors)		
- Salaries, wages and other related costs	<b>2,333</b>	4,392
- Defined contributions plans	<b>163</b>	376
	<b>5,053</b>	7,323
Other than key management personnel		
- Salaries, wages and other related costs	<b>19,157</b>	40,617
- Defined contributions plans	<b>1,236</b>	3,299
	<b>25,446</b>	51,239
Capitalised in construction-in-progress	<b>(47)</b>	(6,702)
	<b>25,399</b>	44,537

**Notes to the financial statements for the financial year ended 31 December 2016**

**32 Related party transactions**

In addition to the related party information disclosed elsewhere in the financial statements, the following amounts are transactions with related parties based upon commercial arm's length terms and conditions:

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Purchase of goods from an associate	<b>17,046</b>	-
Services rendered to an associate	<b>1,002</b>	934
Payment made on behalf charged to an associate	<b>1</b>	312

**33 Commitments**

**33.1 Capital commitments**

The following table summarises the Group's capital commitments:

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Capital expenditure contracted but not provided for in the financial statements		
- acquisition of property, plant and equipment	<b>11,643</b>	49,273

**33.2 Operating lease commitments in respect of office premises**

The Group leases office premises, buildings, plant and machinery from non-related parties under non-cancellable operating lease agreements. The lease having varying term, escalation clauses and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Not later than one year	<b>1,641</b>	190
Later than one year and not later than five years	<b>126</b>	278
	<b>1,767</b>	468

**33.3 Mineral Tenements**

In order to maintain the mineral tenements in which a subsidiary was involved in prior year, the subsidiary was committed to fulfil the minimum annual expenditures in accordance with the requirements of the Northern Territory Department of Resources - Primary Industry, Fisheries and Resources, for the next financial year and was set out below:

	<b>2016</b>	2015
	<b>A\$'000</b>	A\$'000
The Group		
Mineral tenements annual expenditure commitments	<b>194</b>	-

### **33 Commitments (Cont'd)**

#### **33.4 Environmental bonds**

A subsidiary had environmental bonds to the value of A\$9,861,000 lodged with the Northern Territory Government (Department of Resources) to secure environment rehabilitation commitments. The A\$9,861,000 of bonds were secured by A\$7,451,000 of bonds issued under financing facilities, in which is secured by a corporate guarantee by the Company and A\$2,410,000 cash backed secured with the Northern Territory Department of Resources.

### **34 Other matters**

#### **GWA (North) Pty Ltd Wagon Derailment**

On 5 June 2015, GWA (North) Pty Ltd ("GWAN") filed (and subsequently served) a Statement of Claim in the Supreme Court of South Australia naming the Company as the defendant in relation to a train derailment event which occurred on 7 June 2012. The proceedings allege that a subsidiary, which has entered into Voluntary Administration ("the entity"), breached its contract with GWAN. A claim against the Company was made pursuant to a guarantee in the contract in lieu of the entity. The proceedings seek to recover the cost of repairs to a rail line in the amount of A\$5,470,352 plus interest and costs.

The Company has notified its insurers of the claim which has granted indemnity to the Company subject to the terms and conditions of the policy. The Company's insurer is now handling the claim.

The Company has issued a letter of demand to the entity claiming an indemnity for any liability it has to GWAN by reason that the Company's liability arises from the entity's breach of the contract. On the back of this letter of demand, the entity has commenced proceedings against the downstream contractors, namely CFCL (which supplied the rail wagon which allegedly caused the derailment) and against Downer EDI (which CFCL engaged to maintain the wagon), namely OMM proceedings.

The entity's insurer has also granted indemnity to the entity in relation to the Company's claim for indemnity subject to the terms and conditions of the policy.

The Court has ordered that the GWAN proceedings be listed and tried immediately before the OMM proceedings before the same Judge or Justice of the Supreme Court and that subject to the pleaded cases, evidence in the one action shall be received as evidence in the other.

