HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8137)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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*This announcement, for which the directors of the Company (the "**Directors**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

This Announcement will remain on the "Latest Company Announcements" page of the GEM website www.hkgem.com for at least seven days from the date of its publication and on the website of the Company at www.8137.hk.

GROUP RESULTS

The board of directors (the "Board") of Honbridge Holdings Limited (the "Company") announced the annual consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 together with the comparative audited figures for last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	*4*	**238,610**	17,476
Cost of sales		**(286,161)**	(17,756)
Gross loss		**(47,551)**	(280)
Other operating income		**38,267**	144,403
Selling and distribution costs		**(3,108)**	(3,187)
Administrative expenses		**(132,762)**	(114,701)
Other operating expenses		**(25,414)**	(7,910)
Reverse of impairment of exploration and evaluation assets		**2,165,938**	1,131,284
Impairment of trade receivables		**(38,656)**	–
Impairment of prepayments, deposits and other receivables		**(357,401)**	–
Impairment of other intangible assets		**–**	(60,003)
Impairment of property, plant and equipment		**(1,047)**	(50,368)
Fair value gain on derivative financial liabilities		**–**	58,164
Gain/(Loss) on changes in fair value of contingent consideration payables		**2,584**	(5,993)
Finance costs		**(9,778)**	(68,535)
Profit before income tax		**1,591,072**	1,022,874
Income tax expense	*6*	**(736,419)**	(366,900)
Profit for the year		**854,653**	655,974
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss)/gain on translation of financial statements of foreign operations		**(400,213)**	30,324
Other comprehensive income for the year, net of tax		**(400,213)**	30,324
Total comprehensive income for the year		**454,440**	686,298
Profit for the year attributable to:			
Owners of the Company		**974,477**	676,063
Non-controlling interests		**(119,824)**	(20,089)
		854,653	655,974
Total comprehensive income attributable to:			
Owners of the Company		**574,756**	697,825
Non-controlling interests		**(120,316)**	(11,527)
		454,440	686,298
Earnings per share	*8*		
— Basic		**10.01 cents**	8.41 cents
— Diluted		**10.01 cents**	7.04 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**546,999**	411,493
Exploration and evaluation assets	*12*	**5,684,855**	4,103,876
Prepaid land lease payments		**82,630**	88,965
Other intangible assets		**–**	–
Goodwill		**–**	–
Amount due from non-controlling interest of a subsidiary	*13*	**298,720**	285,632
		6,613,204	4,889,966
Current assets			
Inventories		**154,136**	28,549
Trade and bill receivables	*9*	**116,586**	30,224
Prepayments, deposits and other receivables	*10*	**206,967**	625,145
Financial assets at fair value through profit or loss		**–**	1,985
Tax recoverable		**185**	110
Restricted bank deposits		**26,019**	15,978
Cash and cash equivalents		**577,259**	583,492
Total current assets		**1,081,152**	1,285,483
Current liabilities			
Trade and bill payables	*11*	**306,420**	28,592
Other payables, accrued expenses, deposits received and receipts in advance		**146,169**	77,715
Borrowings		**455,366**	240,143
Convertible bonds		**–**	–
Total current liabilities		**907,955**	346,450
Net current assets		**173,197**	939,033
Total assets less current liabilities		**6,786,401**	5,828,999

	Notes	**2018**	2017
		HK$'000	*HK$'000*
Non-current liabilities			
Borrowings		**113,842**	120,072
Deferred income		**1,253**	1,542
Deferred tax liabilities		**1,819,051**	1,284,348
Contingent consideration payables		**156,496**	159,080
		2,090,642	1,565,042
Net assets		**4,695,759**	4,263,957
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**9,855**	9,855
Reserves		**4,505,575**	3,955,666
		4,515,430	3,965,521
Non-controlling interests		**180,329**	298,436
Total equity		**4,695,759**	4,263,957

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Attributable to the owners of the Company								Non-controlling interests	Total equity
		Share capital	Share premium*	Treasury shares reserve*	Share-based payment reserve*	Translation reserve*	Convertible bond equity reserve*	Retained earnings*	Total		
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017		7,862	2,627,306	(142,864)	136,741	(4,533,024)	258,836	4,233,302	2,588,159	222,463	2,810,622
Issuance of new shares upon conversion of convertible bonds		2,000	948,078	–	–	–	(258,836)	–	691,242	–	691,242
Shares repurchased and cancelled		(7)	(11,698)	–	–	–	–	–	(11,705)	–	(11,705)
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	87,500	87,500
Transactions with owners		1,993	936,380	–	–	–	(258,836)	–	679,537	87,500	767,037
Profit for the year		–	–	–	–	–	–	676,063	676,063	(20,089)	655,974
Other comprehensive income											
Currency translation		–	–	–	–	21,762	–	–	21,762	8,562	30,324
Total comprehensive income		–	–	–	–	21,762	–	676,063	697,825	(11,527)	686,298
At 31 December 2017		9,855	3,563,686	(142,864)	136,741	(4,511,262)	–	4,909,365	3,965,521	298,436	4,263,957
At 1 January 2018 as originally presented		9,855	3,563,686	(142,864)	136,741	(4,511,262)	–	4,909,365	3,965,521	298,436	4,263,957
Initial application of HKFRS 9	*3*	–	–	–	–	–	–	(24,847)	(24,847)	(952)	(25,799)
At 1 January 2018 as restated		9,855	3,563,686	(142,864)	136,741	(4,511,262)	–	4,884,518	3,940,674	297,484	4,238,158
Capital contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,161**	**3,161**
Share options expired		**–**	**–**	**–**	**(124,571)**	**–**	**–**	**124,571**	**–**	**–**	**–**
Transactions with owners		**–**	**–**	**–**	**(124,571)**	**–**	**–**	**124,571**	**–**	**3,161**	**3,161**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**974,477**	**974,477**	**(119,824)**	**854,653**
Other comprehensive income											
Currency translation		**–**	**–**	**–**	**–**	**(399,721)**	**–**	**–**	**(399,721)**	**(492)**	**(400,213)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(399,721)**	**–**	**974,477**	**574,756**	**(120,316)**	**454,440**
At 31 December 2018		**9,855**	**3,563,686**	**(142,864)**	**12,170**	**(4,910,983)**	**–**	**5,983,566**	**4,515,430**	**180,329**	**4,695,759**

* The aggregate amount of these balances of approximately HK$4,505,575,000 (2017: HK$3,955,666,000) is included as reserves in the consolidated statement of financial position.

Notes:

1. GENERAL INFORMATION

Honbridge Holdings Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Revision) of the Cayman Islands. The address of the Company's registered office is 4th Floor, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands and the Company's principal place of business is Suite 5402, 54th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on The GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research, development, production and sales of lithium battery system in the PRC and research and exploration of iron ores in the Brazil. The Company and its subsidiaries are collectively referred to as the "Group" hereinafter. The directors of the Company (the "Directors") consider the ultimate holding company as Hong Bridge Capital Limited ("Hong Bridge"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability. There were no significant changes in the Group's operations during the year.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations ("Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The GEM of The Stock Exchange (the "GEM Listing Rules").

The financial statements are presented in Hong Kong Dollars ("HK$") which is also the functional currency of the Company. All values are rounded to the nearest thousand ("HK$'000"), except when otherwise indicated.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under historical cost convention except for certain financial instruments which are measured at fair values as explained in the accounting policies set out below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 Adoption of new or amended HKFRSs

During the year, the Group has adopted all the new or amended HKFRSs which are first effective for the reporting year and relevant to the Group as follows.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

Except as explained below, the adoption of these new or amended HKFRSs did not result in material changes to the Group's accounting policies.

HKFRS 9 — Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group.

The following tables summarised the impact, net of tax, of transition to HKFRS 9 on the opening balance of retained earnings and non-controlling interests ("NCI") as of 1 January 2018 as follows (increase/(decrease)):

	Retained earnings *HK$'000*	**NCI** *HK$'000*
As at 31 December 2017	4,909,365	298,436
Increase in expected credit losses ("ECLs") in trade and other receivables (note (ii) below)	(24,847)	(952)
Restated as at 1 January 2018	4,884,518	297,484

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECL model

(a) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which adopts a life time ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The loss allowance as at 1 January 2018 was determined as follows for trade receivables as follows:

1 January 2018	Current	1-90 days past due	91-180 days past due	181-365 days past due	Over 1 year past due	Total
Expected credit loss rate (%)	0.5	1.19	2.09	4.21	16.16	
Gross carrying amount (HK$'000)	5,458	–	5,846	12,482	6,438	30,224
Loss allowance (HK$'000)	27	–	122	525	1,040	1,714

The increase in loss allowance for trade receivables upon the transition to HKFRS 9 as of 1 January 2018 were HK$1,714,000. The loss allowances further increased for HK$38,656,000 for trade receivables, recognised in profit or loss during the year ended 31 December 2018.

