

# OM HOLDINGS LIMITED

(ARBN 081 028 337)



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20 March 2018

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 2017**

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 2017.

The 2017 Annual Report (including the Financial Statements and Reports) are expected to be dispatched to Shareholders who have requested a copy by Wednesday, 18 April 2018.

Yours faithfully

**OM HOLDINGS LIMITED**



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

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

31 December 2017

# 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)
<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 Conyers Corporate Services (Bermuda) Limited Lo Chi Man
<b>Bankers</b>	National Australia Bank Ltd Standard Chartered Bank
<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 2017**

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 2017 and the statement of financial position of the Company as at 31 December 2017.

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 2017 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)

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>1.1.2017</u>	As at <u>31.12.2017</u>	As at <u>1.1.2017</u>	As at <u>31.12.2017</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> 1,860,000	<b><sup>(2)</sup> 1,860,000</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) 560,000 (2016 - 560,000) 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 2017.

**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 third edition of the Corporate Governance Principles and Recommendations with relevant 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 has 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 2017 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 NGHEE TONG  
Executive Chairman

Dated: 20 March 2018

# 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 2017, 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 2017 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\$609 million as at 31 December 2017. 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>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 matter	Risk:	Our response and work performed:
Recognition of deferred tax asset	The Group recognised deferred tax assets based upon unutilised tax losses and other temporary differences. The Group exercised its judgement to determine the amount of deferred tax assets that can be recognised, to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. As at 31 December 2017, the Group recognised deferred tax assets of A\$24 million.	<p>Our audit procedures included among others, discussions with the component auditors to understand the tax regulations in Australia and their work performed on the recognition of deferred tax assets. We have also assessed the profit forecast to evaluate the reasonableness of the recognition of deferred tax assets.</p> <p>We discussed with the Group's key management and considered their views on the Group's recoverability of deferred tax assets to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.</p>

# 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 annual report, 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 identified above 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.

The engagement partner on the audit resulting in this independent auditor's report is Ong Soo Ann.



Foo Kon Tan LLP  
Public Accountants and  
Chartered Accountants

Singapore, 20 March 2018

## Statements of financial position as at 31 December 2017

		<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>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</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>608,915</b>	639,825
Land use rights	5	-	-	<b>9,370</b>	9,813
Exploration and evaluation costs	6	-	-	<b>2,167</b>	1,866
Mine development costs	7	-	-	<b>32,026</b>	43,169
Deferred tax assets	8	-	-	<b>24,076</b>	-
Interests in subsidiaries	9	<b>58,139</b>	107,992	-	-
Interests in associates	10	-	-	<b>116,544</b>	117,281
		<b>58,139</b>	107,992	<b>793,098</b>	811,954
<b>Current</b>					
Inventories	11	-	-	<b>252,480</b>	302,817
Trade and other receivables	12	<b>130,255</b>	128,181	<b>91,025</b>	50,174
Prepayments		<b>3,585</b>	862	<b>6,076</b>	1,897
Cash collateral	13	-	-	<b>4,463</b>	8,764
Cash and cash equivalents	13	<b>10</b>	21	<b>29,913</b>	20,571
		<b>133,850</b>	129,064	<b>383,957</b>	384,223
<b>Total assets</b>		<b>191,989</b>	237,056	<b>1,177,055</b>	1,196,177
<b>Equity</b>					
<b>Capital and Reserves</b>					
Share capital	14	<b>36,671</b>	36,671	<b>36,671</b>	36,671
Treasury shares	15	<b>(2,330)</b>	(2,330)	<b>(2,330)</b>	(2,330)
Reserves	16	<b>1,275</b>	(10,136)	<b>193,625</b>	105,370
		<b>35,616</b>	24,205	<b>227,966</b>	139,711
<b>Non-controlling interests</b>		-	-	<b>59,782</b>	62,748
<b>Total equity</b>		<b>35,616</b>	24,205	<b>287,748</b>	202,459
<b>Liabilities</b>					
<b>Non-Current</b>					
Borrowings	17	<b>24,485</b>	86,300	<b>468,859</b>	560,348
Trade and other payables	19	<b>53</b>	-	<b>139,725</b>	183,857
Provisions	18	-	-	<b>6,032</b>	6,069
Deferred tax liabilities	8	-	-	<b>1,677</b>	-
Deferred capital grant	20	-	-	<b>12,776</b>	14,554
		<b>24,538</b>	86,300	<b>629,069</b>	764,828
<b>Current</b>					
Trade and other payables	19	<b>126,328</b>	126,551	<b>213,600</b>	166,319
Borrowings	17	<b>5,507</b>	-	<b>41,822</b>	57,283
Deferred capital grant	20	-	-	<b>726</b>	783
Income tax payables		-	-	<b>4,090</b>	4,505
		<b>131,835</b>	126,551	<b>260,238</b>	228,890
<b>Total liabilities</b>		<b>156,373</b>	212,851	<b>889,307</b>	993,718
<b>Total equity and liabilities</b>		<b>191,989</b>	237,056	<b>1,177,055</b>	1,196,177

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 2017

	Note	Year ended 31 December 2017 A\$'000	Year ended 31 December 2016 A\$'000
Revenue	3	988,182	414,243
Cost of sales		(778,597)	(354,161)
Gross profit		209,585	60,082
Other income	21	10,194	62,756
Distribution costs		(44,250)	(13,864)
Administrative expenses		(23,647)	(23,096)
Other operating expenses		(56,501)	(62,150)
Finance costs	22	(43,902)	(42,418)
Profit/(loss) from operations		51,479	(18,690)
Share of results of associates		21,138	10,574
Profit/(loss) before income tax	22	72,617	(8,116)
Income tax	23	18,757	(8,629)
<b>Profit/(loss) for the year</b>		<b>91,374</b>	<b>(16,745)</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)
Currency translation differences arising from foreign subsidiaries		(7,459)	(3,600)
Currency translation differences for disposal of a subsidiary		-	(842)
Cash flow hedges	24	1,360	65,408
<b>Other comprehensive income/(expense) for the year, net of tax</b>		<b>(6,099)</b>	<b>60,749</b>
<b>Total comprehensive income for the year</b>		<b>85,275</b>	<b>44,004</b>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		92,656	7,936
Non-controlling interests		(1,282)	(24,681)
		<b>91,374</b>	<b>(16,745)</b>
<b>Total comprehensive income/(expense) attributable to:</b>			
Owners of the Company		88,249	52,550
Non-controlling interests		(2,974)	(8,546)
		<b>85,275</b>	<b>44,004</b>
<b>Profit per share</b>			
- Basic	25	<b>12.67</b>	1.08
- Diluted	25	<b>12.06</b>	1.08

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 2017

	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 2017	36,671	176,563	(2,330)	5,534	16,513	-	(7,906)	15,493	(100,827)	139,711	62,748	202,459
Profit/(loss) for the year	-	-	-	-	-	-	-	-	92,656	92,656	(1,282)	91,374
Other comprehensive (expense)/income for the year	-	-	-	-	-	-	1,020	(5,427)	-	(4,407)	(1,692)	(6,099)
Total comprehensive (expense)/income for the year	-	-	-	-	-	-	1,020	(5,427)	92,656	88,249	(2,974)	85,275
Dividend forfeited	-	-	-	-	-	-	-	-	14	14	-	14
Transfer (Note 16 (i))	-	-	-	18	-	-	-	7	(33)	(8)	8	-
Balance at 31 December 2017	36,671	176,563	(2,330)	5,552	16,513	-	(6,886)	10,073	(8,190)	227,966	59,782	287,748

	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
Profit/(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