The case has since been settled out of court on 29 November 2016. OMH, OMM, CFCL and Downer agreed to pay the sum of A\$5.7m inclusive of interest, costs and disbursements ("the Settlement Sum") to GWAN in full and final settlement. OMH and OMM are liable for A\$0.4m, while CFCL and Downer are each liable for A\$0.935m and A\$4.365m respectively. OMH and OMM's share of A\$0.4m was borne by QBE, their insurance company.

All parties have paid their respective contributions towards the settle sum on 23 December 2016. Notices of Discontinuance have been distributed to all parties' lawyers and filed in court and sealed by the Registry.

### **34 Other matters (Cont'd)**

#### **Sponsor Guarantee issued under the terms of the Power Purchase Agreement with Syarikat Sesco Berhad**

Pursuant to the execution of the Amended Power Purchase Agreement (“PPA”) between a subsidiary and Syarikat Sesco Berhad (“SSB”), the Company issued sponsor guarantees to SSB for its 75% (2015 - 75%) interest of the subsidiaries’ obligations under the PPA.

The sponsor guarantee mentioned above does not fall into the category of financial guarantees as they do not relate to debt instruments as the purpose of these guarantees is essentially to enable SSB to provide the power supply to the subsidiaries on the condition that these guarantees are provided by the ultimate holding company in the event that there are any unpaid claims arising from the PPA owed to SSB.

#### **Project Support guarantee issued under the terms of the Facilities Agreement and the Project Support Agreement**

OM Materials (Sarawak) Sdn Bhd, a subsidiary of the Company entered into a project finance Facilities Agreement (“FA”) for a limited recourse senior project finance debt facility.

Concurrently, the Company also executed a Project Support Agreement (“PSA”) with OM Materials (Sarawak) Sdn Bhd (as Borrower), and the ultimate shareholders of the Borrower (as Obligors). The PSA governs the rights and obligations of the Obligors. These obligations and liabilities of the Obligors are several basis in its shareholding proportion in OM Materials (Sarawak) Sdn. Bhd.

The PSA will lapse on the later of 29 September 2019 or 18 months after the satisfaction of pre-agreed project completion tests typical for a project financing facility of this nature.

### **35 Operating segments**

For management purposes, the Group is organised into the following reportable operating segments as follows:

Mining	Exploration and mining of manganese ore
Smelting	Production of manganese ferroalloys, ferrosilicon and manganese sinter ore
Marketing and Trading	Trading of manganese ore, manganese ferroalloys, ferrosilicon and sinter ore, chrome ore and iron ore

Each of these operating segments is managed separately as they require different resources as well as operating approaches.

The reporting segment results exclude the finance income and costs, share of results of associate, income tax which are not directly attributable to the business activities of any operating segment, and are not included in arriving at the operating results of the operating segment.

Sales between operating segments are carried out at arm’s length.

Segment performance is evaluated based on the operating profit or loss which in certain respects, as set out below, is measure differently from the operating profit or loss in the consolidated financial statements.

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### 35 Operating segments (Cont'd)