(b) Impairment of other receivables

Other financial assets at amortised cost of the Group includes other receivables. Applying the ECL model result in the recognition of ECL of HK$24,085,000 on 1 January 2018 and a further ECL of HK$357,401,000, recognised in profit or loss for the year ended 31 December 2018.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9:

- The determination of the business model within which a financial asset is held; and
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The adoption of HKFRS 15 does not have a material impact on the amounts reported to the consolidated financial statements of the Group based on the existing business model of the Group.

Amendments HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

3.2 New or amended HKFRSs that have been issued but are not yet effective

At the date of this announcement, the following new or amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Definition of a Material[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangements[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Costs[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The Directors are currently assessing the impact of the new or amended HKFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the consolidated financial statements. Information on new or amended HKFRSs that are expected to have an impact on the Group's accounting policies is provided below.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 " Leases " and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating lease were HK$10,815,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding lease liability in respect of all the leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirement may result changes in measurement, presentation and disclosure as indicated above.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 3 — Definition of a Business

The amendments revise the definition of a business and provide a simplified assessment of whether an acquired set of activities and assets qualifies as a business. Application of the amendments are expected to result in fewer acquisitions qualifying as business combinations. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to HKAS 1 and HKAS 8

The amendments update the definition of material. Adoption of these amendments is not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss.

Amendments to HKAS 28

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Annual Improvements to HKFRSs 2015-2017 Cycle — Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle — Amendments to HKFRS 11, Joint Arrangements

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle — Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to HKFRSs 2015-2017 Cycle — Amendments to HKAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

HKFRS 17 — Insurance Contracts

HKFRS 17 will replace HKFRS 4 as a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

4. REVENUE

Revenue represents total invoiced value of goods supplied. The amounts of each significant category of revenue recognised in revenue during the year are as follows:

	2018	2017
	HK\$'000	*HK\$'000*
Sale of lithium batteries	**238,610**	17,476

5. SEGMENT REPORTING

The Group has identified its operating segment and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation and review of performance.

The Group's operating businesses are organised and managed separately according to the nature of product and service, with each segment representing a strategic business segment that offers different products and services in the PRC and Brazil.

The Company is an investment holding company. Principal places of the Group's operations are Hong Kong, the PRC and Brazil. For the purpose of segment information disclosures under HKFRS 8, the Group regarded Hong Kong as its country of domicile.

Information regarding the Group's reportable segments provided to the Group's most senior management (i.e. the executive directors) is set out below:

	Mineral resources exploration and trading *HK$'000*	Lithium battery production *HK$'000*	Total *HK$'000*
Year ended 31 December 2018			
Reportable segment revenue (external customers)	**–**	**238,610**	**238,610**
Reportable segment profit/(losses)	**2,148,171**	**(201,415)**	**1,946,756**
Reportable segment assets	**5,693,687**	**1,479,125**	**7,172,812**
Reportable segment liabilities	**165,536**	**1,010,514**	**1,176,050**
Capital expenditure	**8,353**	**189,233**	**197,586**
Reverse of impairment of exploration and evaluation assets	**(2,165,938)**	**–**	**(2,165,938)**
Impairment of property, plant and equipment	**–**	**1,047**	**1,047**
Impairment of trade receivables	**–**	**38,656**	**38,656**
Interest income	**(758)**	**(1,781)**	**(2,539)**
Interest expense	**–**	**9,778**	**9,778**
Depreciation	**170**	**24,472**	**24,642**
Amortisation charge	**–**	**1,884**	**1,884**
Write-down of inventories	**–**	**25,894**	**25,894**
Year ended 31 December 2017			
Reportable segment revenue (external customers)	–	17,476	17,476
Reportable segment profit/(losses)	1,134,740	(100,247)	1,034,493
Reportable segment assets	4,114,217	1,080,598	5,194,815
Reportable segment liabilities	145,160	478,548	623,708
Capital expenditure	3,203	341,849	345,052
Reverse of impairment of exploration and evaluation assets	(1,131,284)	–	(1,131,284)
Impairment of other intangible assets	–	60,003	60,003
Impairment of property, plant and equipment	–	50,368	50,368
Interest income	(217)	(3,579)	(3,796)
Interest expense	–	860	860
Depreciation	596	6,551	7,147
Amortisation charge	–	12,010	12,010
Write-down of inventories	–	7,959	7,959

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2018 *HK$'000*	2017 *HK$'000*
Reportable segment revenue	**238,610**	17,476
Reportable segment profit	**1,946,756**	1,034,493
Other operating income	**17,839**	20,983
Administrative expenses	**(19,186)**	(17,147)
Impairment on prepayments, deposits and other receivables	**(357,401)**	–
Fair value gain on derivative financial liabilities	**–**	58,164
Fair value gain/(loss) on contingent consideration payables	**2,584**	(5,993)
Gain on financial assets at fair value through profit or loss	**480**	49
Finance costs	**–**	(67,675)
Profit before income tax	**1,591,072**	1,022,874
Reportable segment assets	**7,172,812**	5,194,815
Property, plant and equipment	**389**	627
Prepayments, deposits and other receivables	**135,232**	543,664
Financial assets at fair value through profit or loss	**–**	1,985
Cash and cash equivalents	**385,923**	434,358
	7,694,356	6,175,449
Reportable segment liabilities	**1,176,050**	623,708
Other payables and accrued expenses	**3,496**	3,436
Deferred tax liabilities	**1,819,051**	1,284,348
	2,998,597	1,911,492

The Group's revenue from external customers and its non-current assets are divided into the following geographical areas:

	2018 *HK$'000*	2017 *HK$'000*
Revenue from external customers		
PRC	**233,752**	17,476
Belgium	**3,920**	–
Sweden	**938**	–
Reportable segment revenue	**238,610**	17,476
Non-current assets (excluding amount due from non-controlling interest of a subsidiary)		
Hong Kong	**389**	627
PRC	**628,816**	499,201
Brazil	**5,685,279**	4,104,506
Reportable segment non-current assets	**6,314,484**	4,604,334

Geographical location of customers is based on the location at which the goods are delivered whilst geographical location of non-current assets is determined based on (1) the physical location of the asset (for property, plant and equipment and prepaid land lease payments) and (2) location of operations (for exploration and evaluation assets and other intangible assets).

During the year ended 31 December 2018, over 92% (2017: 91%) of the Group's revenue was derived from 2 major customers (2017: 2) in lithium battery production segment and revenue generated from these customers are HK$131,761,000 and HK$88,661,000 respectively (2017: HK$13,710,000 and HK$2,209,000 respectively).

6. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Overseas tax		
Current year	**–**	–
Under provision in respect of prior years	**–**	814
Deferred tax	**736,419**	366,086
Income tax expense	**736,419**	366,900

During the years ended 31 December 2018 and 31 December 2017, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profits arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

The PRC corporate income tax rate of 25% is applicable to the Group's PRC subsidiaries (2017: except that Shandong Forever was granted the tax benefit for the National High-Tech Enterprise for three years starting from the year ended 31 December 2015. It was subject to income tax rate of 15%).

During the year, corporate income tax rates in Brazil of 34% (2017: 34%) is applicable to Sul Americana de Metais S.A. ("SAM"), being the Group's subsidiary established in Brazil.

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax	**1,591,072**	1,022,874
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**621,323**	363,303
Tax effect of non-deductible expenses	**76,698**	21,718
Tax effect of non-taxable revenue	**(6,539)**	(34,698)
Tax effect of tax losses not recognised	**44,911**	15,741
Tax effect on temporary difference not recognised	**26**	22
Under provision in respect of prior years	**–**	814
Income tax expense	**736,419**	366,900

7. DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018 (2017: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$974,477,000 (2017: HK$676,063,000) and weighted average of 9,737,434,000 (2017: 8,042,284,000) ordinary shares in issue (after adjusting the effect of treasury shares held by the Company) during the year.

For the year ended 31 December 2018, the calculation of diluted earnings per share attributable to the owners of the Company was based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**974,477**	676,063
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**–**	67,675
Fair value gain on derivative financial liabilities	**–**	(58,164)
Earnings for the purposes of diluted earnings per share	**974,477**	685,574

	2018	2017
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**9,737,434**	8,042,284
Effect of dilutive potential ordinary shares:		
— share option	**1,195**	543
— convertible loan notes	**–**	1,701,918
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**9,738,629**	9,744,745

9. TRADE AND BILL RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables — Gross	**154,858**	29,383
Less: Impairment losses	**(38,841)**	–
Trade receivables — Net	**116,017**	29,383
Bill receivables	**569**	841
Trade and bill receivables	**116,586**	30,224

All trade and bills receivables were denominated in RMB as at the reporting dates.

The Group allows a credit period from 0 day to 180 days (2017: 0 day to 180 days) to its trade customers.

