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Nickel Resources International Holdings Company Limited

鎳資源國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2889)

**ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

FINANCIAL HIGHLIGHTS

	For the year ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
Revenue	296,430	176,760
Gross Profit	38,871	20,371
Loss before Interest, Tax, Depreciation and Amortisation [#]	(52,143)	(187,356)
Loss before Tax	(472,689)	(646,235)
Loss Attributable to Equity Holders of the Company	(472,372)	(645,992)
Gross Profit Margin	13.1%	11.5%
LBITDA Margin	(17.6%)	(106.0%)

[#] Loss before Interest, Tax, Depreciation and Amortisation ("LBITDA") in 2016 excluded impairment losses of property, plant and equipment of HK\$54.4 million.

The board of directors (the “Board” or the “Directors”) of Nickel Resources International Holdings Company Limited (the “Company”) would like to announce the audited results of the Company and its subsidiaries (collectively referred as to the “Group”) for the year ended 31 December 2017 together with the comparative figures for the corresponding year in 2016:

BOARD’S CONSIDERATION – MITIGATION MEASURES TO GOING CONCERN ISSUE

The Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

- (1) On 5 March 2016, the Company and a potential investor (the “Potential Investor” or “Subscriber”) entered into a share subscription agreement to subscribe for a total of 1,465,898,410 new ordinary shares of the Company at a subscription price of approximately HK\$0.1876 per share (the “Subscription Shares”), with proposed gross proceeds totalling HK\$275 million (the “Subscription”), subject to certain conditions precedent which, among others, include the following:
 - approval from the Company’s shareholders, or independent shareholders when appropriate, for (i) allotment and issuance of the Subscription Shares; (ii) a Whitewash Waiver; and (iii) a Special Deal (as defined hereunder), at the extraordinary general meeting of the Company (“EGM”);
 - Whitewash Waiver being granted by The Securities and Futures Commission of Hong Kong (“SFC”) in respect of any obligation of the Subscriber and parties acting in concert with it to make a mandatory general offer in cash for all the issued shares and other relevant securities of the Company not already owned (or agreed to be acquired) by the Subscriber and parties acting in concert with it which might otherwise arise as a result of the Subscription;
 - the consent from the SFC for repayment to any creditor who is a shareholder of the Company using the proceeds from the Subscription under a proposed debt restructuring as mentioned below (the “Special Deal”);

- approval of resumption of trading of the Company's shares, and listing of the Subscription Shares from the Stock Exchange; and
- completion of a debt restructuring by the Company by way of the "Schemes" (*Note*) (the "Debt Restructuring Proposal"). The debt restructuring refers to a plan for restructuring of the indebtedness of the Company which involves, among other things: (i) the reduction and cancellation of the outstanding principal amount of the Bonds by at least 80%; (ii) the reduction and cancellation of all the outstanding accrued interests of the Bonds; (iii) the release and discharge of all security collateral provided in relation to the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds; and (iv) the reduction and cancellation of all other indebtedness and contingent liabilities of the Company as referred to in the Debt Restructuring Proposal, by at least 80%.

In respect of the above, the Company appointed a financial advisor and debt restructuring scheme advisor to facilitate the Subscription and Debt Restructuring Proposal.

At the meetings of the holders of the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds held on 21 June 2016 and 6 July 2016, respectively, separate extraordinary resolutions ("Extraordinary Resolutions") were passed and resolved, among others, to approve the Debt Restructuring Proposal, not to enforce any security of the Bonds until approval of the Schemes and release the security as required under the Schemes following the Schemes becoming effective, vote the entire principal amount in favour of the Schemes at the meetings of the Schemes, waive any event of default or potential event of default which might or has occurred and not to demand repayment of any amount due under the Bonds.

Following the passing and effectiveness of the Extraordinary Resolutions by 6 July 2016, the Company is preparing the necessary documents to submit to the courts for the relevant creditors' approval and court sanction for the Cayman Scheme and the Hong Kong Scheme under the Debt Restructuring Proposal.

The Company is also actively negotiating with other creditors of the Company for the execution of the Debt Restructuring Proposal.