	Mining		Smelting		Marketing and Trading		Others		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
<b>Reportable segment revenue</b>										
Sales to external customers	-	1,685	95,204	43,533	318,506	293,010	533	235	414,243	338,463
Inter-segment sales	-	80,698	98,161	42,141	29,186	56,723	5,625	-	132,972	179,562
Elimination									(132,972)	(179,562)
	-	82,383	193,365	85,674	347,692	349,733	6,158	235	414,243	338,463
<b>Reportable segment profit/(loss)</b>	<b>40,301</b>	<b>(76,311)</b>	<b>(43,682)</b>	<b>(21,599)</b>	<b>36,972</b>	<b>(5,672)</b>	<b>(10,033)</b>	<b>(3,132)</b>	<b>23,558</b>	<b>(106,714)</b>
<b>Reportable segment assets</b>	<b>1,753</b>	<b>1,699</b>	<b>1,018,062</b>	<b>987,000</b>	<b>419,769</b>	<b>416,358</b>	<b>328,900</b>	<b>264,248</b>	<b>1,768,484</b>	<b>1,669,305</b>
Elimination									(698,352)	(688,745)
Investment in associates									117,281	106,662
Deferred tax assets									-	4,608
Available-for-sale financial assets									-	798
Goodwill									-	-
Cash collateral									8,764	11,202
Total assets									1,196,177	1,103,830
<b>Reportable segment liabilities</b>	<b>1,472</b>	<b>1,401</b>	<b>383,306</b>	<b>428,882</b>	<b>185,064</b>	<b>197,848</b>	<b>490,522</b>	<b>232,908</b>	<b>1,060,364</b>	<b>861,039</b>
Elimination									(688,782)	(448,572)
Borrowings									617,631	570,135
Income tax payables									4,505	1,565
Total liabilities									993,718	984,167
<b>Other segment information</b>										
Purchase of property, plant and equipment	-	4	16,886	91,701	14	178	-	65	16,900	91,948
Depreciation of property, plant and equipment	248	14,703	18,631	11,955	340	448	11	10	19,230	27,116
Amortisation of land use rights	-	-	328	327	-	-	-	-	328	327
Addition of mine development costs	43,169	457	-	-	-	-	-	-	43,169	457
Amortisation of mine development costs	-	4,023	-	-	-	-	-	-	-	4,023
Addition of evaluation and exploration costs	299	802	-	-	-	-	-	-	299	802

**Notes to the financial statements for the financial year ended 31 December 2016**

**35 Operating segments (Cont'd)**

Reconciliation of the Group's reportable segment loss to the loss before income tax is as follows:

The Group	2016 A\$'000	2015 A\$'000
Reportable segment loss	23,558	(106,714)
Finance income	170	241
Share of results of associates	10,574	(1,522)
Finance costs	(42,418)	(23,637)
Loss before income tax	(8,116)	(131,632)

The Group's revenues from external customers and its non-current assets (other than available-for-sale financial assets and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2016 A\$'000	2015 A\$'000	2016 A\$'000	2015 A\$'000
Principal markets				
Asia	380,739	290,973	630,879	636,062
Europe	14,955	36,250	-	-
Middle East	6,531	-	-	-
Asia Pacific	5,483	2,577	68,352	-
Africa	780	-	112,723	103,411
Others	5,755	8,663	-	-
	414,243	338,463	811,954	739,473

The geographical location of customers is based on the locations at which the goods were delivered. The geographical location of non-current assets is based on the physical location of the asset.

Revenue of approximately A\$30,022,000 (2015 - A\$34,076,000) was derived from a single external customer. This revenue is attributable to the Marketing and Trading segment (2015 - Marketing and Trading segment).

**36 Financial risk management objectives and policies**

The Company and the Group are exposed to financial risks arising from its operations and use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and market price risk. The Company's and the Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise adverse effects from the unpredictability of financial markets on the Company's and the Group's financial performance.

Risk management is carried out by the Finance Division under policies approved by the Board of Directors. The Finance Division identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

There has been no change to the Company's and the Group's exposure to these financial risks or the manner in which it manages and measures the risk during the reporting period. The Group continues to use derivative instruments to manage certain market risks. Details of these are in Note 14. Market risk exposures are measured using sensitivity analysis indicated below.

### **36 Financial risk management objectives and policies (Cont'd)**

#### **36.1 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's exposure to credit risk arises primarily from trade receivables, cash and cash equivalents and other financial assets. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient security where appropriate to mitigate credit risk. For other financial assets, the Company and the Group adopt the policy of dealing only with high credit quality counterparties.

The Company's and the Group's objective is to seek continual growth while minimising losses incurred due to increased credit risk exposure.

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the management based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management.