The following is ageing analysis of gross trade and bill receivables at the reporting date:

	2018	2017
	HK$'000	*HK$'000*
0 — 30 days	**88,557**	5,458
31 — 90 days	**19,379**	–
91 to 180 days	**3,802**	5,846
Over 180 days	**43,689**	18,920
	155,427	30,224

Movement in the loss allowance account in respect of trade and bill receivables during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January (upon initial adoption of HKFRS9 *(note 3)*)	**1,714**	–
Impairment losses recognised during the year	**38,656**	–
Exchange alignment	**(1,529)**	–
At 31 December	**38,841**	–

A provision of HK$38,656,000 (2017: Nil) was made against the gross amounts of trade receivables during the year.

As at 31 December 2018 and 2017, the Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables.

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Deposits	**2,668**	650
Loan and interest receivable *(note)*	**134,216**	542,804
Prepayments	**–**	1,186
VAT receivables	**64,372**	73,237
Other receivables	**2,069**	1,756
Advances to suppliers	**3,642**	5,512
	206,967	625,145

Note: The balance represented loan receivable from an independent third party. This loan receivable is bearing interest at 3% per annum and repayable twelve months after the drawdown date, subject to an option to extend by the borrower for twelve months. The loan is secured by the share charges provided by two of the shareholders of the borrower over all of their shareholdings in the borrower and a debenture consisting of fixed and floating charge over all of the assets of the borrower in favour of the Company.

During the year ended 31 December 2017, the borrower exercised its option to extend the loan receivable for further twelve months and since then, loan receivables of HK$251.1 million and HK$288.9 million were repayable on 21 April 2018 and 11 May 2018 respectively. As at 31 December 2017, this loan receivable was repayable within one year and accordingly, it was classified as current assets.

During the year, the borrower has defaulted in repaying the full amount of the loan receivables and the outstanding accrued interests. A default interest rate of 6% per annum was applied. The directors of the Company considered the possibility of realising the loan receivables and the fair values of the underlying securities of the loan receivables, which mainly comprising 24.98% equity interests of Yuxing Infotech Investment Holdings Limited, a company listed on the GEM, impairment loss of HK$357,401,000 was recognised in profit or loss during the year.

The movement of loan and interest receivable during the year is as follows:

	Gross carrying amount	**Loss allowance**	**Amortised cost**
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1 January 2018	542,804	–	542,804
Initial application of HKFRS 9 *(note 3)*	–	(24,085)	(24,085)
Interest income	14,176	–	14,176
Impairment loss	–	(357,401)	(357,401)
Unwinding of discount on present value of expected credit losses	12,917	(12,917)	–
Repayments	(41,278)	–	(41,278)
Balance at 31 December 2018	**528,619**	**(394,403)**	**134,216**

11. TRADE AND BILL PAYABLES

	2018 *HK$'000*	2017 *HK$'000*
Trade payables	**280,401**	18,618
Bill payables	**26,019**	9,974
	306,420	28,592

The credit terms of trade payables vary according to the terms agreed with different suppliers. The following is ageing analysis of trade and bills payables at the reporting dates:

	2018 *HK$'000*	2017 *HK$'000*
0 — 30 days	**245,642**	788
31 — 60 days	**20,198**	292
61 — 90 days	**6,331**	3,244
91 — 180 days	**25,252**	9,790
Over 180 days	**8,997**	14,478
	306,420	28,592

12. EXPLORATION AND EVALUATION ASSETS

	2018 *HK$'000*	2017 *HK$'000*
At 1 January		
Cost	**10,918,374**	10,705,546
Accumulated impairment	**(6,814,498)**	(7,757,582)
Net book amount	**4,103,876**	2,947,964
For the year ended 31 December		
Opening net book amount	**4,103,876**	2,947,964
Additions	**8,323**	3,201
Exchange realignments	**(593,282)**	21,427
Reverse of impairment	**2,165,938**	1,131,284
Net book amount	**5,684,855**	4,103,876
At 31 December		
Cost	**9,348,922**	10,918,374
Accumulated impairment	**(3,664,067)**	(6,814,498)
Net book amount	**5,684,855**	4,103,876

As at 31 December 2018 and 2017, exploration and evaluation assets represented the rights to explore and identify prospective deposits of mineral resources in the states of Minas Gerais and Bahia, Brazil and the expenditures incurred in the search for mineral resources.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset is less than its recoverable amount.

During the year, the Directors reviewed the carrying amount of exploration and evaluation assets, reverse of impairment loss of HK$2,165,938,000 (2017: HK$1,131,284,000) had been identified and recognised in the consolidated statement of profit or loss and other comprehensive income. The reverse of impairment loss during the year is mainly due to (1) increase in the iron ore price during the year and (2) the Group changed its mining plan which revised the mining pattern, operating costs and capital expenditures of the mining plan.

The recoverable amount of exploration and evaluation assets were valued by an independent valuer, Roma Appraisal Limited and based on the fair value less cost of disposal. The valuation was based on the income-based approach and the excess earning method is adopted. This method looks at the current values of the tangible assets and other intangible assets employed as the benchmark for an estimated rate of return. The fair values of exploration and evaluation assets are level 3 fair value measurement. There were no changes to the valuation techniques during the year.

Assumptions and parameters of the valuation as at 31 December 2018 are as follows:

Approval of all required licenses	The end of 2021 (2017: The end of 2020)
Commencement of production	2025 (2017: 2024)
Annual production capacity	27.5 million tonnes (2017: 27.5 million tonnes) of iron concentrate
Resource estimates	Measured resources of 3,583 million tonnes (2017: 3,583 million tonnes) (16.63%)
	Indicated resources of 1,556 million tonnes (2017: 1,556 million tonnes) (16.05%)
Price of iron concentrate	US$84-US$113 per tonnes (2017: US$76-US$102 per tonnes)
Operating costs:	
— First 18 years of mining	US$34.9 per tonnes (2017: US$31.4 per tonnes)
— Remaining period of mining	US$43.5 per tonnes (2017: US$42.2 per tonnes)
Income tax rate	11-15% for the first ten years of operation 34% afterwards (2017: same term)
Capital expenditures:	
— Construction of infrastructure	US$2,000 million (2017: US$2,999 million)
Discount rate	20.46% (2017: 18.96%)

The Group had entered into various co-operation agreements, memorandum of understanding and framework agreement for funding and co-operation in the development of SAM.

13. AMOUNTS DUE FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY

According to the capital contribution agreement for Shandong Forever on 9 May 2016, the non-controlling interests of Shandong Forever agreed to contribute capital of US$44.77 million to Shandong Forever and US$4.215 million was paid immediately while the remaining balances will be paid on demand by the board of directors of Shandong Forever but not later than 31 October 2022.

As at 31 December 2018 and 2017, in the opinion of directors, the unpaid capital contribution will not be repaid within one year from the reporting date. Accordingly, such balance is classified as non-current assets. The non-controlling interests undertake that, pending full payment of their respective capital contribution, they shall use all dividend, distribution and payment received from Shandong Forever to satisfy their capital contribution obligation.

The movement of amounts due from non-controlling interests of a subsidiary during the year is as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**285,632**	272,545
Imputed interest income	**13,088**	13,087
At 31 December	**298,720**	285,632

Imputed interest income is calculated using effective interest method by applying the effective interest rate of 4.9% per annum to the liability.

14. CAPITAL COMMITMENTS

	2018	2017
	HK$'000	*HK$'000*
Contracted but not provided for property, plant and equipment	**63,990**	211,214

As at 31 December 2018, the estimated capital expenditures for the mineral resources exploration business in Brazil, which is operated by SAM, are stated in note 12.

MANAGEMENT DISCUSSION AND ANALYSIS

NEW ENERGY VEHICLES-RELATED BUSINESS

Following the procurement arrangement with Volvo Car, a famous brand in the world and also with the vehicle models including Lynk & Co under Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely"), the Group is also promoting the product matching with Volvo XC40 Plug-in Hybrid Electric Vehicle (PHEV), Volvo Polestar PHEV, Geely Yuan Cheng Commercial Vehicle, London Electric Vehicle Company, 山東豐沃, 西安中力科技 and 珠海億華 and also exploring new customers including major automobile enterprises and new energy vehicle enterprises. The Group has been constantly negotiating and conducting products matching with major and new automobile manufacturers and potential new customers in the energy storage field.

The car models installed with battery packs of the Group listed in the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products《道路機動車輛生產企業及產品公告》and the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles《新能源汽車推廣應用推薦車型目錄》of Ministry of Industry and Information Technology of the PRC include the PHEV model "XC60" and "S90" of Volvo and "Lynk 01 PHEV", "Lynk 02 PHEV" and "Lynk 03 PHEV" model of Lynk & Co, Geely K12, Geely Vision X1, Kandi K10, Kandi K11, Guangtong Bus EV and Tongjiafu Van. Other than the customers mentioned above, the Group also has customers such as Shangong Telangsi (山東特朗斯) and Suzhou Pulaier (蘇州普萊爾).