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 2017

	Year ended 31 December 2017 A\$'000	Year ended 31 December 2016 A\$'000
<b>Cash Flows from Operating Activities</b>		
Profit/(loss) before income tax	72,617	(8,116)
Adjustments for:		
Amortisation of land use rights	186	328
Amortisation of deferred capital grant	(737)	(318)
Amortisation of mine development costs	11,143	-
Depreciation of property, plant and equipment	32,985	19,230
Write off of exploration and evaluation costs	211	109
Loss on deemed disposal and re-purchase	505	-
Gain on disposal of property, plant and equipment	(53)	(11)
Gain on disposal of land use right	-	(9,574)
Gain on bargain purchase	-	(42,811)
Loss on disposal of a subsidiary	-	182
Impairment loss on:		
- Available-for-sale financial assets	-	581
- Property, plant and equipment	-	344
Gain on early debt settlement	(3,955)	-
Write off of property, plant and equipment	586	-
Write back of inventories	(11)	-
Gain on extinguishment of convertible bond	-	(3,446)
Unwinding of interest income	(1,508)	(2,505)
Fee paid for obtaining capital grant	-	4,574
Discontinuation of cash flow hedge	-	24,411
Loss on derivative settlement	-	18,500
Reclassification from hedging reserve to profit or loss	1,360	-
Interest expenses	43,902	42,418
Interest income	(187)	(170)
Share of results of associates	(21,138)	(10,574)
Operating profit before working capital changes	135,906	33,152
Decrease/(increase) in inventories	50,981	(41,526)
Increase in trade and bill receivables	(5,963)	(19,101)
(Increase)/decrease in prepayments, deposits and other receivables	(9,647)	12,490
Increase in trade and bill payables	1,699	27,019
Increase/(decrease) in other payables and accruals	7,623	(42,494)
(Decrease)/increase in other long term payable	(42,371)	53,793
Cash generated from operations	138,228	23,333
Income tax paid	(4,437)	(1,081)
Net cash generated from operating activities	133,791	22,252
<b>Cash Flows from Investing Activities</b>		
Payments for exploration and evaluation costs	(512)	(299)
Purchase of property, plant and equipment	(45,242)	(16,900)
Proceeds from disposal of property, plant and equipment	86	121
Proceeds from disposal of land use right	-	29,885
Acquisition of a subsidiary (Note 9)	375	1,004
Net proceeds from disposal of subsidiaries	-	747
Repayment from/(loan to) an associate	18,457	(45)
Interest received	187	170
Net cash (used in)/generated from investing activities	(26,649)	14,683

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

for the financial year ended 31 December 2017

	Year ended 31 December 2017 A\$'000	Year ended 31 December 2016 A\$'000
<b>Cash Flows from Financing Activities</b>		
Repayment of bank and other loans	(75,321)	(21,493)
Proceeds from bank loans	348	-
Payment to finance lease creditors	(975)	(987)
Capital grant received, net of cost	-	10,672
Capital contribution by non-controlling interests	-	38,798
Decrease in cash collateral	4,301	4,949
Loss on derivative settlement	-	(18,500)
Interest paid	(24,487)	(42,418)
Net cash used in financing activities	(96,134)	(28,979)
Net increase in cash and cash equivalents	11,008	7,956
Cash and cash equivalents at beginning of the year	20,571	12,711
Exchange difference on translation of cash and cash equivalents at beginning of the year	(1,666)	(96)
Cash and cash equivalents at end of the year (Note 13)	29,913	20,571

### Note A. Reconciliation of liabilities arising from financing activities

The following is the disclosures of the reconciliation of items for which cash flows have been, or would be, classified as financing activities, excluding equity items:

	31 December 2016 A\$'000	Cash flow A\$'000	Non-cash changes			31 December 2017 A\$'000
			Foreign exchange movement A\$'000	Accrual A\$'000	Impairment on loan A\$'000	
Finance lease	2,988	(975)	-	-	-	2,013
Borrowings	614,643	(74,973)	(34,456)	7,409	(3,955)	508,668

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 2017**

### **1 General information**

The financial statements of the Company and of the Group for the financial year ended 31 December 2017 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**

##### **Income taxes (Note 23)**

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.

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.

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

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

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 12)

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.

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

Impairment of property, plant and equipment (Note 4)

Determining whether the carrying value of property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units. This requires the Group 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 cash flows. Management performed impairment test and assessed that no impairment was required. The carrying amount of property, plant and equipment is disclosed in the balance sheet.

Mine Development Costs (Note 7)

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 determination, the Group's profit for the year will decrease/increase by approximately A\$3,202,600 (2016 - A\$4,316,900).

Deferred tax assets (Note 8)

The Group reviews the carrying amount of deferred tax assets at the end of each reporting period. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. This involves judgement regarding future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. Management has assessed that it is reasonable to recognise deferred tax assets based on probable future taxable profits.

Impairment of investment in subsidiaries (Note 9)

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 and assessed that no impairment was required.

**Notes to the financial statements for the financial year ended 31 December 2017**

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

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

Net realisable value of inventories (Note 11)

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. The carrying amount of the inventories as at 31 December 2017 is A\$252,480,000 (2016 - A\$302,817,000).

**2(b) Interpretations and amendments to published standards effective in 2017**

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 2017:

Reference	Description	Effective date (Annual periods beginning on or after)
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 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 on 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 beginning on 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.

**Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrecognised Losses**

The amendments to IAS 12 Recognition of deferred tax assets for unrealised losses clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments to IAS 12 is effective for annual periods beginning on or after 1 January 2017. Management has reassessed all unrealised losses on debt instruments measured at fair value and there is no material impact.

**Notes to the financial statements for the financial year ended 31 December 2017**

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

The following are the new or amended FRS and INT FRS issued in 2017 that are not yet effective but may be early adopted for the current financial year:

Reference	Description	Effective date (Annual periods beginning on or after)
Amendments to IFRS 2	<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
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 16	<i>Leases</i>	1 January 2019
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>	1 January 2019

**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. During 2017, management completed its initial assessment of the impact on the Group's financial statements. Based on its initial assessment, management does not expect significant changes to the basis of revenue recognition for its sales of ores in the China market and international shipments. For the China market, transfer of goods and control is passed to the customers upon full payment and notification to take deliveries.

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

**IFRS 15 Revenue Contracts with Customers (Cont'd)**

For international shipments, management is of the view that as the Group entity does not have the right to re-direct shipments and the risk of loss shipments in transit and at destination ports is covered by the buyers' insurance, the transfer of goods and control is passed to the customers upon loading of the goods onto the relevant carrier at the port of shipment. The majority of customers are required to make full payment before the loading of goods at the port of shipment. Management does not plan to early adopt the new IFRS 15 and this assessment may be subject to changes arising from ongoing analysis.

**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.

**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. Management anticipates that the initial application of the new IFRS 9 will result in changes to the accounting policies relating to the impairment provisions of financial assets and liabilities. Management will consider whether a lifetime or 12-month expected credit losses on financial assets and liabilities should be recognised, which is dependent on whether there has been a significant increase in the credit risk of the assets and liabilities from initial recognition of IFRS 9. Additional disclosures will also be made. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the Group's financial statements in the period of initial application as management has yet to complete its detailed assessment. Management does not plan to early adopt the new IFRS 9 and this assessment may be subject to changes arising from ongoing analysis.

**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 required lessees to recognise most leases on their balance sheets. Lessor accounting is substantially unchanged from current accounting practices 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. Management is currently still assessing the possible impact of implementing IFRS 16. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to the entity's financial statements in the period of initial application as management has yet to complete its detailed assessment. Management does not plan to early adopt the above new IFRS 16 and this assessment may be subject to changes arising from ongoing analysis.

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

**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. Management does not plan to early adopt the above new IFRIC 22 and this assessment may be subject to changes arising from ongoing analysis.

**IFRIC 23 Uncertainty of Income Tax Treatments**

This Interpretation provides guidance on how to determine an entity's taxable profits (or tax losses), tax bases, unused tax losses, unused tax credits and tax rates where there is uncertainty over income tax to be accounted for under IAS 12. The Group is currently assessing the impact to the consolidated financial statements. Management does not plan to early adopt the above new IFRIC 23 and this assessment may be subject to changes arising from ongoing analysis.

**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 continues 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.

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 the profit or loss; and
- re-classifies the Group's share of components previously recognised in other comprehensive income to the profit or loss or retained earnings, as appropriate.



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

**Consolidation (Cont'd)**

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.

When the Group loses control of a subsidiary, a gain or loss is recognised in the 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 the 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.

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

**Consolidation (Cont'd)**

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 whereby 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 the 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 the profit or loss on the acquisition date.

**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.

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

**Associates (Cont'd)**

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 the 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 the 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 the 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 the 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 acquisition of subsidiaries prior to 1 January 2010 and on acquisition of joint ventures and associated companies represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired.

Goodwill on subsidiaries and joint ventures is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

Goodwill on associated companies is included in the carrying amount of the investments.

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 the profit or loss on disposal.

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.

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

**Intangible assets (Cont'd)**

Exploration and evaluation costs (Cont'd)

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.

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 of the mine according to the rate of depletion of the economically recoverable mineral resources.

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

**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 - 4 years
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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.

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 the profit or loss when the changes arise.

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

**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 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 the 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. 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 the 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.

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

**Financial assets (Cont'd)**

Loans and receivables (Cont'd)

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 the 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 the 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)**

Movements on the hedging reserve in other comprehensive income are shown in Note 16. 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 the profit or loss. For hedging instruments used to hedge 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 the 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 the 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 the 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 the profit or loss. Gains or losses arising from changes in fair value are recorded directly in the 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.