#### Exposure to credit risk

As the Company and the Group do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statements of financial position.

The Company's and the Group's major classes of financial assets are bank deposits and trade receivables. Cash is held with reputable financial institutions. Further details of credit risks on trade and other receivables are disclosed in Note 15.

#### *Guarantees*

The Company provides corporate guarantees to its subsidiaries on their bank borrowings. The Company's maximum exposure to credit risk in respect of the intra-group corporate guarantees (Note 36.2) at the reporting date is equal to the facilities drawn down by the subsidiaries in the amounts of A\$542,140,000 (2015 - A\$585,730,000). At the reporting date, the Company does not consider it probable that a claim will be made against the Company under these intragroup corporate guarantees.

There is no impact on the corporate guarantee as there are no differential rates given by the financial institutions.

#### *Undrawn credit facilities*

The Group has undrawn credit facilities of approximately A\$253,560,000 (2015 - A\$316,000,000).

#### **36.2 Liquidity risk**

Liquidity risk is the risk that the Company or the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments that are settled by delivering cash or another financial asset. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's and the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

**Notes to the financial statements for the financial year ended 31 December 2016**

**36 Financial risk management objectives and policies (Cont'd)**

**36.2 Liquidity risk (Cont'd)**

The table below analyses the maturity profile of the Company's and the Group's financial liabilities based on contractual undiscounted cash flows:

The Group	Less than 1 year A\$'000	Between 2 and 5 years A\$'000	Over 5 years A\$'000	Total A\$'000
<b>As at 31 December 2016</b>				
Trade and other payables	<b>167,755</b>	<b>225,641</b>	-	<b>393,396</b>
Borrowings	<b>85,823</b>	<b>461,234</b>	<b>277,358</b>	<b>824,415</b>
Provisions	-	<b>6,069</b>	-	<b>6,069</b>
	<b>253,578</b>	<b>692,944</b>	<b>277,358</b>	<b>1,223,880</b>
<b>As at 31 December 2015</b>				
Trade and other payables	158,662	131,563	-	290,225
Land use rights obligation	3,997	3,997	-	7,994
Borrowings	115,965	194,509	369,822	680,296
Corporate guarantee	8,318	-	-	8,318
	286,942	330,069	369,822	986,833
<b>The Company</b>				
<b>As at 31 December 2016</b>				
Trade and other payables	<b>126,551</b>	-	-	<b>126,551</b>
Borrowings	<b>9,031</b>	<b>127,600</b>	-	<b>136,631</b>
Intragroup financial guarantees	<b>542,140</b>	-	-	<b>542,140</b>
	<b>677,722</b>	<b>127,600</b>	-	<b>805,322</b>
<b>As at 31 December 2015</b>				
Trade and other payables	98,607	12,529	-	111,136
Borrowings	7,545	74,971	-	82,516
Corporate guarantee	8,318	-	-	8,318
Intragroup financial guarantees	585,730	-	-	585,730
	700,200	87,500	-	787,700

The table below analyses the derivative financial instruments of the Group for which contractual maturities are essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group	Less than 1 year A\$'000	Between 2 and 5 years A\$'000	Over 5 years A\$'000	Total A\$'000
<b>As at 31 December 2016</b>				
Net-settled interest rate swap				
- Net cash outflow	-	-	-	-
Gross-settled foreign currency forward contracts				
- Receipts	-	-	-	-
- Payments	-	-	-	-
Gross-settled cross currency swap				
- Receipts	-	-	-	-
- Payments	-	-	-	-

**Notes to the financial statements for the financial year ended 31 December 2016**

**36 Financial risk management objectives and policies (Cont'd)**

**36.2 Liquidity risk (Cont'd)**

The Group	Less than 1 year A\$'000	Between 2 and 5 years A\$'000	Over 5 years A\$'000	Total A\$'000
As at 31 December 2015				
Net-settled interest rate swap				
- Net cash outflow	-	2,005	-	2,005
Gross-settled foreign currency forward contracts				
- Receipts	90,779	99,414	-	190,193
- Payments	(122,911)	(134,604)	-	(257,515)
Gross-settled cross currency swap				
- Receipts	-	95,032	-	95,032
- Payments	-	(128,945)	-	(128,945)

The Group has various lines of credit with major financial institutions for purposes of drawing upon short term borrowings, through the pledging of bills receivables or inventories. Further, management closely monitors the Group's capital structure to ensure that there are adequate funds to meet all its obligations in a timely and cost effective manner.