Zhejiang Forever New Energy Company Limited ("Zhejiang Forever New Energy")

Zhejiang Forever New Energy is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion battery and battery system. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to possess a maximum production capacity of approximately 2,000,000 kWh ternary lithium-ion battery annually. The first 500,000 kWh production line has commenced mass production since the second quarter of 2018. The fully automatic production line adopts a state-of-the-art design and technologies for producing pouch type cells. The time for installation of the new production line will be decided based on the market demand and development strategy.

Volvo Car Sales Agreement

On 23 October 2017, Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation ("Volvo Car") in relation to the sales of lithium-ion battery packs for models of Volvo Car (the "Volvo Car Sales Agreement"). The total proposed annual caps (excluding VAT) for the financial year ending 31 December 2019 and for the period ending 22 October 2020 are RMB278 million and RMB251 million respectively.

Zhejiang Geely Components Sales Agreement

On 25 October 2017, Zhejiang Forever New Energy entered into a three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 ("Zhejiang Geely Components") in relation to the sales of lithium-ion battery packs for vehicle models including Lynk & Co and other models manufactured under Zhejiang Geely (the "Zhejiang Geely Components Sales Agreement"). The total proposed annual caps (excluding VAT) for the financial years ending 31 December 2019 and period ending 24 October 2020 are RMB739 million and RMB951 million respectively.

Reasons for and Benefits of the Volvo Car Sales Agreement and Zhejiang Geely Components Sales Agreement

Securing world-renowned customer such as Volvo Car and Zhejiang Geely Components is an affirmation for the quality of the lithium-ion batteries produced by Zhejiang Forever New Energy and can effectively improve the Group's financial performance and deliver stable income to the Group.

Shandong Forever New Energy Company Limited ("Shandong Forever New Energy")

Currently, the production plant of Shandong Forever New Energy, an indirect non-wholly owned subsidiary of the Company, covers a total area of approximately 130,000 square meters and its current factory and office facilities cover a floor area of about 70,000 square meters. The current production capacity of Shandong Forever New Energy amounts to 150,000 kWh of lithium iron phosphate battery or 225,000 kWh of ternary lithium battery annually.

LITHIUM-ION BATTERY BUSINESS

During the year ended 31 December 2018, the lithium-ion battery segment recorded a revenue of approximately HK$238.6 million (equivalent to approximately RMB201.4 million), which increased by approximately 1,260% when compared to HK$17.5 million (equivalent to approximately RMB15.2 million) revenue recognised in last year. The reasons were discussed in the Business Review section in the Management Discussion and Analysis of this announcement.

The lithium-ion battery segment losses before non-cash items including impairment, depreciation, amortisation expenses and release of deferred income were approximately HK$109.5 million (2017: HK$67.1 million). The loss increased during the year because both factory plants were in loss position and more operating costs including staff costs and research and development costs were incurred by the new Zhejiang factory.

Research And Development

The main products of the Company include NCM lithium-ion powered batteries, lithium-iron phosphate powered batteries, powered battery modules, battery management systems and storage batteries, mainly targeted at new energy commercial vehicles and passenger vehicles, purely electric and hybrid vehicles, as well as energy storage market.

Our research and development team consists of both national and overseas experts from top-tier powered battery manufacturers. For the year ended 31 December 2018, the Group was granted 184 patents, among which 178 are utility model patents, 5 appearance design patents and 1 innovation patents. At present, 94 patents are under application. Our patent portfolio covers the whole process from the preparation to the application of batteries, including the preparation technique of battery materials, the preparation technique of batteries, the assemble technique of batteries, the screening technique of batteries, the packing technique of battery pack as well as battery management systems, coupled with various fields of cutting-edge technology, including reuse and recycling of battery modules and systems, solid-state battery electrolyte, lithium-sulphur batteries and fuel cells. Moreover, the Group has introduced various kinds of advanced battery technology through its technological collaboration with renowned battery suppliers from overseas. The Company has established a product design and development process and technology management system compatible with the research and development of vehicles. With relevant research and development capabilities, we have also established a data archive to which information about the research and development of our products can be accessed. For the year ended 31 December 2018, the research and development expenses of our Group were approximately HK$59 million (2017: approximately HK$36 million).

In the future, Zhejiang Forever New Energy will further improve the software and hardware of the research institute and ultimately build a highly capable international scientific research team.

PROGRESS OF SAM

As of the date of this announcement, the Group has provided funding with principal amount of approximately US$72.2million to the iron ore project in Brazil ("Block 8 Project" or "SAM Project"), through shareholders' loans and increase of registered capital in Sul Americana de Metais S.A. ("SAM"), an indirect wholly owned subsidiary of the Company in Brazil.

SAM is devoted to develop Block 8 Project as phase I operation with an annual production capacity of 27.5 million tons with an average grading of 66.2% Fe in the first 18 years' operation. The project will have an integrated system comprised an open-pit mine, a beneficiation plant, tailings disposal facilities, a power transmission line, water supply pipelines, and a Vacaria water dam.

SAM has started licensing process for the mine and its facilities in the Secretariat of Environment and Sustainable Development ("SEMAD") in the state of Minas Gerais in Brazil since November 2017.

In November and December 2017, SAM had meetings with Superintendency of Priority Projects' ("SUPPRI") technical team to understand their requirements for the Preliminary License ("**LP**") application. SUPPRI is an environmental licensing organization for priority projects under SEMAD.

In the end of December 2017, SAM hired consultancy firm Brandt to undertake the environmental studies required by SUPPRI and prepare a new EIA-RIMA for SAM to apply LP at SUPPRI.

Aiming to reduce tailings volume and environmental impact, SAM's mining consulting companies, Veturini Consultoria and NCL had jointly finished a new mining plan with significant reduction of tailings volume by the end of August 2018.

In the beginning of January 2018, SAM hired engineering firm WALM to optimize the engineering parameters of tailings and waste disposal, and update the hydro-geologic model and water availability studies considering extreme dry weather. SAM also hired a top professor specialized in tailings dam from Sao Paulo University (USP) as an independent consultant to cross check tailings disposal solutions designed by WALM, and another top professor specialized in hydrogeology from Federal University of Minas Gerais (UFMG) as an independent consultant to cross check WALM's water availability studies.

By the end of October 2018, WALM had finished the final reports. To be mentioned, the tailings dams have been totally redesigned with safer operational parameters, the new adopted construction method is center line, which is much safer than the upstream method. Upstream method is now forbidden by Brazilian authorities because of tailings dam collapse disasters happened in Brazil in recent years.

Even the possibility of dam-break of SAM's project is zero from technical point of view, WALM undertook hypothetical dam-break studies in order to analyze the risk and provide information for environmental programs (such as relocation of the communities downstream the tailings dams) and emergency action plan.

Another attempt to reduce the tailings volume disposed in the tailings dams is backfill technology, SAM expended a great amount of effort in this technology together with WALM and Veturini Consultoria. Considering the slope of the Block 8 ore body is very gentle, it is feasible to backfill some portion of tailings into the open pit while the pit is in operation.

Moreover, in 2018, more tailings and waste tests had been undertaken by some labs to support WALM's engineering, induced seismic study (vibrations induced by blasting during mining operation) had been finished by the company VMA, the tailings reuse study had been concluded by the company Multiplus.

On 7 November 2018, SAM organized a successful workshop with SUPPRI's technical team to discuss SAM's tailings solutions with the participation of WALM and the independent consultant from USP.

On 28 November 2018, SAM obtained all the declarations from 4 municipals involved in the Block 8 Project, in which the municipals declare that the type of activity developed and the location of Block 8 Project are in compliance with the laws and administrative regulations of the Municipals, especially with the legislation applicable to the use and occupation of the land. These declarations are one of the must documents for the formalization of the environmental licensing process.

On 21 December 2018, Brandt finished the EIA (Environmental Impact Study) and RIMA (Environmental Impact Report) of the Block 8 Project. This EIA/RIMA contains 13 volumes, 2953 pages, drafted by a multidisciplinary team of 39 professionals in 12 months. The core contents include characteristic of the project, study area definition, physical environment diagnosis, biotic environment diagnosis, socio-economic environment diagnosis, environmental quality, environmental impact assessment, mitigation measures propositions, following and monitoring programs of environmental impact, influence area, environmental prognosis etc.

On 7 January 2019, SAM submitted the EIA/RIMA of Block 8 Project to SUPPRI.

On 8 January 2019, SUPPRI issued a new FOB (Basic Guidance Form) for Block 8 Project. The new FOB updated the documents necessary for the formalization of the environmental licensing process.

On 9 January 2019, according to the legal requirement, SAM published the information about the request of LP on two newspapers of great circulation, in which SAM informs that the EIA/RIMA have been presented and the RIMA is available in SUPPRI to those interested, and also informs that those interested in the Public Hearing shall formalize their request within 45 days.

On 10 January 2019, SUPPRI issued a receipt of SAM's delivery of documents and formalized the licensing process.