**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 the 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 the 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 the 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 the 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 the 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 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 the 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 the 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 an 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 the end of a 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 China market, transfer occurs upon satisfaction of (i) full payments by customers and, (ii) notifications issued to customers to take deliveries; for international shipments (apart from China domestic market), 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 the 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 the profit or loss, as part of the gain or loss on disposal.

All other foreign exchange gains and losses impacting the 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 the 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 are 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 2017**

**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 9.

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 2016	315,306	24,783	315,652	1,291	2,666	659,698
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>
Additions	1,663	462	42,128	578	411	45,242
Transfers	(17,231)	-	17,203	28	-	-
Disposal	-	-	-	(3)	(306)	(309)
Written off	-	(14)	(82,296)	(322)	-	(82,632)
Exchange realignment	273	(431)	(44,791)	(81)	(91)	(45,121)
<b>At 31 December 2017</b>	<b>2,189</b>	<b>22,879</b>	<b>675,988</b>	<b>3,683</b>	<b>2,231</b>	<b>706,970</b>
<u>Accumulated depreciation and impairment loss</u>						
At 1 January 2016	-	8,566	35,728	646	1,735	46,675
Depreciation for the year (Note 22)	-	1,270	17,285	349	326	19,230
Acquisition of subsidiary#	-	-	84,152	1,971	-	86,123
Disposal	-	(640)	(555)	(11)	(332)	(1,538)
Impairment loss	344	-	-	-	-	344
Written off	-	-	-	(29)	(2)	(31)
Exchange realignment	-	(448)	(329)	(20)	(41)	(838)
<b>At 31 December 2016</b>	<b>344</b>	<b>8,748</b>	<b>136,281</b>	<b>2,906</b>	<b>1,686</b>	<b>149,965</b>
Depreciation for the year (Note 22)	-	1,177	31,371	239	198	32,985
Disposal	-	-	-	(3)	(273)	(276)
Written off	-	(14)	(81,536)	(496)	-	(82,046)
Exchange realignment	-	(135)	(2,344)	(30)	(64)	(2,573)
<b>At 31 December 2017</b>	<b>344</b>	<b>9,776</b>	<b>83,772</b>	<b>2,616</b>	<b>1,547</b>	<b>98,055</b>
<u>Net book value</u>						
<b>At 31 December 2017</b>	<b>1,845</b>	<b>13,103</b>	<b>592,216</b>	<b>1,067</b>	<b>684</b>	<b>608,915</b>
At 31 December 2016	17,140	14,114	607,463	577	531	639,825

# This relates to a subsidiary in which the Group had regained control as at 31 December 2016, previously de-consolidated.

**Notes to the financial statements for the financial year ended 31 December 2017**

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

The total carrying amount of motor vehicles and plant and machinery acquired under finance lease for the Group amounted to A\$428,000 and A\$2,191,000 (2016 – A\$301,000 and A\$1,951,000) (Note 17.1) respectively.

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

As of 31 December 2017, property, plant and equipment with a total carrying amount of A\$567,725,000 (2016 - A\$582,635,000) had been pledged for banking facilities granted to a subsidiary.

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 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.

These assumptions were used for the analysis of each CGU within the business segment. Management determined budgeted gross margins based on past performance and its expectations of market developments. The weighted average growth rates used were consistent with forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments.

Key assumptions used for value-in-use calculations:

	2017		2016	
	People's Republic of China	Malaysia	Malaysia	
	Smelting operations		Smelting operations	
Gross margin <sup>1</sup>	6.7%	18.3%	14%	
Growth rate <sup>2</sup>	2.5% before 2022, 0% after 2022	1.6% before 2022, 0% after 2022	2.5% to 3% before 2021, 0% after 2021	
Discount rate <sup>3</sup>	7.5%	8.4%	8%	

<sup>1</sup> Budgeted gross margin. The gross margin differs due to the different operating efficiencies of the various subsidiaries located in different geographical locations.

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

<sup>3</sup> Pre-tax discount rates applied to the pre-tax cash flow projections. The discount rates vary due to the geographical locations of the businesses.

These assumptions were used for the analysis. Management determined budgeted gross margin based on past performance and its expectations of market developments. The weighted average growth rates used were consistent with 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, the recoverable amount is higher than the carrying amount of property, plant and equipment. Hence, no impairment is required. A further decrease in the growth margin by 1% would not result in the recoverable amount to be lower than the carrying amount of property, plant and equipment.

**Notes to the financial statements for the financial year ended 31 December 2017**

**5 Land use rights**

The Group	2017 A\$'000	2016 A\$'000
<b>Non-current</b>		
At the beginning of the year	9,813	18,112
Amortisation for the year (Note 22)	(186)	(328)
Incentives by government	-	(8,038)
Exchange realignment	(257)	67
At the end of the year	9,370	9,813
<b>Current – land use rights classified as held-for-sale</b>		
At the beginning of the year	-	20,311
Disposal	-	(20,311)
At the end of the year	-	-
	9,370	9,813

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\$7,953,000 and were pledged as security for borrowings referred to in Note 17.2(b).

**6 Exploration and evaluation costs**

The Group	2017 A\$'000	2016 A\$'000
At beginning of the year	1,866	1,676
Costs incurred during the year	512	299
Written off during the year (Note 22)	(211)	(109)
At end of the year	2,167	1,866

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

The Group	2017 A\$'000	2016 A\$'000
Assets	12	16
Income and expenses	26	(39)
Operating cash flows	321	283
Investing cash flows	(346)	(243)

**7 Mine development costs**

The Group	2017 A\$'000	2016 A\$'000
At beginning of the year	43,169	-
Amortisation for the year (Note 22)	(11,143)	-
Acquisition of subsidiary#	-	43,169
Net carrying value	32,026	43,169

# This relates to a subsidiary in which the Group regained control as at 31 December 2016, previously de-consolidated.

**Notes to the financial statements for the financial year ended 31 December 2017**

**8 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>2017 A\$'000</b>	2016 A\$'000
The Group		
<b>Deferred tax assets</b>		
To be recovered within one year	-	-
To be recovered after one year	<b>24,076</b>	-
	<b>24,076</b>	-
<b>Deferred tax liabilities</b>		
To be recovered within one year	-	-
To be recovered after one year	<b>1,677</b>	-
	<b>1,677</b>	-
Balance at beginning of the year	-	4,608
Credited/(charged) to the profit or loss (Note 23)	<b>24,076</b>	(4,608)
Balance at end of the year	<b>24,076</b>	-
<b>Deferred tax liabilities</b>		
Balance at beginning of the year	-	-
Credited to the profit or loss (Note 23)	<b>1,702</b>	-
Exchange difference on translation	<b>(25)</b>	-
Balance at end of the year	<b>1,677</b>	-

The balance comprises tax on the following temporary differences:

	Excess of net book value over tax written down value of qualifying property, plant and equipment A\$'000	Fair value gain A\$'000	Provisions A\$'000	Tax losses A\$'000	Northern Territory Government Royalty Benefit A\$'000	Others A\$'000	Total A\$'000
The Group							
At 1 January 2016	-	-	-	4,608	-	-	4,608
Charged to the profit or loss (Note 23)	-	-	-	(4,608)	-	-	(4,608)
At 31 December 2016	-	-	-	-	-	-	-
Charged to the profit or loss (Note 23)	<b>(967)</b>	<b>3,139</b>	<b>(9,295)</b>	<b>28,930</b>	<b>1,651</b>	<b>(1,059)</b>	<b>22,399</b>
<b>At 31 December 2017</b>	<b>(967)</b>	<b>3,139</b>	<b>(9,295)</b>	<b>28,930</b>	<b>1,651</b>	<b>(1,059)</b>	<b>22,399</b>

Unrecognised deferred tax assets

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

	<b>2017 A\$'000</b>	2016 A\$'000
The Group		
Tax losses	<b>111,412</b>	104,078
Deductible temporary differences	-	44,424

**Notes to the financial statements for the financial year ended 31 December 2017**

**8 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 recognise the benefits.

**9 Subsidiaries**

	<b>2017 A\$'000</b>	2016 A\$'000
The Company		
Net carrying value of unquoted equity investments	<b>8,013</b>	4,961
Amounts due from subsidiaries	<b>50,126</b>	103,031
	<b>58,139</b>	107,992

In the prior financial year, the unquoted equity investments at cost were A\$8,013,000 before an impairment charge of A\$3,052,000 related to an investment in a subsidiary (OM (Manganese) Ltd), as a result of no mining and production activity carried out throughout financial year 2016. In 2017, mining and production activities resumed in OM (Manganese) Ltd since the first quarter of the year. In addition, management also considered the recoverability of the investment in OM (Manganese) Ltd based on the value in use estimates and assessed that there was no impairment due to the change in estimates used to determine the asset's recoverable amount— as such the impairment charge was reversed in 2017.