The Group manages its liquidity risk by ensuring there are sufficient cash and current assets to meet all their normal operating commitments in a timely and cost-effective manner and having adequate amount of credit facilities as disclosed in Note 2(a). The Group has the ability to generate additional working capital through financing from financial institutions.

**36.3 Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of the Company's and the Group's financial instruments will fluctuate because of changes in market interest rates.

The Company's and the Group's exposure to interest rate risk arises primarily from their bank borrowings, cash collaterals and fixed deposits. The Group uses derivative financial instruments such as interest rate swap to protect against the volatility associated with the interest payments, as disclosed in Note 14.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if USD, RMB and MYR interest rates had been 75 (2015 - 75) basis points lower/higher with all other variables held constant, the Group's loss net of tax would have been lower/higher by the amounts shown below, arising mainly as a result of lower/higher interest expense on bank borrowings, cash collaterals and fixed deposits.

		The Group Profit or loss	
		2016 A\$'000	2015 A\$'000
United States Dollar	- lower 75 basis points (2015 - 75 basis points)	3,089	3,406
	- higher 75 basis points (2015 - 75 basis points)	(3,089)	(3,406)
Renminbi	- lower 75 basis points (2015 - 75 basis points)	(17)	(33)
	- higher 75 basis points (2015 - 75 basis points)	17	33
Malaysian Ringgit	- lower 75 basis points (2015 - 75 basis points)	490	725
	- higher 75 basis points (2015 - 75 basis points)	(490)	(725)

### **36 Financial risk management objectives and policies (Cont'd)**

#### **36.4 Foreign currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Group operates and sells its products in several countries and transacts in foreign currencies. As a result, the Group is exposed to movements in foreign currency exchange rates arising from normal trading transactions, primarily with respect to USD, RMB and MYR.

The Group uses derivative financial instruments such cross currency swap and interest rate swap to protect against the volatility associated with the interest payments, as disclosed in Note 14.

#### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the USD, RMB and MYR exchange rates against AUD, with all other variables held constant, of the Group's (loss)/profit after income tax and equity.

The Group		2016		2015	
		(Loss)/ profit net of tax A\$'000	Equity A\$'000	(Loss)/ profit net of tax A\$'000	Equity A\$'000
United States Dollar	- strengthened 5% (2015 - 5%)	36,002	37,326	27,199	28,208
	- weakened 5% (2015 - 5%)	(36,002)	(37,326)	(27,199)	(28,208)
Renminbi	- strengthened 5% (2015 - 5%)	680	679	1,117	1,114
	- weakened 5% (2015 - 5%)	(680)	(679)	(1,117)	(1,114)
Malaysian Ringgit	- strengthened 5% (2015 - 5%)	15,252	15,015	17,298	16,891
	- weakened 5% (2015 - 5%)	(15,252)	(15,015)	(17,298)	(16,891)

#### **36.5 Market price risk**

Market price risk relates to the risk that the fair values or future cash flows of the Company's and the Group's financial instruments will fluctuate because of changes in market prices, other than changes in interest rates and foreign exchange rates.

The Company and the Group are exposed to market price risks arising from its investment in equity investments quoted on the Australian Securities Exchange in Australia that are classified as available-for-sale financial assets. Available-for-sale equity investments are held for strategic rather than trading purposes. The Company and the Group do not actively trade available-for-sale investments.