On 11 January 2019, SUPPRI published in the Official Gazette of the State about SAM's request of LP and the legal deadline (within 45 days from the date of this publication) for requesting the public hearing.

Despite of the good progress of the SAM project in 2018, unfortunately, on 25 January 2019, one inactive upstream tailings dam belonging to mining company Vale in Brumadinho collapsed. As this dam-break happened again only 3 years after Samarco dam-break disaster in November 2015, it caused a strong reaction of Brazilian society and concerns about the safety of tailings dams, especially about those tailings dams with upstream construction method.

On 29 January 2019, the Presidency of the Republic/Civil House published a resolution (RESOLUÇÃO Nº 2, DE 28 DE JANEIRO DE 2019) to establish a legislative subcommittee to elaborate a draft of update and revision of the National Policy on Dams Security which was established by Law No. 12,334, of 20 September 2010.

On 30 January 2019, SAM suspended its licensing process of Block 8 Project for at least 3 months in order to wait for the aforementioned update and revision of the National Policy on Dams Security.

On 22 February 2019, the Legislative Assembly of Minas Gerais approved a Bill which deals with environmental licensing and supervision of dams in the State. On 25 February 2019, the Minas Gerais State Governor signed it and thus became a State law (law No.23.291, of 25 February 2019), which was published on 26 February 2019. One of the most important articles is that upstream method for dam construction is forbidden.

SAM studied the abovementioned new State law and concluded that it won't affect its environmental licensing process since SAM adopted center line method for tailings dams' construction and very strict technical and environmental criterions for the project, which make the project is in conformity with the new law. From technical point of view, SAM is quite confident in the safety of its tailings dams.

After Vale's dam-break disaster, SAM has been communicating and having meetings with government institutions, environmental organs, State and Federal deputies, municipals to present SAM's new tailings disposal technology. SAM expects to resume the licensing process after the middle of 2019.

The Company has been considering the introduction of strategic investors to develop the SAM Project. On 16 October 2018, SAM and an independent third party, Lotus Fortune Holdings Limited ("Lotus Fortune"), established a company called Lotus Brasil comércio e Logistica Ltda ("Lotus Brasil") in Brazil which is 95% owned by Lotus Fortune and 5% by SAM. On 9 November 2018, SAM reach a preliminary contract with Lotus Brasil. Based on the preliminary contract, Lotus Brasil will license, construct and operate the logistic system of the SAM Project. The logistic system consists of an underground pipeline of approximately 480km (involves 9 municipalities in the state of Minas Gerais and 12 municipalities in Bahia), a dewatering station and an ore storage yard located in Porto Sul (the "Port") in Ilhéus of Bahia State.

Pursuant to the preliminary contract, Lotus Brasil is committed to start licensing the abovementioned logistic system in IBAMA within 30 days after the signing the preliminary contract. On 7 December 2018, Lotus Brasil submitted the FCA to IBAMA and thus initiated the process. In the future, Lotus Brasil will provide SAM with services of logistics, dewatering, trading and contracting for the use of Porto Sul. SAM will pay Lotus Brasil for such services. The Group believes that the cooperation with Lotus Brasil will promote the exploitation of Block 8 and will be mutually beneficial. In this way, SAM could focus more on the development of the mine, beneficiation plant and other facilities.

As disclosed previously, SAM will export its mineral products through Porto Sul (the "Port") in Bahia State which has been granted all environmental licenses for construction. On 1 September 2017, a Chinese Consortium led by China Railway Group Limited (中國中鐵股份有限公司) and including China Communications Construction Company Ltd. (中國交通建設股份有限公司), Dalian Huarui Heavy Industry Group Co., Ltd (大連華鋭重工集團股份有限公司) signed a MOU with Bahia State government and intends to lead and participate in an investment group to finance the development of Porto Sul, including equity investment and procurement of debt financing. SAM will be a pure user of the Port and will coordinate with Lotus Brasil to monitor the progress and development of the Port.

REVALUATION OF EXPLORATION AND EVALUATION ASSETS

A revaluation on SAM's exploration and evaluation assets has been performed as at year end date 31 December 2018 with the latest mining plan, US$2.00 billion CAPEX (2017: US$3.00 billion) and US$34.9 (2017: US$31.4) (year 1 to 18) and US$43.5 (year 19 to 31) (2017: US$42.2, year 19 to 32) per ton of OPEX applied.

Regarding the project timeline, the new operation commencement year is expected to be 2025 (2017: year 2024) because due to the Vale's dam-break disaster, SAM has suspended its licensing process for 3 months and it requires more time for relevant government authorities in reviewing applications. Other major assumptions used have been set out in the note 12 of this announcement.

After the revaluation, the exploration rights, revaluated by an independent professional valuer, Roma Appraisal Limited, were valued at approximately US$726 million (equivalent to approximately HK$5,685 million) (2017: US$529 million, equivalent to approximately HK$4,104 million). A reverse of impairment of US$277 million (equivalent to approximately HK$2,166 million) on exploration and evaluation assets has been recognised in current year accordingly. The corresponding deferred tax liabilities also increased by US$94 million (equivalent to approximately HK$736 million). The increase in fair value of the exploration and evaluation assets was mainly due to the substantially decrease in estimated CAPEX and the increase in forecast iron ore price, especially for higher grade iron ore that SAM Project planned to produce (iron ore price ranged between US$84 to US$113 per ton during the forecast period in 2018 valuation (2017: US$76 to US$102 per ton)).

CONTINGENT CONSIDERATION AND LIABILITIES

Pursuant to the Share Purchase Agreement in relation to the acquisition of SAM (the "SPA"), the total consideration of US$390 million for the acquisition of SAM was to be satisfied in cash in five instalment payments. The first and the second instalment payment amount to US$75 million were settled before the date of Settlement Agreement. The third, fourth and fifth instalment payment amount to US$115 million, US$100 million and US$100 million were required to be settled according to certain milestones.

After execution of the Settlement Agreement in June 2016 (details set out in the announcement of the Company dated 13 May 2016), the Group shall no longer be liable to pay third, fourth and fifth instalment payment with the total amount of US$315 million under the SPA.

Conditional additional payment

If, however:

(i) the Company disposes of any or all of its interests in Infinite Sky to a party other than New Trinity or SAM;

(ii) Infinite Sky disposes of any or all of its interests in New Trinity to a party other than the Company or SAM;

(iii) New Trinity disposes of any or all of its interests in SAM to a party other than the Company or Infinite Sky; or

(iv) SAM disposes of all or a significant portion of its assets other than the sale of inventory (i.e., pellet feed or other minerals) in the ordinary course of business after the production or extraction of minerals has begun, to a party other than the Company, Infinite Sky or New Trinity;

(each a "Disposal Event") after the execution of the Settlement Agreement but before (a) the date by which an aggregate of 100,000 metric tons of pellet feed from any of the areas represented by the exploration permits issued to SAM has been shipped commercially (the "New Mining Production Commencement Date"); or (b) any final and non-appealable order, by any Brazilian regulatory authority, permanently restraining, enjoining or otherwise preventing the consummation of the New Mining Production Commencement Date, whichever is earlier, and the net proceeds from such a Disposal Event exceeds 120% of the Company's investment in SAM and the Project, which comprises:

(1) the amount of US$75,000,000, being part of the Consideration and US$420,000, an incentive payment previously paid to VNN;

(2) the Settlement Payment of US$3,000,000 under the Settlement Agreement;

(3) an amount of US$1,500,000, paid to a third party as fees for preparation of SAM's feasibility study report;

(4) the amount of US$64,175,000, representing the funds loaned to SAM and capital invested by the Company, Infinite Sky and/or New Trinity in SAM as of the date of the Settlement Agreement; and

(5) the total sum of any additional loans and capital invested (and not repaid, reduced or returned) by the Company, Infinite Sky and/or New Trinity in SAM or the Project, in each case which is related to the development of the Project, between the date of the Settlement Agreement and the date of any Disposal Event ("Honbridge's Investment"), with the aggregate of items (1) to (5) above in no event exceeding US$250,000,000, then the net proceeds from the Disposal Event that exceed 120% of Honbridge's Investment shall be shared equally by the Company and Votorantim, with payment to Votorantim in no event to exceed US$60,000,000 (the "Additional Payment"). As at the date of this announcement, the additional loans and capital invested was approximately US$8,000,000.

Conditional mining production payment to Votorantim

If, prior to the expiry of 10 years after the date of the Settlement Agreement, the New Mining Production Commencement Date occurs and all Additional Payments made by the Group to Votorantim in the aggregate prior to that date are less than US$30,000,000, then the Group shall pay US$30,000,000 to Votorantim ("New Mining Production Payment") within 10 Business Days after the New Mining Production Commencement Date.