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.

Acquisition of subsidiary

On 31 May 2017, the Group acquired 66.67% of the issued share capital of OM Tshipi (S) Pte Ltd for cash consideration of A\$2,880,000. The fair value of the net assets acquired approximated its book value.

The following summaries the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	<b>2017 A\$'000</b>	2016 A\$'000
The Group		
Property, plant and equipment	-	25,429
Mine development costs	-	43,169
Inventories	-	2,002
Trade receivables and other receivables	<b>14,611</b>	108
Cash and cash equivalents	<b>1,628</b>	1,004
Cash collateral	-	2,511
Trade and other payables	<b>(13,359)</b>	-
Finance leases	-	(1,634)
Long-term provisions	-	(29,778)
Total net identifiable assets	<b>2,880</b>	42,811
Gain on consolidation of a subsidiary previously de-consolidated	-	(42,811)
Consideration transferred	<b>2,880</b>	-

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

Consideration paid	<b>2,880</b>	-
Less: Cash and cash equivalents in subsidiary acquired	<b>(3,255)</b>	(1,004)
Net cash inflow on acquisition	<b>(375)</b>	(1,004)

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 2017**

**9 Subsidiaries (Cont'd)**

The Group evaluates any indication of impairment on the investment in subsidiaries at the end of each reporting period. The Group carried out a review of the recoverable amount of its investment in subsidiaries based on the fair value less cost to sell and value in use.

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 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.

These assumptions were used for the analysis of each CGU within the business segment. Management determined budgeted gross margins based on past performance and its expectations of market developments. The weighted average growth rates used were consistent with forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments.

Key assumptions used for value-in-use calculations:

	2017		2016	
	People's Republic of China	Malaysia	Australia	Malaysia Smelting operations
	Smelting operations		Mining operations	
Gross margin <sup>1</sup>	6.7%	18.3%	25.8%	14%
Growth rate <sup>2</sup>	2.5% before 2022, 0% after 2022	1.6% before 2022, 0% after 2022	Negative growth rate up to the life of mine in 2011	2.5% to 3% before 2021, 0% after 2021
Discount rate <sup>3</sup>	7.5%	8.4%	21.5%	8%

<sup>1</sup> The gross margins range from 6.7% to 18.3% due to the different operating efficiencies of the various subsidiaries located in different geographical locations.

<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. The discount rates vary due to the geographical locations of the businesses.

These assumptions were used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations of market developments. The weighted average growth rates used were consistent with 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, the recoverable amount is higher than the cost of the investment in the subsidiary, hence no impairment is required. A further decrease in the growth margin by 1% would not result in the recoverable amount to be lower than the cost of the investment in the subsidiary.



**Notes to the financial statements for the financial year ended 31 December 2017**

**9 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/ operation</u>	<u>Proportion of ownership interest and voting rights held by the Group</u>		<u>Principal activities</u>
		<b>2017</b> %	<b>2016</b> %	
<u>Held by the Company</u> OM (Manganese) Ltd. <sup>(1)</sup>	Australia	<b>100</b>	100	Operation of manganese mine
<u>Held by OM Resources (HK) Limited</u> OM Materials (S) Pte. Ltd. <sup>(2)</sup>	Singapore	<b>100</b>	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	<b>75</b>	75	Sales and processing of ferroalloys and ores
OM Materials (Qinzhou) Co. Ltd. <sup>(4)</sup>	PRC	<b>100</b>	100	Sales and processing of ferroalloys and ores
<u>Held by OM Materials Trade (S) Pte. Ltd.</u> OM Materials Trading (Qinzhou) Co. Ltd. <sup>(4)</sup>	PRC	<b>100</b>	100	Sales and processing of ferroalloys and ores
OM Tshipi (S) Pte. Ltd. <sup>(5)</sup>	Singapore	<b>100</b>	33.3	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.
- (5) audited by Ernst & Young

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/ operation</u>	<u>Number of subsidiaries</u>	
		<b>2017</b>	<b>2016</b>
Investment holding	The British Virgin Islands	<b>2</b>	2
Investment holding	Mauritius	<b>1</b>	1
Investment holding	Hong Kong	<b>1</b>	1
Investment holding	Singapore	<b>1</b>	1
Trading of metals and ferroalloy products	Malaysia	<b>1</b>	1
Trading of metals and ferroalloy products	Singapore	<b>1</b>	1
Trading of metals and ferroalloy products	PRC	<b>1</b>	1
Sales and processing of ferroalloys and ores	Malaysia	<b>2</b>	2
Exploration and mining of minerals	Malaysia	<b>2</b>	2
		<b>12</b>	<b>12</b>

**Notes to the financial statements for the financial year ended 31 December 2017**

**9 Subsidiaries (Cont'd)**

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

Name	Place of Incorporation and principal place of business	Proportion of ownership interests and voting rights held by non- controlling interests		Loss allocated to non- controlling interests		Accumulated non- controlling interests	
		2017	2016	2017 A\$'000	2016 A\$'000	2017 A\$'000	2016 A\$'000
OM Materials (Sarawak) Sdn. Bhd.	Malaysia	25%	25%	(1,382)	(20,921)	48,478	51,615

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.

**OM Materials (Sarawak) Sdn. Bhd.**

Summarised Statement of Financial Position

	2017 A\$'000	2016 A\$'000
Current assets	295,400	326,180
Non-current assets	569,214	592,290
Current liabilities	(176,148)	(154,681)
Non-current liabilities	(590,456)	(657,377)
Equity attributable to owners of the Company	73,508	79,809
Non-controlling interests	24,503	26,603

Summarised Statement of Comprehensive Income

Revenue	491,471	156,841
Expenses	(497,000)	(240,527)
Loss for the year	(5,529)	(83,686)
Loss attributable to owners of the Company	(4,147)	(62,765)
Loss attributable to the non-controlling interest	(1,382)	(20,921)
Loss for the year	(5,529)	(83,686)
Other comprehensive (expense)/income attributable to owners of the Company	(6,721)	53,846
Other comprehensive (expense)/income attributable to the non-controlling interests	(2,240)	17,949
Other comprehensive (expense)/income for the year	(8,961)	71,795

Summarised Statement of Comprehensive Income

Total comprehensive expense attributable to owners of the Company	(10,868)	(8,919)
Total comprehensive expense attributable to the non-controlling interests	(3,622)	(2,972)
	(14,490)	(11,891)
Other recognised information		
Net cash inflow/(outflow) from operating activities	57,696	(2,972)
Net cash outflow from investing activities	(43,725)	(8,019)
Net cash (outflow)/inflow from financing activities	(17,206)	17,839
Net cash (outflow)/inflow	(3,235)	6,848

**Notes to the financial statements for the financial year ended 31 December 2017**

**10 Interests in associates**

	<b>2017</b>	2016
	<b>A\$'000</b>	A\$'000
The Group		
Unquoted equity investment, at cost	<b>84,832</b>	106,707
Share of post-acquisition profits and reserves	<b>31,712</b>	10,574
	<b>116,544</b>	117,281

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>2017</b> %	2016 %	
Main Street 774 (Pty) Limited <sup>(1)</sup>	South Africa	<b>26</b>	26	Investment holding
OM Tshipi (S) Pte. Ltd. <sup>(2)</sup>	Singapore	-	33.3	Sales and processing of ferroalloys and ores

(1) audited by KPMG Inc.

(2) audited by Ernst & Young

Shares in the associate are held by wholly-owned subsidiaries of the Group, OMH (Mauritius) Corp..