The policies to manage equity price risk have been followed by the Group during the reporting periods and are considered to be effective.

#### Market price sensitivity

At the end of each reporting period, if the market share price had been 10% higher/lower, with all the other variables held constant, the Company's and the Group's fair value reserve in equity would have been A\$Nil (2015 - A\$80,000) higher/lower, arising as a result of increase/decrease in the fair value of the Group's and the Company's available-for-sale financial assets.

The Company's and the Group's sensitivity to the market price has not changed significantly from the prior year.

**Notes to the financial statements for the financial year ended 31 December 2016**

**37 Capital risk management**

The Company's and the Group's objectives when managing capital are

- to safeguard the Company's and the Group's abilities to continue as a going concern;
- to support the Company's and the Group's stability and growth;
- to provide capital for the purpose of strengthening the Company's and the Group's risk management capability; and
- to provide an adequate return to shareholders.

The Company and the Group actively and regularly review and manage its capital structure to ensure optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Company and the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Company and the Group currently do not adopt any formal dividend policy.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company and the Group, is reasonable.

The Company and the Group monitor capital using a gearing ratio, which is net debt divided by total equity:

	The Company		The Group	
	2016 A\$'000	2015 A\$'000	2016 A\$'000	2015 A\$'000
Borrowings	86,300	74,753	617,631	570,135
Less: Cash and cash equivalents	(21)	(55)	(20,571)	(12,711)
	<b>86,279</b>	<b>74,698</b>	<b>597,060</b>	<b>557,424</b>
Total equity	<b>24,205</b>	<b>41,618</b>	<b>202,459</b>	<b>119,663</b>
Gearing ratio	<b>3.56</b>	<b>1.79</b>	<b>2.95</b>	<b>4.66</b>

There were no changes in the Company's and the Group's approach to capital management during the year.

Please refer to Note 21.4 on the compliance of covenants imposed by the bank.

**38 Financial instrument**

**38.1 Accounting classifications of financial assets and financial liabilities**

	Note	Held for trading (fair value through profit and loss) A\$'000	Loans and receivables (carried at amortised cost) A\$'000	Available-for- sale (carried at fair value) A\$'000	Total A\$'000
The Group					
<b>31 December 2016</b>					
<b>Financial assets</b>					
Trade and other receivables	15	-	50,174	-	50,174
Cash and bank balances	16	-	29,335	-	29,335
		-	<b>79,509</b>	-	<b>79,509</b>

**Notes to the financial statements for the financial year ended 31 December 2016**

**38 Financial instrument (Cont'd)**

**38.1 Accounting classifications of financial assets and financial liabilities (Cont'd)**

The Company	Note	Held for trading (fair value through profit and loss) A\$'000	Loans and receivables (carried at amortised cost) A\$'000	Available-for-sale (carried at fair value) A\$'000	Total A\$'000
<b>31 December 2016</b>					
<b>Financial assets</b>					
Trade and other receivables	15	-	128,181	-	128,181
Cash and bank balances	16	-	21	-	21
		-	128,202	-	128,202

The Group	Note	Liabilities at fair value through profit and loss) A\$'000	Derivatives used for hedging A\$'000	Other financial liabilities (carried at amortised cost) A\$'000	Total A\$'000
<b>31 December 2016</b>					
<b>Financial liabilities</b>					
Borrowings (excluding finance lease liabilities)	21	-	-	614,643	614,643
Provisions		-	-	6,069	6,069
Trade and other payables		-	-	341,654	341,654
		-	-	962,366	962,366

The Company					
<b>31 December 2016</b>					
<b>Financial liabilities</b>					
Borrowings	21	-	-	86,300	86,300
Trade and other payables		-	-	126,551	126,551
		-	-	212,851	212,851