Note:

The proposed scheme of arrangement pursuant to Section 86 of the Companies Law (2007 Revision) of the Cayman Islands between the Company and the creditors under such scheme (the “Cayman Scheme”) and the proposed scheme of arrangement of pursuant to Sections 670, 673 and 674 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) between the Company and the creditors under such scheme (the “Hong Kong Scheme”), collectively are referred to as the “Schemes”.

- (2) In relation to the secured bank loan of HK\$100,431,000 which contains a repayable on demand clause, the Group is actively negotiating with the bank for the waiver of the relevant clause.
- (3) In relation to the syndicated bank loan and the bank loan under the Unsecured Loan Facility to the extent of HK\$595,837,000 and HK\$424,292,000, respectively, the Group is actively negotiating with the respective banks for the waiver of the breach of the undertaking and restrictive covenant requirements.
- (4) On 21 January 2013, the Group entered into a non-binding framework agreement with Beijing Wincapital Management Co., Ltd. (“Beijing Wincapital”) in relation to the disposal of a 30% equity interest in S.E.A. Mineral Limited (“SEAM”), a wholly-owned subsidiary of the Group. The aggregate disposal consideration is expected to be approximately US\$150 million (approximately HK\$1,170 million). The proposed transaction is yet to complete and no formal sales and purchase agreement has been entered into up to the date of approval of this announcement. Longer than expected time was spent on negotiation of the detailed terms and conditions because of the rapid change in operating and regulatory environment of SEAM since the framework agreement was signed.

In connection with the proposed disposal, Beijing Wincapital arranged certain loan finance to the Group (“Financing Loans”), which can be settled by offsetting against the disposal consideration should the proposed disposal be completed.

As at 31 December 2017, the outstanding Financing Loans amounted to approximately RMB200 million (equivalent to HK\$239,263,000) were overdue for repayments. Up to the date of approval of this announcement, the Group has not received any letter from these lenders demanding for repayment of these loans. Management is currently negotiating with the relevant parties to formally extend the repayments of these loans to facilitate the completion of the proposed disposal. Management believes that with bona fide intention for both parties, the proposed disposal will be completed and the Group will be able to offset all these borrowings against the disposal consideration.

On 11 March 2018, the Group entered into a sale and purchase agreement with Mr. Sun Gang (“Mr. Sun”), who is an indirect shareholder of the Subscriber, pursuant to which the Group agreed to sell 7% equity interest in SEAM to Mr. Sun at a consideration of RMB210,000,000 (equivalent to approximately HK\$251,223,000) conditional upon, amongst others, obtaining approval from shareholders of the Company at an extraordinary general meeting and resumption of trading of the Company’s shares.

- (5) Apart from the borrowings mentioned in (1) to (4) above, the Group had other borrowings from certain related parties of the Group, the Potential Investor, related parties of the Potential Investor and other third parties (secured and unsecured) of HK\$89,086,000, HK\$236,870,000, HK\$314,524,000 and HK\$73,263,000, respectively that were either overdue or due for immediate repayment as at 31 December 2017. The Group has been actively negotiating with the lenders for the renewal and extension of the repayment dates of these borrowings, of which an extension of the repayments of the borrowings from related parties of the Potential Investor for a term of 2 years is currently under discussion.
- (6) The Group is also negotiating with various financial institutions and identifying various options for financing the Group’s working capital and commitments in the foreseeable future, including identification of potential investors to invest in various projects undertaken by the Group.