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>2017</b>	2016	<b>2017</b>	2016	<b>2017</b>	2016
	<b>A\$'000</b>	A\$'000	<b>A\$'000</b>	A\$'000	<b>A\$'000</b>	A\$'000
- Current assets	<b>2,945</b>	6	-	43,272	<b>2,945</b>	43,278
- Non-current assets	<b>183,616</b>	167,776	-	-	<b>183,616</b>	167,776
- Current liabilities	<b>14,607</b>	91,951	-	30,274	<b>14,607</b>	122,225
- Revenue	-	-	-	150,930	-	150,930
- Profit for the year	<b>78,327</b>	31,935	-	3,732	<b>78,327</b>	35,667
- Other comprehensive income for the year	-	-	-	-	-	-
- Total comprehensive income for the year	<b>78,327</b>	31,935	-	3,732	<b>78,327</b>	35,667

**Notes to the financial statements for the financial year ended 31 December 2017**

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

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	
	2017	2016	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
Net assets of the associate	<b>186,479</b>	167,740	-	13,597	<b>186,479</b>	181,337
Proportion of the Group's ownership interest in the associate	<b>48,485</b>	43,612	-	4,532	<b>48,485</b>	48,144
Goodwill	<b>59,842</b>	59,842	-	-	<b>59,842</b>	59,842
Currency translation difference	<b>8,174</b>	9,269	-	(12)	<b>8,174</b>	9,257
Carrying value	<b>116,501</b>	112,723	-	4,520	<b>116,501</b>	117,243
Add:						
Carrying value of individually immaterial associated company					<b>43</b>	38
Carrying value of Group's interest in associated companies					<b>116,544</b>	117,281

Aggregate information of associates that are not individually material

	2017 A\$'000	2016 A\$'000
The Group's share of profit, representing total comprehensive income	<b>8</b>	1

**11 Inventories**

	2017 A\$'000	2016 A\$'000
The Group		
Raw materials, at cost	<b>194,875</b>	250,520
Work-in-progress, at cost	<b>873</b>	-
Finished goods, at cost	<b>56,732</b>	52,297
	<b>252,480</b>	302,817
Cost of inventories recognised as an expense and included in cost of sales	<b>778,597</b>	354,161

**Notes to the financial statements for the financial year ended 31 December 2017**

**12 Trade and other receivables**

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Trade receivables	-	-	75,662	41,058
Bills receivable	-	-	813	-
Net trade receivables (i)	-	-	76,475	41,058
Other receivables				
Amounts due from subsidiaries (non-trade)	181,231	185,408	-	-
Deposits and other receivables	-	-	14,550	9,116
	181,231	185,408	14,550	9,116
Allowance for impairment of other receivables				
At beginning of the year	(57,227)	(57,227)	-	-
Reversal of impairment	6,251	-	-	-
At end of the year	(50,976)	(57,227)	-	-
Net other receivables (ii)	130,255	128,181	14,550	9,116
Total (i) + (ii)	130,255	128,181	91,025	50,174

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	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Australian dollar	81,854	87,918	2,140	158
Renminbi	-	-	4,209	4,554
United States dollar	48,401	40,263	83,807	40,588
Malaysian Ringgit	-	-	358	4,388
Others	-	-	511	486
	130,255	128,181	91,025	50,174

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

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
<u>By geographical areas</u>				
Asia Pacific	48,401	27,897	76,727	44,917
Europe	-	-	5,875	-
Africa	81,854	100,284	6,803	-
Others	-	-	1,620	5,257
	130,255	128,181	91,025	50,174

Financial assets that are neither past due nor impaired

Trade and other receivables that were neither past due nor impaired amounting to A\$130,255,000 (2016 - A\$121,181,000) and A\$87,488,000 (2016 - A\$41,693,000) for the Company and the Group related to a wide range of customers for whom there was no recent history of default.

**Notes to the financial statements for the financial year ended 31 December 2017**

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

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	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Past due 0 to 3 months	-	-	2,719	8,266
Past due 3 to 6 months	-	-	19	71
Past due over 6 months	-	-	799	144
	-	-	3,537	8,481

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.

**13 Cash and bank balances**

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Cash at bank and on hand	10	21	28,871	23,082
Short-term bank deposits	-	-	5,505	6,253
Total cash and bank balances	10	21	34,376	29,335
Less: Cash collateral	-	-	(4,463)	(8,764)
Cash and cash equivalents	10	21	29,913	20,571

Included in the cash collateral was an amount of A\$1,667,000 (2016 - A\$6,254,000) and A\$2,410,000 (2016 - A\$2,410,000) which were pledged to banks as security for banking facilities and the issuance of environmental bonds respectively.

Cash and bank balances are denominated in the following currencies:

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Australian dollar	9	20	4,159	2,920
Renminbi	-	-	9,301	2,962
United States dollar	1	1	19,927	22,027
Malaysian Ringgit	-	-	875	1,342
Others	-	-	114	84
	10	21	34,376	29,335

The short term bank deposits have an average maturity of 3 months (2016 - 3 months) from the end of the financial year with the following weighted average effective interest rates:

	2017	2016
The Group		
United States dollar	1.14%	0.40%
Malaysian Ringgit	-	3.00%
Renminbi	2.30%	-

**Notes to the financial statements for the financial year ended 31 December 2017**

**14 Share capital**

The Company and The Group	No. of ordinary shares		Amount	
	2017 '000	2016 '000	2017 A\$'000	2016 A\$'000
<b>Authorised:</b>				
Ordinary shares of A\$0.05 (2016 - A\$0.05) each	<b>2,000,000</b>	2,000,000	<b>100,000</b>	100,000
<b>Issued and fully paid:</b>				
Ordinary shares of A\$0.05 each as at 1 January and 31 December	<b>733,423</b>	733,423	<b>36,671</b>	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.

**15 Treasury shares**

The Company and The Group	No. of ordinary shares		Amount	
	2017 '000	2016 '000	2017 A\$'000	2016 A\$'000
At beginning and end of year	<b>1,933</b>	1,933	<b>2,330</b>	2,330

Treasury shares relate to ordinary shares of the Company that are held by the Company. The Company acquired Nil shares (2016 – Nil shares) in the Company through on market purchase on the Australia Stock Exchange.

**16 Reserves**

	The Company		The Group	
	31 December 2017 A\$'000	31 December 2016 A\$'000	31 December 2017 A\$'000	31 December 2016 A\$'000
Share premium	<b>176,563</b>	176,563	<b>176,563</b>	176,563
Non-distributable reserves [Note (i)]	-	-	<b>5,552</b>	5,534
Capital reserve [Note (ii)]	<b>449</b>	449	<b>16,513</b>	16,513
Contributed surplus [Note (iii)]	<b>3,312</b>	3,312	-	-
Hedging reserve [Note (iv)]	-	-	<b>(6,886)</b>	(7,906)
Exchange fluctuation reserve	-	-	<b>10,073</b>	15,493
Accumulated losses	<b>(179,049)</b>	(190,460)	<b>(8,190)</b>	(100,827)
	<b>1,275</b>	(10,136)	<b>193,625</b>	105,370
<b>Share premium</b>				
At 1 January and 31 December	<b>176,563</b>	176,563	<b>176,563</b>	176,563
<b>Non-distributable reserve</b>				
At 1 January	-	-	<b>5,534</b>	5,553
Movement for the year	-	-	<b>18</b>	114
Disposal of a subsidiary	-	-	-	(133)
At 31 December	-	-	<b>5,552</b>	5,534
<b>Capital reserve</b>				
At 1 January and 31 December	<b>449</b>	449	<b>16,513</b>	16,513
<b>Fair value reserve</b>				
At 1 January	-	217	-	217
Fair value loss recognised directly in other comprehensive income	-	(217)	-	(217)
At 31 December	-	-	-	-

**Notes to the financial statements for the financial year ended 31 December 2017**

**16 Reserves (Cont'd)**

	The Company		The Group	
	31 December 2017 A\$'000	31 December 2016 A\$'000	31 December 2017 A\$'000	31 December 2016 A\$'000
<b>Contributed surplus</b>				
At 1 January and 31 December	<b>3,312</b>	3,312	-	-
<b>Hedging reserve</b>				
At 1 January	-	-	<b>(7,906)</b>	(56,962)
Cash flow hedges	-	-	<b>1,020</b>	49,056
At 31 December	-	-	<b>(6,886)</b>	(7,906)
<b>Exchange fluctuation reserve</b>				
At 1 January	-	-	<b>15,493</b>	19,718
Currency translation differences	-	-	<b>(5,420)</b>	(4,225)
At 31 December	-	-	<b>10,073</b>	15,493
<b>(Accumulated losses)/retained profits</b>				
At 1 January	<b>(190,460)</b>	(173,264)	<b>(100,827)</b>	(108,776)
Profit/(loss) for the year	<b>11,411</b>	(17,196)	<b>92,656</b>	7,936
Transfer to non-distributable reserves	-	-	<b>(33)</b>	(114)
Dividend forfeited	-	-	<b>14</b>	127
At 31 December	<b>(179,049)</b>	(190,460)	<b>(8,190)</b>	(100,827)

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 profits 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.

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.
- (iii) 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.



**Notes to the financial statements for the financial year ended 31 December 2017**

**16 Reserves (Cont'd)**

Notes:

- (iv) 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 the profit or loss when the forecast transaction is ultimately recognised in the profit or loss.