As at 31 December 2018, the contingent consideration payable was approximately HK$156.5 million (equivalent to approximately US$20.0 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions during the reporting period are set out below:

Volvo Car Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Volvo Car (as the purchaser)
Date	:	23 October 2017
Term	:	From 23 October 2017 to 22 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Volvo Car Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Volvo Car Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	:	RMB178 million
2019 annual cap	:	RMB278 million
2020 cap for the period from 1 January 2020 to 22 October 2020	:	RMB251 million
Sales for the year ended 31 December 2018	:	approximately RMB74.81 million (HK$88.66 million)

On 29 June 2018, independent Shareholders of the Company approved the revision on annual caps of the Volvo Car Sales Agreement and the Zhejiang Geely Components Sales Agreement in an extraordinary general meeting (the "EGM"). Further details of the EGM are disclosed in the circular of the Company dated 13 June 2018.

Zhejiang Geely Components Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Zhejiang Geely Components (as the purchaser)
Date	:	25 October 2017
Term	:	From 25 October 2017 to 24 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Zhejiang Geely Components Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Zhejiang Geely Components Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	:	RMB207 million
2019 annual cap	:	RMB739 million
2020 cap for the period from 1 January 2020 to 24 October 2020	:	RMB951 million
Sales for the year ended 31 December 2018	:	approximately RMB111.18 million (HK$131.76 million)

CONNECTED TRANSACTIONS

On 20 November 2017, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely"), one of the substantial shareholders of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$114 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 6 months after the drawdown date and has a fixed interest rate of 4.35% per annum. The loan agreement was extended on 16 November 2018 with a repayment date on 20 May 2019.

On 16 March 2018, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely, a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$114 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.75% per annum. The loan agreement was extended on 20 February 2019 with a repayment date on 14 March 2020.

During the period ended 31 December 2018, a finance costs of HK$9.8 million was recognised by the Company in relation to the two short term loans. The Board considers the above two loan arrangements were conducted on normal commercial terms or better.

For the year ended 31 December 2018, the Group has sold approximately HK$88.7 million and HK$131.8 million lithium-ion batteries to Volvo Car and Zhejiang Geely Components respectively.

As such, both Volvo Car and Zhejiang Geely Components are associates of Zhejiang Geely Holding Group Co., Ltd. in accordance with the GEM Listing Rules, and each of them is therefore a connected person of the Company.

Pursuant to GEM Listing Rule 20.54, the Board has engaged the auditor to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has confirmed the continuing connected transactions in accordance with GEM Listing Rule 20.54 and issued an unqualified letter containing their findings and conclusions accordingly. The independent non-executive Directors have confirmed the continuing connected transactions in accordance with GEM Listing Rule 20.53.

Specifically, the independent non-executive Directors have reviewed the continuing connected transactions and the unqualified letter from the auditor and have confirmed that the continuing connected transactions entered into by the Group were in the ordinary and usual course of its business, on normal commercial terms, or on terms no less favourable than terms available to or from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the Shareholders as a whole.

In the opinion of the independent non-executive Directors, these transactions entered into by the Group were:

(1) in the ordinary and usual course of its business;

(2) on normal commercial terms or better;

(3) in accordance with the terms of agreements governing them on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole; and

(4) within the relevant cap amounts as disclosed in previous announcements.

Save as disclosed above, there were no other transactions which are required to be disclosed as continuing connected transactions in accordance with the requirements of the GEM Listing Rule.

There was no other connected transaction entered into by the Company during the year ended 31 December 2018.

LOAN AGREEMENT ENTERED INTO WITH CLOUDRIDER LIMITED

Pursuant to the Loan Agreement entered into with Cloudrider Limited (the "Borrower") on 11 April 2016, an aggregate principal amount of HK$540,000,000 was drawn down in two tranches on two respective dates (Tranche A: HK$251,100,000 (the "Tranche A Loan") on 22 April 2016 and Tranche B: HK$288,900,000 (the "Tranche B Loan") on 12 May 2016). The initial maturity date for each of the Tranche A Loan and the Tranche B Loan was 21 April 2017 and 11 May 2017, respectively, which was further extended by the Borrower to 21 April 2018 and 11 May 2018, respectively.

On 20 April 2018, the Company received a notice from the Borrower that the Tranche A Loan, the Tranche B Loan and the outstanding accrued interests could not be repaid on time (the "Default") because of difficulties encountered in the transfer of fund across borders in a short time. Default interests at a rate of 6% per annum have been accrued on the unpaid sum in accordance with the Loan Agreement. On 20 April 2018, the Company sent a letter to the Borrower demanding for repayment of the Loan and asserted the rights of the Company under the Loan Agreement. During the period from 30 April 2018 to 20 June 2018, the Borrower repaid an aggregate amount of HK$15,278,000 to the Company (the "Repaid Amount").

Despite the Repaid Amount, having considered the latest financial position of the Borrower and the possibility of realizing the Loan Receivables and the Interest Receivables from the Borrower, the Company has taken a prudent approach to make impairment provisions for the Loan Receivables and the Interest Receivables for the six months ended 30 June 2018.

On 6 November 2018, the Borrower repaid HK$26,000,000 to the Company, covered all the outstanding interests at that time and part of the principal. Since then, no repayment was received from the Borrower.

As at 31 December 2018, the Borrower has defaulted in repaying the Tranche A Loan and the Tranche B Loan in the outstanding principal amounts in a sum of approximately HK$523.8 million (the "Loan Receivables") and the outstanding accrued interests in the sum of approximately HK$4.8 million (the "Interest Receivables").

The Tranche A Loan and the Tranche B Loan share the same security package (the "Security") comprising (i) a share charge granted by Bronze Pony Investments Limited relating to its shares in the Borrower; (ii) a share charge granted by Capital Melody Limited relating to its shares in the Borrower; and (iii) a debenture consisting of a fixed and floating charge over all of the assets of the Borrower, mainly comprising an equity interest in approximately 24.98% of Yuxing Infotech Investment Holdings Ltd ("Yuxing Infotech"), a company listed on the GEM (Stock code: 8005) with a net asset value of approximately HK$1,988 million as at 31 December 2018. If Tranche A Loan and the Tranche B Loan could not be recovered in full eventually, the Company intends to enforce the Security. Independent professional valuer has been appointed to evaluate the recoverable amount and impairment loss of HK$357 million on the Loan Receivables was recognised in profit or loss for the year ended 31 December 2018.

The Company will continue to demand repayment from the Borrower and update the Shareholders on any material development as and when appropriate.

BUSINESS REVIEW

For the year ended 31 December 2018, the Group recorded a revenue of HK$238.6 million, representing a significant 1,260% increase when compared to revenue of HK$17.5 million recognised in the last year. The profit for the year ended 31 December 2018 attributable to owners of the Company was approximately HK$974 million (2017: HK$676 million).

The revenue of the Group increased explosively because of the commencement of mass production of our new factory plant in Zhejiang in the second quarter of 2018. The customers of our Zhejiang factory are Volvo Car and the Lynk & Co brand under Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely Group"). On 23 October 2017 Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation ("Volvo Car") in relation to the sales of ternary lithium-ion powered battery packs for the hybrid models of Volvo Car planning to be manufactured in the PRC. Another three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 was secured on 25 October 2017, in relation to the sales of ternary lithium-ion powered battery packs for vehicle models including Lynk & Co and other models under Zhejiang Geely Group. The total annual caps (excluding VAT) in respect of the above two sales agreements for year 2019 and 2020 are RMB1,017 million and RMB1,202 million respectively. The two sales agreements offer a strong foundation for our factory plant in Zhejiang. The total revenue recognised under the two agreements was approximately HK$220.4 million during the year.

The Group recorded a gross loss of approximately HK$47.6 million (gross profit ratio: -19.9%) for the year ended 31 December 2018 as compared with the gross loss of approximately HK$0.28 million (gross profit ratio: -1.6%) in the last corresponding year. Gross loss was recorded because of the high average raw material costs and the low capacity utilisation rate of the new battery plant in Zhejiang. Zhejiang Forever New Energy is designed to have a maximum annual production capacity of 2,000,000 kWh but currently only the first 500,000 kWh production line was installed and in production. In addition, the factory plant only commenced mass production in the second quarter and require time for initial ramp up. The Group will continue to control and improve the costs structure of lithium-ion battery products by negotiating with key suppliers to obtain more beneficial terms, increasing the energy density and decreasing the failure rate of our products, strengthening the management skill and promoting effective use of materials, etc.

Other operating income of approximately HK$38.3 million (2017: HK$144.4 million) was recognised during the current year. It consists of interest income from loan receivable of HK$14.2 million (2017: HK$16.2 million), imputed interest income of amounts due from non-controlling interests of HK$13.1 million (2017: 13.1 million) and bank interest income of HK$5.5 million (2017: $6.3 million). The decrease in other operating income was mainly due to the recognition of HK$103.8 million one-off deferred income in relation to a government grant for the year ended 31 December 2017.

The administrative expenses for the year ended 31 December 2018 mainly consists of research and development expenses of approximately HK$59.0 million (2017: HK$36.1 million) and staff costs of approximately HK$31.0 million (2017: HK$35.1 million).