- (7) The Group is also maximizing its sales effort, including speeding up of sales of its existing inventories and seeking new orders from overseas markets or new customers on developed new products, exploring new business opportunities and implementing more stringent cost control measures with a view to improving operating cash flows. During the year ended 31 December 2017, the Group has also engaged in providing sub-contracting services to external customers. Management believes that the Group will be able to record a significant increase in sales in the coming twelve months after the reporting period.
- (8) The Group has engaged legal advisors to handle all claims and disputes. The Directors have also obtained advice from legal advisors on these matters and, based upon which, are of the view that the Group will be able to resolve those outstanding claims and disputes, with no significant cash outflows in the next twelve months.
- (9) Following the Review Hearing held on 5 December 2017, the Listing (Review) Committee informed the Company by a letter dated 12 December 2017 (the “LRC Decision Letter”) that it decided to set aside the cancellation of the Company’s listing status to enable the Company to proceed with implementing the Resumption Proposal. This decision is subject to compliance with the following conditions to the satisfaction of the Listing Department:
- (a) submit (i) a letter addressing to the Company from the Company’s auditors explaining the impairment assessment of certain intangible assets of the Company for the years 2014 to 2016; and (ii) a written commentary from the Company incorporating the views of its auditors that there would not be any material audit qualifications on the Company’s next audited consolidated financial statements and no material impairment of the Company’s intangible assets would be made, should the Resumption Proposal be implemented as planned; to the Listing Department within 3 months from the date of the LRC Decision Letter (i.e. 12 March 2018);
 - (b) the transactions and arrangements contemplated under the Resumption Proposal shall be supported by signed and legally binding agreements within 6 months from the date of the LRC Decision Letter (i.e. 12 June 2018) and evidence thereof be provided to the Listing Department by way of certified copies of all such agreements;

- (c) a circular to the shareholders (in substantially final form) regarding the implementation of the Resumption Proposal shall be submitted to the Listing Department and, in relation to Takeovers Code matters, the Securities and Futures Commission for clearance within 6 months from the date of the LRC Decision letter (i.e. 12 June 2018) and shall be in form and content satisfactory to the Listing Department both in relation to the implementation of the Resumption Proposal itself and that the Company would be able to comply with Rule 13.24 of the Listing Rules and meet all resumption of trading conditions previously identified by the Listing Department to the Company;
- (d) the documents necessary for the scheme of arrangement of the Company shall be formalised within 6 months from the date of the LRC Decision Letter (i.e. 12 June 2018);
- (e) the implementation of the Resumption Proposal shall be completed by 30 September 2018, should the Resumption Proposal be approved by the Company's shareholders; and
- (f) the Company shall report to the Listing Department on a 3-month basis, reporting on the progress of the implementation of the Resumption Proposal.

It is also stated in the LRC Decision Letter that should the Company fail to comply with any of the above conditions to the satisfaction of the Listing Department, the listing of the Company's shares on the Stock Exchange will be cancelled.

On 12 March 2018, the Company submitted (i) a letter addressing to the Company from the Company's auditors explaining the Company's impairment assessment of the intangible asset for the years 2014 to 2016; (ii) a written commentary from the Company incorporating the views of its auditors on any material audit qualifications for the Company's next audited consolidated financial statements and any material impairment of the Company's intangible asset should the Resumption Proposal be implemented as planned; and (iii) a report on the progress of the implementation of the Resumption Proposal to the Listing Department pursuant to conditions (a) and (f) as imposed under the LRC Decision Letter.

As contained in the progress report mentioned above, on 11 March 2018, a legally binding sales and purchase agreement was entered into between the Company and a purchaser in relation to the disposal of 7% equity interest in S.E.A. Mineral Limited (the “Disposal”), which forms part of the Company’s resumption plan. Details of the Disposal will be disclosed and published in a separate announcement in due course.