The Group	Note	Held for trading (fair value through profit and loss) A\$'000	Loans and receivables (carried at amortised cost) A\$'000	Available-for-sale (carried at fair value) A\$'000	Total A\$'000
<b>31 December 2015</b>					
<b>Financial assets</b>					
Available-for-sale financial assets	9	-	-	798	798
Trade and other receivables	15	-	54,018	-	54,018
Cash and bank balances	16	-	23,913	-	23,913
		-	77,931	798	78,729

The Company					
<b>31 December 2015</b>					
<b>Financial assets</b>					
Available-for-sale financial assets	9	-	-	798	798
Trade and other receivables	15	-	125,955	-	125,955
Cash and bank balances	16	-	55	-	55
		-	126,010	798	126,808

**Notes to the financial statements for the financial year ended 31 December 2016**

**38 Financial instrument (Cont'd)**

**38.1 Accounting classifications of financial assets and financial liabilities (Cont'd)**

The Group	Note	Liabilities at fair value through profit and loss A\$'000	Derivatives used for hedging A\$'000	Other financial liabilities (carried at amortised cost) A\$'000	Total A\$'000
31 December 2015					
<b>Financial liabilities</b>					
Borrowings (excluding finance lease liabilities)	21	-	-	567,794	567,794
Derivative financial instruments	14	-	103,925	-	103,925
Trade and other payables		-	-	290,225	290,225
Land use rights obligation	20	-	-	6,110	6,110
Corporate guarantee	22	-	-	8,318	8,318
		-	103,925	872,447	976,372
The Company					
31 December 2015					
<b>Financial liabilities</b>					
Borrowings	21	-	-	74,753	74,753
Trade and other payables		-	-	109,423	109,423
Corporate guarantee	22	-	-	8,318	8,318
		-	-	192,494	192,494

**39 Fair value measurement**

Definition of fair value

IFRSs define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**39.1 Fair value measurement of financial instruments**

Financial assets and financial liabilities measured at fair value in the statements of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

**39.1 Fair value measurement of financial instruments (Cont'd)**

The following table shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 31 December 2016 and 31 December 2015:

The Group	Note	Level 1 A\$'000	Level 2 A\$'000	Level 3 A\$'000	Total A\$'000
At 31 December 2016					
<b>Financial assets</b>					
Available-for-sale financial assets	(a)	-	-	-	-

**Notes to the financial statements for the financial year ended 31 December 2016**

**39 Fair value measurement (Cont'd)**

**39.1 Fair value measurement of financial instruments (Cont'd)**

The Group	Note	Level 1 A\$'000	Level 2 A\$'000	Level 3 A\$'000	Total A\$'000
At 31 December 2015					
<b>Financial assets</b>					
Available-for-sale financial assets	(a)	798	-	-	798
<b>Financial liabilities</b>					
5% convertible note	(c)	-	-	-	-
<i>Derivatives used for hedging :</i>					
Interest rate swaps	(b)	-	1,406	-	1,406
Cross currency swaps	(b)	-	37,501	-	37,501
Forward foreign exchange contracts	(b)	-	65,018	-	65,018
		-	103,925	-	103,925
The Company					
<b>As at 31 December 2016</b>					
<b>Financial assets</b>					
Available-for-sale financial assets	(a)	-	-	-	-
As at 31 December 2015					
<b>Financial assets</b>					
Available-for-sale financial assets	(a)	798	-	-	798

There were no transfers between Level 1 and Level 2 in 2016 or 2015.

- (a) The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

**Measurement of fair value of financial instruments**

The Group's finance team performs valuations of financial items for financial reporting purposes, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the group financial controller and to the audit committee. Valuation processes and fair value changes are discussed among the audit committee and the valuation team at least every year, in line with the Group's reporting dates.

The valuation techniques used for instruments categorised in Level 2 are described below:

- (b) Derivatives  
The fair values of interest rate swaps, cross currency swaps and forward exchange contracts (Level 2 fair values) are based on bank valuations. These are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take into account the credit risk of the Group entity and counterparty when appropriate.