Impairment loss on trade receivables of HK$38.7 million were provided in the current year ended 31 December 2018. It was because certain customers have encountered financial difficulties amid decrease in sales.

Impairment loss of HK$357 million has been provided on prepayments, deposits and other receivables during the year ended 31 December 2018. Details have been set out in the Loan Agreement Entered into with Cloudrider Limited section in the Management Discussion and Analysis.

In November 2017, the Company allotted and issued 2,000,000,000 Conversion Shares in relation to the convertible bonds issued in June 2013. After that, Geely International (Hong Kong) Limited became one of the substantial shareholders of the Company. This not only greatly improved the financial position of the Group, the early conversion of convertible bonds is also a vote of confidence for the future development of the Group. Because of this early conversion, no imputed interests on convertible bonds were recorded in the current year (31 December 2017: HK$67.7 million). The finance costs of HK$9.8 million recognised during the year ended 31 December 2018 were mainly related to the loans of RMB200 million from Zhejiang Geely, a substantial shareholder of the Company.

For the year ended 31 December 2018, the profit attributable to the owners of the Company was HK$974.5 million (31 December 2017: HK$676.1 million, increased by 44% compared with the year ended 31 December 2018). The increase in profit was mainly due to the HK$1,429.5 million non-cash reverse of impairment of exploration and evaluation assets (net of deferred tax charge) in relation to the SAM iron ore project (2017: HK$746.6 million), Beside, only HK$1.0 million impairment of non-current assets were made (2017: HK$110.4 million) on the current year. Their impact was mainly set-off by the impairment loss on prepayment, deposits and other receivables in relation to the Loan to Cloudrider Limited and trade receivables of HK$357.4 million and HK$38.7 million respectively.

As at 31 December 2018, the cash and cash equivalent balance of the Group was approximately HK577.3 million with a net current assets of HK$173.2 million. The current ratio of the Group which is measured by current assets to current liabilities was 1.19 (31 December 2017: 3.71). Despite the decrease in current ratio mainly due to the impairment on prepayment, deposits and other receivables and increase in borrowings, the Company will continue to invest in new energy vehicles related business.

During the year ended 31 December 2018, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015.

THE USE OF PROCEEDS FROM PLACING AND SHARE SUBSCRIPTION

Upon completion of the placing of 754,000,000 new shares (the "Placing") and the subscription of 446,000,000 new shares (the "Share Subscription") of the Company in June 2015, the Company received an aggregate of HK$1,336 million of net proceeds, HK$410 million of which was then intended to be applied to increase the Group's production capacity of lithium-ion battery business and potential investment and acquisition opportunities in the new energy vehicle related field, HK$200 million of which was intended to be used in the Brazilian iron ore project and HK$186 million of which was intended to be used for general working capital of the Company. However, the Company had yet to identify suitable investment and acquisition targets in the new energy vehicle-related field in 2016 and the Company decided to improve the Group's capital efficiency and to better utilise its cash by making short term investment to generate better returns to its Shareholders. In April 2016, the Company has entered into a Loan Agreement with Cloudrider Limited (the "Borrower") and a loan with principal amount of HK$540 million has been granted.

As at 31 December 2018, out of the HK$1,336 million net proceeds that have been raised from the Placing and the Share Subscription, HK$540.0 million has been lent to the Borrower, HK$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK$113.1 million has been used for new energy vehicle related business, approximately HK$40 million has been used for general working capital and approximately HK$97.1 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK$436.7 million, HK$296.9 million will be invested into the new energy vehicle related business, HK$102.9 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK$36.9 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

THE PRINCIPAL RISKS AND UNCERTAINTIES FOR LITHIUM-ION BATTERIES SEGMENT

Regulatory Environment and Policies in Relation to NEV Industry in the PRC

To promote the development of NEV industry, the PRC government has actively introduced requirements such as more stringent fuel efficiency, NEV output ratio requirement starting from 2019 as well as provision of different types of subsidies. However, the NEV industry is still in its infant stage and is highly affected by the regulatory environment and policies in the PRC, any material change in the regulatory environment and policies which is not positive for the NEV industry could negatively affect the industry and the financial results of the Group. The management of the Group will continue to pay attention to any proposed and new policies related to the NEV industry and take the appropriate actions to maximize the return of the Group.

Customer Concentration Risk

The total annual caps in respect of the two sales agreements entering into between Zhejiang Forever New Energy and Volvo Car and Zhejiang Geely Components are RMB1,017 million and RMB1,202 million for the financial years ending 31 December 2019 and 2020 respectively. Although the two sales agreements represent a very positive start for our brand new factory plant in Zhejiang and it is not unusual for customer concentration in the lithium-ion batteries industry, the management is aware of the business risk to rely on limited key customer. Should Volvo Car and Zhejiang Geely Components reduce substantially the size of their purchase orders placed with the Group or terminate their business relationship with the Group entirely, the results of operations and financial performance of the Group may be adversely affected.

The Group expects the sales to companies under Zhejiang Geely will count a significant portion of revenue generated from the first production line of Zhejiang Forever New Energy after mass production. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other mainstream automobile manufacturers to reduce the sales concentration risk.

Except that our supply to Zhejiang Geely and Volvo is a connected transaction and may lead to concentration of customers, the Group also attaches great importance to the exploration of independent customers. Car models of independent customers which were listed in the Announcement and Catalogue include, Kandi K10, Kandi K11, Guangtong Bus EV and Tongjiafu Van. The Group is constantly negotiating and conducting products matching with major automobile enterprises, new energy vehicles enterprises as well as potential customers in the energy storage field. Meanwhile, the Group will pursue to maintain a good business relationship with the key customers.

Increasing Raw Materials and Purchase Costs

There is a general lack of supply of key raw materials of lithium-ion battery such as cobalt and lithium, if there is any significant increase in the price of raw materials, the Group profitability and financial results will be adversely affected. The Group will continue to control and improve the costs structure of lithium-ion battery products by increasing the energy density and production passing ratio of our products, strengthening the management skill, promoting effective use of materials and streamlining the supply chain, etc.

Others

Moreover, technological advancement, innovation and even revolution requires continuous improvement, or even obsolescence, of battery production lines. The delay in receiving government grants experienced by automobile enterprises will also influence the upstream industries. Factors such as excessively large trade receivables will also result in certain risks. The Group has been adopting a prudent strategy in its expansion over the past two years to reduce the possible harmful impacts from such risks.

THE PRINCIPAL RISKS AND UNCERTAINTIES FOR THE SAM PROJECT

Iron ore price risk

The fair value of the Group's evaluation and exploration assets in the Brazil are exposed to fluctuations in the expected future iron ore price. The management will review the market condition from time to time and determine the best strategy to deal with the fluctuation of iron ore price.

Risk of SAM project will not be materialized

The risk is largely driven by various factors such as commodity prices, government regulations, policies and approval of the relevant permits and licenses to conduct the mining activities in the Brazil. The management is closely monitoring the progress of the SAM project.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group has contracted but not provided for capital commitments in relation to property, plant and equipment amounted to approximately HK$64 million.

Capital Contribution Agreement

On 9 May 2016, Triumphant Glory, a 90.68% owned subsidiary of the Company, entered into the capital contribution agreement with Zhejiang Geely Automobile Co., Ltd. ("Zhejiang Geely Auto") and Jiaxing Jiale, whereby Zhejiang Geely Auto and Jiaxing Jiale have agreed to contribute capital into Shandong Forever New Energy, which was a direct wholly-owned subsidiary of Triumphant Glory (the "Capital Contribution Agreement"). According to the terms of the Capital Contribution Agreement, Zhejiang Geely Auto and Jiaxing Jiale shall contribute approximately US$42.15 million and US$2.62 million into Shandong Forever New Energy respectively. Zhejiang Geely Auto has paid the 10% of its capital contribution amount (i.e. US$4.215 million) according to the Capital Contribution Agreement and up to the date of this announcement, no further capital contribution has been paid by Geely Auto and Jiaxing Jiale. After the Capital Contribution Agreement became effective, Triumphant Glory, Zhejiang Geely Auto and Jiaxing Jiale hold 49.0%, 48.0% and 3.0% equity interest in Shandong Forever New Energy, respectively.

EMPLOYEES

As at 31 December 2018, the total number of employees of the Group was 701 (2017: 522). Employee benefit expenses (including directors' emoluments) amounted to HK$78.7 million for the year (2017: HK$58.7 million).

The Group considers its employees as its most valuable assets. In addition to salary, other fringe benefits such as medical subsidies, life insurance, provident fund and subsidised training programs are offered to employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus based on performance. Share options have also been granted to certain employees of the Group.

PROSPECTS

The Group is determined to invest into the battery sharing business in 2019.