The Company is also in the process of negotiating the terms of and implementing other transactions and arrangements contemplated under the Resumption Proposal, which include, among others, the scheme of arrangement, the disposal of certain interest in the Company’s subsidiaries and the proposed open offer. Further announcement(s) will be made by the Company to inform the shareholders and potential investor of the Company in respect of the progress of the implementation of the Resumption Proposal as and when appropriate.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	4	296,430	176,760
Cost of sales	4	<u>(257,559)</u>	<u>(156,389)</u>
Gross profit		38,871	20,371
Other gains, net	4	42,414	74,281
Selling and distribution expenses		(2,255)	(3,897)
Administrative expenses		(214,330)	(232,410)
Finance income	7	139	3,240
Finance costs	7	(343,919)	(320,186)
Other income/(expenses)	5	6,391	(133,200)
Impairment of property, plant and equipment	5	<u>–</u>	<u>(54,434)</u>
Loss before income tax	5	(472,689)	(646,235)
Income tax expense	8	<u>–</u>	<u>(443)</u>
Loss for the year		<u>(472,689)</u>	<u>(646,678)</u>
Attributable to:			
Owners of the Company		(472,372)	(645,992)
Non-controlling interests		<u>(317)</u>	<u>(686)</u>
		<u>(472,689)</u>	<u>(646,678)</u>
Loss per share attributable to owners of the Company			
– Basic (HK dollar)	10	<u>(0.15)</u>	<u>(0.22)</u>
– Diluted (HK dollar)	10	<u>(0.15)</u>	<u>(0.22)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Loss for the year	(472,689)	(646,678)
Other comprehensive (loss)/income		
<i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	(84,708)	62,396
Release of exchange reserve on deconsolidation of subsidiaries	(6,873)	—
Other comprehensive (loss)/income for the year, net of tax	(91,581)	62,396
Total comprehensive loss for the year	(564,270)	(584,282)
Attributable to:		
Owners of the Company	(563,975)	(583,606)
Non-controlling interests	(295)	(676)
	(564,270)	(584,282)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December	
		2017	2016
	Notes	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		428,917	450,329
Prepaid land lease payments		171,610	164,162
Intangible asset		2,384,543	2,384,543
Interest in an associate		–	–
Other non-current assets		1,531	1,428
		<u>2,986,601</u>	<u>3,000,462</u>
Current assets			
Inventories		179,392	230,600
Trade and notes receivables	11	74,906	26,412
Prepayments, deposits and other receivables		112,023	144,668
Pledged time deposits		25	1,687
Cash and cash equivalents		20,046	20,143
		<u>386,392</u>	<u>423,510</u>
Total assets		<u>3,372,993</u>	<u>3,423,972</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		308,813	308,813
Reserves		(1,141,229)	(577,276)
		(832,416)	(268,463)
Non-controlling interests		(356)	6,006
Total shareholders' deficit		<u>(832,772)</u>	<u>(262,457)</u>

		As at 31 December	
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Other long term payables		7,932	8,374
Deferred tax liabilities		1,288	1,204
		<u>9,220</u>	<u>9,578</u>
Current liabilities			
Trade payables	<i>12</i>	133,008	120,358
Notes payables	<i>12</i>	1,436	1,444
Other payables and accruals		1,512,790	1,143,954
Bank and other borrowings		2,493,776	2,331,498
Convertible bonds		46,775	46,775
Derivative financial instruments		–	–
Tax payable		8,760	32,822
		<u>4,196,545</u>	<u>3,676,851</u>
Total liabilities		<u>4,205,765</u>	<u>3,686,429</u>
Total equity and liabilities		<u>3,372,993</u>	<u>3,423,972</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Nickel Resources International Holdings Company Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2004 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company and its subsidiaries (collectively referred to as the “Group”) is located at No. 7, Block F, Runhua Business Garden, No. 24, Jinshui Road, Jinshui District, Zhengzhou City, Henan Province, the People’s Republic of China (the “PRC”), 450012. The principal place of business of the Company is located at Room 1705, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The principal activity of the Company is investment holdings. The Group is principally engaged in the manufacturing, sub-contracting and sale of iron and steel products in the PRC and the trading of ore. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

In the opinion of the directors of the Company, Easyman Assets Management Limited (“Easyman”), a company incorporated in the British Virgin Islands (“BVI”) and wholly owned by Mr. Dong Shutong (“Mr. Dong”), is the ultimate holding company of the Company. Mr. Dong is regarded as ultimate controlling party.