**17 Borrowings**

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
<b>Non-current</b>				
Obligations under finance leases (Note 17.1)	-	-	698	1,156
Bank loans, secured (Note 17.2)	-	42,907	427,438	500,545
5% Convertible Note (Note 17.3)	20,492	27,346	20,492	27,346
Other loans (Note 17.4)	7,809	16,563	28,270	37,891
	28,301	86,816	476,898	566,938
Structuring and arrangement fee	(3,816)	(516)	(8,039)	(6,590)
	24,485	86,300	468,859	560,348
<b>Current</b>				
Obligations under finance leases (Note 17.1)	-	-	1,315	1,832
Bank loans, secured (Note 17.2)	-	-	36,715	48,465
5% Convertible Note (Note 17.3)	5,499	-	5,499	-
Other loans (Note 17.4)	906	-	906	8,874
	6,405	-	44,435	59,171
Structuring and arrangement fee	(898)	-	(2,613)	(1,888)
	5,507	-	41,822	57,283
	29,992	86,300	510,681	617,631

**17.1 Obligations under finance leases**

	2017	2016
	A\$'000	A\$'000
The Group		
Minimum lease payments payable:		
Due not later than one year	1,390	2,017
Due later than one year and not later than five years	727	1,238
	2,117	3,255
Less: Finance charges allocated to future periods	(104)	(267)
Present value of minimum lease payments	2,013	2,988
Present value of minimum lease payments:		
Due not later than one year	1,315	1,832
Due later than one year and not later than five years	698	1,156
	2,013	2,988

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% (2016 - 4.87% to 7.07%).

**Notes to the financial statements for the financial year ended 31 December 2017**

**17 Borrowings (Cont'd)**

**17.2 Bank loans**

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Bank loans, secured [Note (a)]	-	-	<b>7,048</b>	53,628
Bank loans, secured [Note (b)]	-	-	<b>415,464</b>	435,911
Bank loans, secured [Note (c)]	-	42,907	<b>41,641</b>	59,471
	-	42,907	<b>464,153</b>	549,010
Amount repayable not later than one year	-	-	<b>36,715</b>	48,465
Amount repayable after one year	-	42,907	<b>427,438</b>	500,545
	-	42,907	<b>464,153</b>	549,010

Notes:

- (a) These loans are secured by charges over certain bank deposits as disclosed in Note 13.
- (b) These loans 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 (holds 25% ownership interest in OM Materials (Sarawak) Sdn Bhd).
- (c) These loans are secured by:
- charge over certain bank deposits as disclosed in Note 13; and
  - certain subsidiaries and associated companies and corporate guarantees from the Company and a subsidiary.

The Company and a subsidiary signed a Restructuring Facilities Agreement on 23 October 2017, 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.

**Notes to the financial statements for the financial year ended 31 December 2017**

**17 Borrowings (Cont'd)**

**17.3 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% per annum, 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. On 4 March 2016, the Company executed an amendment and restatement agreement with Hanwa Co. Ltd to extend the Convertible Note terms for a further 4 years to 6 March 2020.

**17.4 Other loans**

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Shareholder loan, unsecured [Note (a)]	-	-	12,768	21,910
Loan, secured [Note (b)]	-	-	7,693	8,292
Loan, secured [Note (c)]	8,715	16,563	8,715	16,563
	<b>8,715</b>	<b>16,563</b>	<b>29,176</b>	<b>46,765</b>
Amount repayable not later than one year	906	-	906	8,874
Amount repayable after one year	7,809	16,563	28,270	37,891
	<b>8,715</b>	<b>16,563</b>	<b>29,176</b>	<b>46,765</b>

- (a) These loans are unsecured and interest bearing at 4.75% to 5.26% per annum. None of the shareholders are entitled to demand or receive payment or any distribution in respect of any shareholders' loans from the Group. Commencing from year 2019, repayment may be made subject to satisfaction of pre-agreed tests typical for a project financing of this nature.
- (b) The loan is repayable on 4 January 2019. 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 17.2 (c).

**17.5 Currency risk**

Total borrowings are denominated in the following currencies:

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Australian dollar	-	-	675	1,265
United States dollar	29,992	86,300	419,400	527,884
Malaysian Ringgit	-	-	90,606	88,482
	<b>29,992</b>	<b>86,300</b>	<b>510,681</b>	<b>617,631</b>

**Notes to the financial statements for the financial year ended 31 December 2017**

**17 Borrowings (Cont'd)**

**17.6 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	
	2017	2016	2017	2016
Obligations under finance leases	-	-	4.87% to 7.07%	4.71% to 7.17%
Bank loans	6.5%	11.03%	3.38% to 6.91%	3.18% to 11.03%
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.

**17.7 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 A\$'000	Fair values A\$'000	Carrying amounts A\$'000	Fair values A\$'000
<b>2017</b>				
Obligations under finance leases	-	-	698	698
Bank loans, secured	-	-	427,438	406,449
5% convertible note	20,492	20,433	20,492	20,433
Other loans	7,809	7,552	28,270	27,981
<b>2016</b>				
Obligations under finance leases	-	-	1,156	1,156
Bank loans, secured	42,907	39,108	500,545	491,246
5% convertible note	27,346	27,336	27,346	27,336
Other loans	16,563	15,280	37,891	36,646

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.

**18 Provisions**

	The Group	
	2017 A\$'000	2016 A\$'000
<u>Rehabilitation</u>		
At the beginning of the year	6,069	-
Provision utilised for the year	(37)	-
Acquisition of a subsidiary	-	6,069
At end of the year	6,032	6,069

According to the Mine Management and Environment Management Plans submitted to the Northern Territory Government in Australia, the Company 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.

**Notes to the financial statements for the financial year ended 31 December 2017**

**19 Trade and other payables**

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
<b>Non-current</b>				
Trade payables – third party payables	-	-	114,971	165,972
Other payables	53	-	24,623	17,817
Retention monies	-	-	131	68
	<b>53</b>	<b>-</b>	<b>139,725</b>	<b>183,857</b>
<b>Current</b>				
Trade payables				
- Third party payables	-	-	133,256	104,804
	<b>-</b>	<b>-</b>	<b>133,256</b>	<b>104,804</b>
Amount due to subsidiaries (non-trade)	118,828	123,563	-	-
Accruals	3,846	2,749	23,409	12,995
Other payables	3,654	239	55,696	48,213
Retention monies	-	-	164	262
Welfare expense payable	-	-	1,075	45
	<b>126,328</b>	<b>126,551</b>	<b>213,600</b>	<b>166,319</b>

Non-current trade payables relate to payables to vendors which bear interest of 6% (2016 – 6.00% to 6.80%) per annum.

Included in the amount due to subsidiaries is an amount due to a wholly-owned subsidiary of A\$113,206,000 (2016 - A\$123,352,000) which bears interest of 5.69% to 5.96% (2016 - 5.58% to 13.52%) per annum. The current amount due to subsidiaries represents advances which are unsecured and repayable on demand.

Trade and other payables are denominated in the following currencies:

	The Company		The Group	
	2017	2016	2017	2016
	A\$'000	A\$'000	A\$'000	A\$'000
Australian dollar	29,568	60,346	11,007	3,193
Renminbi	-	-	9,312	6,087
United States dollar	96,733	66,120	126,097	129,531
Malaysian Ringgit	-	-	206,836	210,820
Others	80	85	73	545
	<b>126,381</b>	<b>126,551</b>	<b>353,325</b>	<b>350,176</b>

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
	A\$'000	A\$'000	A\$'000	A\$'000
<b>2017</b>				
Trade payables - third party payables	-	-	114,971	114,971
Other payables	53	53	24,623	24,398
Retention monies	-	-	131	131
<b>2016</b>				
Trade payables - third party payables	-	-	165,972	163,702
Other payables	-	-	17,817	17,817
Retention monies	-	-	68	68

**Notes to the financial statements for the financial year ended 31 December 2017**

**20 Deferred capital grant**

	2017 A\$'000	2016 A\$'000
The Group		
Government grant	13,502	15,337
Non-current	12,776	14,554
Current	726	783
	13,502	15,337

A government grant was awarded for the construction of certain items of property, plant and equipment. There are no unfulfilled conditions or contingencies attached. The movement in the deferred capital grant is due to amortisation costs of A\$736,000 (2016 – A\$317,000) and foreign currency translation differences.