The Ministry of Industry and Information Technology of China released the compulsory "Technical Specifications for Safety of Electric Bicycles" 《電動自行車安全技術規範》 national standard in May 2018 (the "New National Standard") which will be effective from 15 April 2019, after that local governments in China have released corresponding supporting policies to regulate electric bicycles' safety performance, speed limit, production quality and pedal riding performance, etc., these policies will accelerate the transition of lead-acid battery in electric bicycles to lithium battery. The number of electric bicycles in mainland China is about 250 million at present and the production and sales number in 2017 was 31.13 million, which approximately 30% were for express delivery and food delivery. According to the New National Standard, one single set of electric bicycle battery is not enough to support the daily commercial range requirement, this has created a huge market demand for battery swapping.

Besides that, because of the technical advancement of batteries, the useful life of batteries are much longer than the useful life of electric bicycles. In addition, some electric car manufacturers are developing models which can swap battery directly for long-distance driving, this kind of car battery separation model will lead to a huge market for battery swapping service and battery sharing in the future.

The Group has established a holding company to lead the battery sharing business (the "New Business Activities"). The initial investment of the New Business Activities is expected to be RMB60 million, further investment will be injected or the business will be self-sustainable depends on the business development, other investors may also be introduced. More details will be disclosed when the battery sharing business launch in the first half of 2019.

Despite the central government of China has announced that subsidies for new energy vehicles will be gradually decreased in the coming years, the Group and new energy vehicle industry both believe that the government of China will continue to introduce other measures to promote the development of new energy vehicle industry which is one of the national development strategies.

In April 2017 the government of China released a Medium and Long Term Development plan of the Automobile Industry《汽車產業中長期發展規劃》, one of the key plans mentioned is the promotion and development of new energy vehicles and its related industries. In September 2017, the Ministry of Industry and Information Technology officially released the dual-credit system "Parallel Administrative Measures for Passenger Vehicle Corporate Average Fuel Consumption (CAFC) and New Energy Vehicle (NEV) Credits"《乘用車企業平均燃料消耗量與新能源汽車積分並 行管理辦法》and the system became effective starting from 1 April 2018. The combination of credits and dis- incentives in this system are designed to improve the fuel efficiency of vehicles on the road, as well as to promote the usage of NEVs in China. For vehicle enterprises, their required NEV output ratio in 2019 is equivalent to 10% of the vehicles they produce in China while the ratio increased to 12% in 2020. Under the dual-credit system, traditional vehicle enterprises will be more motivated to develop and produce NEVs. In December 2017, the government of China announced that it will continue to waive purchase taxes on NEVs for the next three years. Last but not least, government of several European countries have announced that laws will be enacted to establish a schedule to ban the sales of petrol-only vehicles. Ministry of Industry and Information Technology and certain cities in the PRC have also stated that it has been exploring a schedule to ban the sales of petrol-only vehicles. For example, Hainan Province has recently announced a plan to ban the sales of petrol-only vehicles in 2030. Therefore the market size of NEVs and related industries is expected to expand substantially in the coming years. Lithium-ion battery is deemed as the most critical component in NEVs so this sector will continue to be the focal point in this industry. Although there are a lot of lithium-ion battery supply in the market, there is a lack of high quality lithium-ion battery available.

In 2018, the battery packs produced in the new plant were provided to Volvo Car and Zhejiang Geely Components and assembled in premium car models such as Volvo XC60 PHEV, S90 PHEV and Lynk & Co Lynk 01, 02, 03 PHEV. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other world's mainstream automobile manufacturers. To achieve the aim, the Group has been prudently investigating the possibility and appropriate time of massive expansion in other cities in China.

On 16 January 2019, the Company entered into an security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2 million ordinary shares of LKCO shares with a total consideration of USD12 million. On 21 January 2019, the Company has settled USD6 million and Luokung Technology Corp. has issued 1 million ordinary shares to the Company. Luokung Technology Corp. is one of the world's leading companies in spatial-temporal big data technology, a leading interactive location-based data services ("LBS") company in China, and a pioneer of the railway Wi-Fi market in China.

Luokung Technology Corp. 100% owns the SuperEngine brand, its processing and transmitting capability of spatial-temporal data is a thousand times more efficient than other companies in the industry, relying on its spatial-temporal big data internet of things ("IoT") neural network, which was established by SuperEngine through its world first spatial-temporal cloud indexing technology, and also relying on its world leading vector data processing and algorithm technology in querying, retrieving, transmitting and rendering graphical information from massive date of high definition map ("HD map") and three-dimensional map ("3D Map"), allowing TB sized data to be released in seconds. SuperEngine's world first non-slicing, full-vector and full-function mobile internet map, established a platform for location interactive services, and continuous self-optimisation through artificial intelligence ("AI") and machine learning.

Those technologies are important foundation and basic facility for smart cars, smart transportation, intelligent city, IoTs, AI, edge computing and other related fields. The global market potential is estimated to be over US$40 billion for LBS only. SuperEngine is also providing services on satellite remote sensing graphics processing, Bei Dou navigation system (北斗導航系統) application, real-time monitoring of land and resources, etc.

All of SuperEngine's products and technologies are based on self-owned intellectual property rights, and it has several patents registered in countries and regions in China, America, Japan and Europe. Luokung Technology Corp. is also one of the leading mobile service and technology providers of long distance travel data and a pioneer of the railway Wi-Fi market in China. It owns a mobile app named LuoKung, an app for location-based interaction services, and also, it provides software development kit ("SDK") embedded services to third party mobile application providers based on its full-vector and non-slicing mobile internet map. The exclusive High-speed train Wi-Fi operator in China, China Railway Gencent Technology Co., Ltd, has embedded Luokung Technology Corp.'s SDK in its mobile app named Handheld High-speed Train (掌上高鐵), to provide LBS for its users, Handheld High-speed Train app is estimated to cover more than 1.5 billion passenger times each year in the coming two to three years.

The Company may co-operate with Luokung Technology Corp. in the area of autonomous driving, smart commuting, etc., mutually help each other to build up their eco-system and service.

Given the development trend of going electric, intelligent and shared mobility in the automobile sector, while proactively exploring the lithium-ion battery business in a prudent manner, the Group will also consider seeking opportunities of merger and acquisition, investment and collaboration in areas such as charging and swapping, electric motor, electric controlling, Internet of Vehicle, autonomous driving, shared mobility, high-definition map and light-weighting of vehicles.

For the resource sector, the latest progress of the SAM Project was covered in the Progress of SAM section in this announcement and the Company will continue to push forward the project and review its status and development continuously in order to make the best decision for the shareholders of the Company. While the iron ore project is currently progressing in the direction of self-development, the introduction of strategic investors for joint development or collective sale cannot be ruled out should suitable opportunities arise in a suitable time. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

The overall business strategy of the Group is the dual development of new energy vehicles related business and resources, creating value for our shareholders. Meanwhile, ensure the idle cash is properly utilised to provide return to the Company.

SUBSEQUENT EVENT

On 16 January 2019, the Company entered into an security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2 million ordinary shares of LKCO shares with a total consideration of USD12 million. On 21 January 2019, the Company has settled USD6 million and Luokung Technology Corp. has issued 1 million ordinary shares to the Company. Luokung Technology Corp. is one of the world's leading companies in spatial-temporal big data technology, a leading interactive location-based data services ("LBS") company in China, and a pioneer of the railway Wi-Fi market in China.

The Company may co-operate with Luokung Technology Corp. in the area of autonomous driving, smart commuting, etc., mutually help each other to build up their eco-system and service.

CORPORATE GOVERNANCE PRACTICES

The Company complied with the corporate governance code in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2018 with the exception of code Provision A.2.7 and C.2.5. Code Provisions A.2.7 requires that the Chairman should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Although the Chairman did not hold any formal meeting with the non-executive Directors without the presence of executive Directors during the year, he had frequent communications with the non-executive Directors. In addition, he delegated the Company Secretary to gather any opinions/questions that the non-executive Directors might have and report to him for follow up. As such, the non-executive Directors of the Company were given opportunities to voice their concerns to the Chairman directly. For deviation in relation to Code Provision C.2.5, the details have been set out in the "Risk Management and Internal Control" section in this Corporate Governance Report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules for Directors.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2018.

AUDIT COMMITTEE

The Group's annual results for the year ended 31 December 2018 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the preliminary results announcement of the Group's results for the year ended 31 December 2018 have been compared by the Company's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by BDO Limited in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by BDO Limited on this results announcement.

As at the date of this results announcement, the Board comprises:

Executive Directors:
Mr. HE Xuechu *(Chairman)*
Mr. Liu Jian *(Vice Chairman and Co-Chief Executive Officer)*
Mr. Liu Wei, William *(Co-Chief Executive Officer)*

Non-Executive Directors:
Mr. YAN Weimin
Mr. ANG Siu Lun, Lawrence

Independent Non-Executive Directors:
Mr. CHAN Chun Wai, Tony
Mr. MA Gang
Mr. HA Chun

On behalf of the Board
LIU Wei, William
Executive Director and CEO

Hong Kong, 25 March 2019