The consolidated financial statements are presented in Hong Kong dollar (“HK\$”), unless otherwise stated, and have been approved for issue by the board of Directors on 28 March 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and liabilities (including derivative financial instruments) are measured at fair value, as appropriate.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(a) Going concern

During the year ended 31 December 2017, the Group incurred a net loss of HK\$472,689,000 and had a net operating cash outflow of HK\$3,892,000. As at 31 December 2017, the Group had a shareholders' deficit of HK\$832,772,000 and net current liabilities of HK\$3,810,153,000, and the Group's total borrowings amounted to HK\$2,541,987,000 which comprised bank and other borrowings, convertible bonds and notes payables of HK\$2,493,776,000, HK\$46,775,000 and HK\$1,436,000, respectively as at 31 December 2017. Cash and cash equivalents of the Group amounted to HK\$20,046,000 as at 31 December 2017.

As at 31 December 2017, the Group's borrowings to the extent of HK\$2,539,731,000 were either overdue or due for immediate repayment despite the original contractual repayment dates of some of these borrowings are beyond twelve months after 31 December 2017. This is mainly because:

- (i) on 19 December 2014, the Group failed to make interest payment totaling HK\$16,108,000 under the relevant terms and conditions of its Modified 10% Coupon Bonds, 12% Coupon Senior Bonds and 8% Coupon Convertible Bonds (together the "Bonds"). This constituted an event of default under the respective terms of the Bonds. Up to 31 December 2017, the Group failed to pay interest payment of the Bonds in aggregate of HK\$170,592,000. As a result, the outstanding principal amounts of the Bonds totaling HK\$466,165,000 (2016: HK\$466,165,000) became immediately due and payable (subject to the terms and conditions), out of which the 12% Coupon Senior Bonds and 8% Coupon Convertible Bonds of HK\$390,990,000 (2016: HK\$390,990,000) and HK\$46,775,000 (2016: HK\$46,775,000), respectively are with original contractual repayment date within 2018;
- (ii) as at 31 December 2017, a non-current secured bank loan of HK\$100,431,000 with contractual repayment date in 2019 contains a repayable on demand clause. As a result, the outstanding amount has been classified as current liabilities as at 31 December 2017;

- (iii) as at 31 December 2017, other loans to the extent of HK\$239,263,000 had become overdue;
- (iv) other borrowings to the extent of HK\$381,950,000 were overdue and HK\$331,793,000 were on repayable on demand terms;
- (v) the Group has obtained a 3-year syndicated loan of approximately RMB498 million (equivalent to HK\$556,859,000) in January 2016 from a syndicate of banks in the PRC (i) to replace certain outstanding bank loans and notes payable of the Group as at 31 December 2015 to the extent of RMB268,620,000 and RMB79,737,000, respectively with the syndicated loan of the same amount; and (ii) to provide additional loan facilities to the Group as working capital for an amount of RMB150,000,000 (the “New Facilities”) for a 3-year term. The New Facilities have been fully drawn down during the year ended 31 December 2016. The syndicated loan is secured by certain property, plant and equipment and prepaid land lease payments of certain subsidiaries of the Group. However, the Group failed to fulfil certain undertakings and restrictive covenant requirements under these syndicated loan facilities upon signing the syndicated loan agreement. As a result, the outstanding amount of the 3-year syndicated loan of HK\$595,837,000 was immediately due and payable as at 31 December 2017; and
- (vi) the Group has obtained an unsecured 3-year loan facility from a PRC bank for an amount of RMB360 million (equivalent to HK\$430,674,000) (the “Unsecured Loan Facility”) in June 2016. As at 31 December 2017, approximately RMB365 million (equivalent to HK\$424,292,000) of the Unsecured Loan Facility has been drawn down mainly to replace part of the loans in relation to the proposed disposal of a 30% equity interest in S.E.A. Mineral Limited (“SEAM”), a wholly-owned subsidiary of the Group, as detailed below. However, the Group failed to fulfil certain undertakings and restrictive covenant requirements under this Unsecured Loan Facility upon signing the loan agreement. As a result, the outstanding amount of this loan of HK\$424,292,000 was immediately due and payable as at 31 December 2017.

Together with the accrued interest for borrowings to the extent of HK\$893,946,000 as at 31 December 2017 included in other payables and accruals, the aggregate borrowings and interest that were either overdue or due for immediate repayment amounted to HK\$3,433,677,000 as at 31 December 2017.

In addition, the Group is involved in various claims and disputes as detailed in Note 13.