**21 Other income**

	2017 A\$'000	2016 A\$'000
The Group		
Interest income from banks	187	170
Sundry income	4,544	4,250
Unwinding interest income	1,508	2,505
Gain on early debt settlement	3,955	-
Gain on extinguishment of convertible bond	-	3,446
Gain on disposal of land use rights	-	9,574
Gain on bargain purchase	-	42,811
	10,194	62,756

**22 Profit/(loss) before income tax**

	Note	2017 A\$'000	2016 A\$'000
The Group			
Profit/(loss) before income tax has been arrived at after charging/(crediting):			
Amortisation of land use rights	5	186	328
Amortisation of mine development costs	7	11,143	-
Amortisation of deferred capital grant		(737)	(318)
Cost of inventories recognised as expenses and included in cost of sales	11	778,597	354,161
Depreciation of property, plant and equipment			
- cost of sales	4	24,098	8,018
- other operating expenses	4	8,887	11,212
Impairment loss on:			
- available-for-sale financial assets		-	581
- property, plant and equipment	4	-	344
Exchange loss		32,725	46,269
Exploration and evaluation costs written off	6	211	109
Write off of property, plant and equipment		586	-
Gain on disposal of property, plant and equipment		(53)	(11)
Gain on disposal of land use right		-	(9,574)
Interest income		(187)	(170)
Finance costs:			
- loans		39,153	40,643
- others		4,749	1,775
Operating lease charges in respect of land and buildings		2,333	605
Employee benefits expenses	26	43,057	25,399

**Notes to the financial statements for the financial year ended 31 December 2017**

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

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

A Global Trader Programme granted by the Singapore Ministry of Trade and Industry to a Singapore subsidiary, OM Materials (S) Pte Ltd ("OMS") for a concessionary rate of 10% is valid up 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.

	<b>2017</b>	2016
	<b>A\$'000</b>	A\$'000
The Group		
Current taxation		
- Singapore income tax	<b>2,786</b>	2,872
- PRC tax	-	791
- others	<b>19</b>	50
Deferred taxation (Note 8)	<b>(20,723)</b>	4,608
	<b>(17,918)</b>	8,321
Under provision in prior years		
- current year income tax	<b>264</b>	42
Income tax	<b>(17,654)</b>	8,363
Other tax expense/(benefit)		
- Withholding tax	<b>548</b>	266
- Profits-based royalty (Note 8)	<b>(1,651)</b>	-
	<b>(18,757)</b>	8,629

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

	<b>2017</b>	2016
	<b>A\$'000</b>	A\$'000
The Group		
Profit/(loss) before income tax	<b>72,617</b>	(8,116)
Tax at applicable tax rates	<b>18,217</b>	1,620
Tax effect of non-taxable revenue	<b>(5,091)</b>	(21,526)
Tax effect of non-deductible expenses	<b>3,673</b>	11,448
Tax effect of allowances given by tax jurisdiction	<b>(2,058)</b>	(1,574)
Deferred tax assets on temporary difference not recognised	<b>28,201</b>	18,528
Utilisation of deferred tax assets on temporary difference not recognised in previous years	<b>(15,391)</b>	(151)
Effect of previously unused tax losses and tax offsets now recognised as deferred tax assets	<b>(45,446)</b>	-
Tax rebate	<b>(23)</b>	(24)
Under provision in prior years	<b>264</b>	42
	<b>(17,654)</b>	8,363

**Notes to the financial statements for the financial year ended 31 December 2017**

**24 Cash flow hedges**

	<b>2017 A\$'000</b>	2016 A\$'000
The Group		
Cash flow hedges:		
Gain arising during the year	<b>1,360</b>	65,408

**25 Profit per share**

The Group

The profit per share is calculated based on the consolidated profit attributable to owners of the parent divided by the weighted average number of shares on issue of 731,490,000 (2016 - 731,490,000) shares during the financial year.

Fully diluted profit per share was calculated on the consolidated profit attributable to owners of the parent divided by 787,690,000 (2016 – 731,490,000) ordinary shares. The number of ordinary shares was calculated based on the weighted average number of shares on issue during the financial year adjusted for the effects of all dilutive convertible bonds and warrants. Dilutive potential ordinary shares are deemed to have been converted into ordinary shares at the beginning of the year or if later, the date of the issue of the potential ordinary shares.

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

	<b>2017 '000</b>	2016 '000
The Group		
Weighted average number of ordinary shares for the purpose of basic profit per share	<b>731,490</b>	731,490
Effect of dilutive potential ordinary shares:		
Convertible bonds	<b>25,000</b>	-
Warrants	<b>31,200</b>	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>787,690</b>	731,490

Profit figures are calculated as follows:

	<b>2017 A\$'000</b>	2016 A\$'000
Profit for the year attributable to members of the Company	<b>92,656</b>	7,936
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	<b>2,312</b>	-
Earnings for the purposes of diluted earnings per share	<b>94,968</b>	7,936



**Notes to the financial statements for the financial year ended 31 December 2017**

**26 Employee benefits expense**

	2017 A\$'000	2016 A\$'000
The Group		
Directors' fees	440	440
Directors' remuneration other than fees		
- Directors of the Company	3,451	999
- Directors of the subsidiaries	1,630	1,058
- Defined contributions plans	56	60
Key management personnel (other than Directors)		
- Salaries, wages and other related costs	3,939	2,333
- Defined contributions plans	274	163
	9,790	5,053
Other than key management personnel		
- Salaries, wages and other related costs	31,385	19,157
- Defined contributions plans	1,911	1,236
	43,086	25,446
Capitalised in construction-in-progress	(29)	(47)
	43,057	25,399

**27 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:

	2017 A\$'000	2016 A\$'000
The Group		
Purchase of goods from an associate	-	(17,046)
Services rendered to an associate	-	1,002
Payment made on behalf charged to an associate	-	1
Consultancy fee charged by an associate	(439)	-
Sales of goods to an associate	21	-

**28 Commitments**

**28.1 Capital commitments**

The following table summarises the Group's capital commitments:

	2017 A\$'000	2016 A\$'000
The Group		
Capital expenditure contracted but not provided for in the financial statements		
- acquisition of property, plant and equipment	1,496	11,643

**Notes to the financial statements for the financial year ended 31 December 2017**

**28 Commitments (Cont'd)**

**28.2 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. These leases having varying terms, 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>2017</b>	2016
	<b>A\$'000</b>	A\$'000
The Group		
Not later than one year	<b>2,785</b>	1,641
Later than one year and not later than five years	<b>599</b>	126
	<b>3,384</b>	1,767

**28.3 Other operating commitments**

Other contracted operating commitments represent the provision of processing services, catering, cleaning and village management, electrical power services, road haulage and rail haulage. These commitments are contracted for but not provided for in the financial statements.

	<b>2017</b>	2016
	<b>A\$'000</b>	A\$'000
The Group		
Not later than one year	<b>15,065</b>	-
Later than one year and not later than five years	<b>2,475</b>	-
	<b>17,540</b>	-

**28.4 Mineral Tenements**

In order to maintain the mineral tenements in which a subsidiary was involved, 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 is set out below:

	<b>2017</b>	2016
	<b>A\$'000</b>	A\$'000
The Group		
Mineral tenements annual expenditure commitments	<b>95</b>	194

**28.5 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 which is secured by a corporate guarantee by the Company and certain cash backed as disclosed in Note 13.

## **29 Other matters**

### **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% interest of the subsidiary’s obligations under the PPA.

The sponsor guarantees disclosed above do not fall into the category of financial guarantees as they do not relate to debt instruments. The purpose of these guarantees is essentially to enable SSB to provide the power supply to the subsidiary on the condition that these guarantees are provided by the Company in the event that there are any unpaid claims arising from the PPA owed to SSB. There are no bank loans involved in these guarantees. As such, there is no need for the guarantees to be fair valued.

### **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 severally liable on the basis of 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.

## **30 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 measured differently from the operating profit or loss in the consolidated financial statements.

### 30 Operating segments (Cont'd)

	Mining		Smelting		Marketing and Trading		Others		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	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	-	-	163,053	95,204	818,526	318,506	6,603	533	988,182	414,243
Inter-segment sales	136,390	-	382,556	98,161	129,205	29,186	-	5,625	648,151	132,972
Elimination									(648,151)	(132,972)
	136,390	-	545,609	193,365	947,731	347,692	6,603	6,158	988,182	414,243
<b>Reportable segment profit/(loss)</b>	38,863	40,301	25,385	(43,682)	29,453	36,972	1,493	(10,033)	95,194	23,558
<b>Reportable segment assets</b>	105,839	1,753	947,407	1,022,138	464,565	421,949	214,538	331,408	1,733,349	1,777,248
Elimination									(671,838)	(698,352)
Investment in associates									116,544	117,281
Total assets									1,177,055	1,196,177
<b>Reportable segment liabilities</b>	219,695	1,472	776,802	834,858	291,482	268,028	250,154	578,142	1,538,133	1,682,500
Elimination									(648,826)	(688,782)
Total liabilities									889,307	993,718
<b>Other segment information</b>										
Purchase of property, plant and equipment	1,843	-	42,657	16,886	372	14	370	-	45,242	16,900
Depreciation of property, plant and equipment	5,642	248	27,219	18,631	113	340	11	11	32,985	19,230
Amortisation of land use rights	-	-	186	328	-	-	-	-	186	328
Addition of mine development costs	-	43,169	-	-	-	-	-	-	-	43,169
Amortisation of mine development costs	11,143	-	-	-	-	-	-	-	11,143	-
Addition of evaluation and exploration costs	512	299	-	-	-	-	-	-	512	299

**Notes to the financial statements for the financial year ended 31 December 2017**

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

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

The Group	2017 A\$'000	2016 A\$'000
Reportable segment profit	95,194	23,558
Finance income	187	170
Share of results of associates	21,138	10,574
Finance costs	(43,902)	(42,418)
Profit/(loss) before income tax	72,617	(8,116)

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	
	2017 A\$'000	2016 A\$'000	2017 A\$'000	2016 A\$'000
Principal markets				
Asia Pacific	761,293	386,222	652,522	699,231
Europe	120,018	14,955	-	-
Middle East	60,210	6,531	-	-
Africa	7,375	780	116,500	112,723
Others	39,286	5,755	-	-
	988,182	414,243	769,022	811,954

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 assets.