The aforementioned conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

In view of such circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve its financial position which include, but not limited to, the following:

- (1) On 5 March 2016, the Company and a potential investor (the "Potential Investor" or "Subscriber") entered into a share subscription agreement to subscribe for a total of 1,465,898,410 new ordinary shares of the Company at a subscription price of HK\$0.1876 per share (the "Subscription Shares"), with proposed gross proceeds totalling approximately HK\$275 million (the "Subscription"), subject to certain conditions precedent which, among others, include the following:
 - approval from the Company's shareholders, or independent shareholders when appropriate, for (i) allotment and issuance of the Subscription Shares; (ii) a Whitewash Waiver; and (iii) a Special Deal (as defined hereunder), at the extraordinary general meeting of the Company ("EGM");
 - Whitewash Waiver being granted by The Securities and Futures Commission of Hong Kong ("SFC") in respect of any obligation of the Subscriber and parties acting in concert with it to make a mandatory general offer in cash for all the issued shares and other relevant securities of the Company not already owned (or agreed to be acquired) by the Subscriber and parties acting in concert with it which might otherwise arise as a result of the Subscription;
 - the consent from the SFC for repayment to any creditor who is a shareholder of the Company using the proceeds from the Subscription under a proposed debt restructuring as mentioned below (the "Special Deal");
 - approval of resumption of trading of the Company's shares, and listing of the Subscription Shares from the Stock Exchange; and

- completion of a debt restructuring by the Company by way of the “Schemes” (Note) (the “Debt Restructuring Proposal”). The debt restructuring refers to a plan for restructuring of the indebtedness of the Company which involves, among other things: (i) the reduction and cancellation of the outstanding principal amount of the Bonds by at least 80%; (ii) the reduction and cancellation of all the outstanding accrued interests of the Bonds; (iii) the release and discharge of all security collateral provided in relation to the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds; and (iv) the reduction and cancellation of all other indebtedness and contingent liabilities of the Company as referred to in the Debt Restructuring Proposal, by at least 80%.

In respect of the above, the Company appointed a financial advisor and debt restructuring scheme advisor to facilitate the Subscription and Debt Restructuring Proposal.

At the meetings of the holders of the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds held on 21 June 2016 and 6 July 2016, respectively, separate extraordinary resolutions (“Extraordinary Resolutions”) were passed and resolved, among others, to approve the Debt Restructuring Proposal, not to enforce any security of the Bonds until approval of the Schemes and release the security as required under the Schemes following the Schemes becoming effective, vote the entire principal amount in favour of the Schemes at the meetings of the Schemes, waive any event of default or potential event of default which might or has occurred and not to demand repayment of any amount due under the Bonds.

Following the passing and effectiveness of the Extraordinary Resolutions by 6 July 2016, the Company is preparing the necessary documents to submit to the courts for the relevant creditors’ approval and court sanction for the Cayman Scheme and the Hong Kong Scheme under the Debt Restructuring Proposal.

The Company is also actively negotiating with other creditors of the Company for the execution of the Debt Restructuring Proposal.

Note:

The proposed scheme of arrangement pursuant to Section 86 of the Companies Law (2007 Revision) of the Cayman Islands between the Company and the creditors under such scheme (the “Cayman Scheme”) and the proposed scheme of arrangement of pursuant to Sections 670, 673 and 674 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) between the Company and the creditors under such scheme (the “Hong Kong Scheme”), collectively are referred to as the “Schemes”.

- (2) In relation to the secured bank loan of HK\$100,431,000 which contains a repayable on demand clause, the Group is actively negotiating with the bank for the waiver of the relevant clause.
- (3) In relation to the syndicated bank loan and the bank loan under the Unsecured Loan Facility to the extent of HK\$595,837,000 and HK\$424,292,000, respectively, the Group is actively negotiating with the respective banks for the waiver of the breach of the undertaking and restrictive covenant requirements.
- (4) On 21 January 2013, the Group entered into a non-binding framework agreement with Beijing Wincapital Management Co., Ltd. (“Beijing Wincapital”) in relation to the disposal of a 30% equity interest in SEAM, a wholly-owned subsidiary of the Group. The aggregate disposal consideration is expected to be approximately US\$150 million (approximately HK\$1,170 million). The proposed transaction is yet to complete and no formal sales and purchase agreement has been entered into up to the date of this announcement. Longer than expected time was spent on negotiation of the detailed terms and conditions because of the rapid change in operating and regulatory environment of SEAM since the framework agreement was signed.

In connection with the proposed disposal, Beijing Wincapital arranged certain loan finance to the Group (“Financing Loans”), which can be settled by offsetting against the disposal consideration should the proposed disposal be completed.

During the year ended 31 December 2017, a loan arranged by Beijing Wincapital of RMB200,000,000 (equivalent to HK\$239,260,000) has been novated to Henan Pingyuan Holding Group Co., Ltd (“Pingyuan”).

As at 31 December 2017, the outstanding Financing Loans amounted to approximately RMB200 million (equivalent to HK\$239,263,000) were overdue for repayments. Up to the date of this announcement, the Group has not received any letter from the lender demanding for repayment of these loans. Management is currently negotiating with the relevant parties to formally extend the repayments of these loans to facilitate the completion of the proposed disposal. Management believes that with bona fide intention for relevant parties, the proposed disposal will be completed and the Group will be able to offset all these borrowings against the disposal consideration.

On 11 March 2018, the Group entered into a sale and purchase agreement with Mr. Sun Gang (“Mr. Sun”), who is also a substantial shareholder of Pingyuan, pursuant to which the Group agreed to sell 7% equity interest in SEAM to Mr. Sun at a consideration of RMB210,000,000 (equivalent to approximately HK\$251,223,000). Conditional upon, amongst others, approval from the shareholders of the Company at an extraordinary general meeting and resumption of trading of the Company’s shares.

- (5) Apart from the borrowings mentioned in (1) to (4) above, the Group had other borrowings from certain related parties of the Group, the Potential Investor, related parties of the Potential Investor and other third parties (secured and unsecured) of HK\$89,086,000, HK\$236,870,000, HK\$314,524,000 and HK\$73,263,000, respectively that were either overdue or due for immediate repayment as at 31 December 2017. The Group has been actively negotiating with the lenders for the renewal and extension of the repayment dates of these borrowings, of which an extension of the repayments of the borrowings from related parties of the Potential Investor for a term of 2 years is currently under discussion.
- (6) The Group is also negotiating with various financial institutions and identifying various options for financing the Group’s working capital and commitments in the foreseeable future, including identification of potential investors to invest in various projects undertaken by the Group.
- (7) The Group is also maximizing its sales effort, including speeding up of sales of its existing inventories and seeking new orders from overseas markets or new customers on developed new products, exploring new business opportunities and implementing more stringent cost control measures with a view to improving operating cash flows. During the year ended 31 December 2017, the Group has also engaged in providing sub-contracting services to external customers. Management believes that the Group will be able to record a significant increase in revenue in the coming twelve months after the reporting period.
- (8) The Group has engaged legal advisors to handle all claims and disputes as detailed in Note 13. The Directors have also obtained advice from legal advisors on these matters and, based upon which, are of the view that the Group will be able to resolve those outstanding claims and disputes, with no significant cash outflows in the next twelve months.

The directors have reviewed the Group's cash flow projections prepared by management that covered a period of not less than twelve months from the end of the reporting period and considered that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period, and therefore it is appropriate to prepare the consolidated financial information on a going concern basis.