Revenue of approximately A\$65,233,000 (2016 - A\$30,022,000) was derived from a single external customer. This revenue is attributable to the Marketing and Trading segment (2016 - Marketing and Trading segment).

**31 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. Market risk exposures are measured using sensitivity analysis indicated below.

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

#### **31.1 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 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 12.

#### *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 31.2) at the reporting date is equal to the facilities drawn down by the subsidiaries in the amounts of A\$526,000,000 (2016 - A\$542,140,000). 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\$158,700,000 (2016 - A\$253,560,000) at the reporting date.

#### **31.2 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 2017**

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

**31.2 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 2017</b>				
Trade and other payables	<b>200,565</b>	<b>142,650</b>	-	<b>343,215</b>
Borrowings	<b>67,533</b>	<b>371,970</b>	<b>198,030</b>	<b>637,533</b>
	<b>268,098</b>	<b>514,620</b>	<b>198,030</b>	<b>980,748</b>
<b>As at 31 December 2016</b>				
Trade and other payables	167,755	225,641	-	393,396
Borrowings	85,823	461,234	277,358	824,415
Provisions	-	6,069	-	6,069
	253,578	692,944	277,358	1,223,880
<b>The Company</b>				
<b>As at 31 December 2017</b>				
Trade and other payables	<b>126,328</b>	<b>53</b>	-	<b>126,381</b>
Borrowings	<b>7,373</b>	<b>27,722</b>	-	<b>35,095</b>
Intragroup financial guarantees	<b>526,000</b>	-	-	<b>526,000</b>
	<b>659,701</b>	<b>27,775</b>	-	<b>687,476</b>
<b>As at 31 December 2016</b>				
Trade and other payables	126,551	-	-	126,551
Borrowings	9,031	127,600	-	136,631
Intragroup financial guarantees	542,140	-	-	542,140
	677,722	127,600	-	805,322

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.

**Notes to the financial statements for the financial year ended 31 December 2017**

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

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

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. The Group has the ability to generate additional working capital through financing from financial institutions.

**31.3 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.

Sensitivity analysis for interest rate risk

At the end of the reporting period, if USD, RMB and MYR interest rates had been 75 (2016 - 75) basis points lower/higher with all other variables held constant, the Group's profit/(loss) net of tax would have been higher/lower 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	
		2017 A\$'000	2016 A\$'000
United States Dollar	- lower 75 basis points (2016 - 75 basis points)	2,385	3,089
	- higher 75 basis points (2016 - 75 basis points)	(2,385)	(3,089)
Renminbi	- lower 75 basis points (2016 - 75 basis points)	(52)	(17)
	- higher 75 basis points (2016 - 75 basis points)	52	17
Malaysian Ringgit	- lower 75 basis points (2016 - 75 basis points)	512	490
	- higher 75 basis points (2016 - 75 basis points)	(512)	(490)



**Notes to the financial statements for the financial year ended 31 December 2017**

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

**31.4 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.

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 profit/(loss) after income tax and equity.

The Group		2017		2016	
		Profit/ (loss) net of tax A\$'000	Equity A\$'000	Profit/ (loss) net of tax A\$'000	Equity A\$'000
United States Dollar	- strengthened 5% (2016 - 5%)	<b>32,888</b>	<b>32,296</b>	36,002	37,326
	- weakened 5% (2016 - 5%)	<b>(32,888)</b>	<b>(32,296)</b>	(36,002)	(37,326)
Renminbi	- strengthened 5% (2016 - 5%)	<b>1,141</b>	<b>1,146</b>	680	679
	- weakened 5% (2016 - 5%)	<b>(1,141)</b>	<b>(1,146)</b>	(680)	(679)
Malaysian Ringgit	- strengthened 5% (2016 - 5%)	<b>14,507</b>	<b>14,674</b>	15,252	15,015
	- weakened 5% (2016 - 5%)	<b>(14,507)</b>	<b>(14,674)</b>	(15,252)	(15,015)

**31.5 Market price risk**

The Group does not hold any quoted or marketable financial instruments, hence, is not exposed to any movement in market prices.

**Notes to the financial statements for the financial year ended 31 December 2017**

**32 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	
	2017 A\$'000	2016 A\$'000	2017 A\$'000	2016 A\$'000
Borrowings	29,992	86,300	510,681	617,631
Less: Cash and bank balances	(10)	(21)	(34,376)	(29,335)
	<b>29,982</b>	<b>86,279</b>	<b>476,305</b>	<b>588,296</b>
Total equity	<b>35,616</b>	<b>24,205</b>	<b>287,748</b>	<b>202,459</b>
Gearing ratio	<b>0.84</b>	<b>3.56</b>	<b>1.66</b>	<b>2.91</b>

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

**33 Financial instrument**

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

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 2017</b>					
<b>Financial assets</b>					
Trade and other receivables	12	-	<b>91,025</b>	-	<b>91,025</b>
Cash and bank balances	13	-	<b>34,376</b>	-	<b>34,376</b>
		-	<b>125,401</b>	-	<b>125,401</b>

**Notes to the financial statements for the financial year ended 31 December 2017**

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

**33.1 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 2017</b>					
<b>Financial assets</b>					
Trade and other receivables	12	-	130,255	-	130,255
Cash and bank balances	13	-	10	-	10
		-	130,265	-	130,265

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 2017</b>					
<b>Financial liabilities</b>					
Borrowings (excluding finance lease liabilities)	17	-	-	508,668	508,668
Provisions	18	-	-	6,032	6,032
Trade and other payables		-	-	338,829	338,829
				853,529	853,529

<b>The Company</b>					
<b>31 December 2017</b>					
<b>Financial liabilities</b>					
Borrowings	17	-	-	29,992	29,992
Trade and other payables		-	-	126,381	126,381
		-	-	156,373	156,373

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 2016</b>					
<b>Financial assets</b>					
Trade and other receivables	12	-	50,174	-	50,174
Cash and bank balances	13	-	29,335	-	29,335
		-	79,509	-	79,509

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	12	-	128,181	-	128,181
Cash and bank balances	13	-	21	-	21
		-	128,202	-	128,202

### **33 Financial instrument (Cont'd)**

#### **33.1 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
<b>31 December 2016</b>					
<b>Financial liabilities</b>					
Borrowings (excluding finance lease liabilities)	17	-	-	614,643	614,643
Provisions	18	-	-	6,069	6,069
Trade and other payables		-	-	341,654	341,654
		-	-	962,366	962,366
<hr/>					
The Company					
<b>31 December 2016</b>					
<b>Financial liabilities</b>					
Borrowings	17	-	-	86,300	86,300
Trade and other payables		-	-	126,551	126,551
		-	-	212,851	212,851

### **34 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.

#### **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.

**35 Events after end of reporting period**

Loan repayment

Subsequent to the end of the reporting period, the Company has fully paid off the secured loan as disclosed in Note 17.4 (c) amounting to A\$8,715,000 at 31 December 2017.

Dividend and loan repayment from associate

In February 2018, the Group received dividend and loan repayments of approximately A\$10,195,000 and A\$3,777,000 from an associate respectively.

Capital structure

Subsequent to the end of the reporting period, the Company has received notices to exercise a total of 4,368,000 warrants at an exercise price of A\$0.40. Accordingly, the Company has issued 4,368,000 ordinary shares and received proceeds of A\$1,747,200.

In February 2018, the Company undertook a selective buy-back of 26,000,000 unlisted warrants for A\$641,000 (equivalent to US\$500,000).

In March 2018, the convertible notes on issue were reduced to 20,000,000 from 25,000,000 following the redemption of 20% convertible note for A\$5,499,000.

As of the date of this report, the Company had 737,791,337 ordinary shares, 20,000,000 convertible notes and 26,832,000 unlisted warrants on issue.