Notwithstanding the above, significant multiple uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to manage its indebtedness, and generate adequate financing and operating cash flows through:

- (1) successful completion of the issuance of the Subscription Shares after fulfilling all conditions precedent as detailed, but not limited to, above and in particular by the successful completion of the Debt Restructuring Proposal;
- (2) successful negotiation with the banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements;
- (3) successful negotiation with the financiers to extend the repayment date of a loan arranged by Beijing Wincapital of RMB200 million (equivalent to HK\$239,260,000) until completion of the proposed disposal of interest in SEAM under the above-mentioned framework agreement at the prescribed consideration and be able to collect the disposal consideration in full immediately upon completion of the transaction after properly offsetting the above-mentioned borrowings of approximately RMB200 million;
- (4) successful negotiation with the related parties of the Group, the Potential Investor, related parties of the Potential Investor and other third party lenders for extension of their relevant borrowings by maintaining relationship with them, and such that no action will be taken by those lenders to demand immediate repayment of the overdue borrowings under negotiation;
- (5) successful negotiation with the lenders for obtaining additional new financing and other sources of funding as and when required;

- (6) successful implementation of its operation plans described above to control costs and generate adequate operating cash flows; and
- (7) successful resolution of the outstanding claims and disputes, and without significant cash outflows in the next twelve months.

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

(b) Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2017:

- Recognition of deferred tax assets for unrealised losses – Amendments to IAS 12
- Annual improvements to IFRSs 2014 – 2016 cycle – Amendments to IFRS 12, and
- Disclosure initiative – Amendments to IAS 7.

The adoption of these amendments did not have any material impact on the consolidated financial statements of the Group for the current year. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities.

(2) *New standards, amendments to standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing the consolidated financial statements. The Group's assessment of the impact of these new standards, amendments to standards and interpretations is set out below.

IFRS 9, 'Financial instruments'

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and liabilities. The Group does not expect the new guidance to affect the classification and measurement of the financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 'Financial Instruments: Recognition and Measurement' and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 'Revenue from Contracts with Customers', lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group does not expect significant increase or decrease in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 9 must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15, 'Revenue from contracts with customers'

The International Accounting Standards Board ("IASB") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standards on the Group's consolidated financial statements. Based on the assessments undertaken to date, it is considered that the new standard does not have a significant impact on the Group's revenue recognition.

IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16, 'Leases'

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK\$2,982,000.

The Group has not yet assessed the adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 SEGMENT INFORMATION

For management purposes, the Group has one reportable operating segment: the trading of ore and the manufacturing, sub-contracting and sale of iron and special steel products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Mainland China	296,430	175,934
Taiwan	—	826
	<u>296,430</u>	<u>176,760</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Mainland China	602,018	614,317
Indonesia	2,384,543	2,384,762
Others	40	1,383
	<u>2,986,601</u>	<u>3,000,462</u>

The non-current assets information above is based on the locations of the assets.

Information about major customers

For the year ended 31 December 2017, revenue of approximately HK\$207,358,000 (2016: HK\$80,570,000) were derived from four (2016: three) customers, amounted to approximately HK\$60,137,000, HK\$56,184,000, HK\$50,949,000 and HK\$40,088,000 respectively which individually accounted for over 10% of the Group's total revenue.

4 REVENUE AND OTHER GAINS, NET

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Revenue		
Sale of goods:		
Stainless steel products	187,480	20,872
Ni-Cr alloy steel ingot	18,748	73,805
Ferro-nickel alloys and others	<u>50,114</u>	<u>82,083</u>
	256,342	176,760
Sub-contracting income	<u>40,088</u>	–
	<u>296,430</u>	<u>176,760</u>
Other gains, net		
Changes in fair value of derivative financial instruments	–	28,569
Gain on disposal of property, plant and equipment, net	185	13,350
Foreign exchange (losses)/gains, net	(3,865)	22,078
Gain on deconsolidation of subsidiaries, net (<i>Note 6</i>)	44,455	–
Claims income received	–	9,485
Others	<u>1,639</u>	<u>799</u>
	<u>42,414</u>	<u>74,281</u>

5 LOSS BEFORE INCOME TAX

The Group's loss before income tax is stated at after charging the following:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Costs of inventories sold	257,241	146,471
Employee benefits expense	59,970	72,786
Research expenses	579	1,113
Auditors' remuneration		
– Audit services	3,950	3,950
– Non-audit services	231	1,463
Depreciation	72,260	82,355
Amortisation of prepaid land lease payments	4,506	5,144
Minimum lease payments under operating leases in respect of buildings and equipment	4,976	7,902
Provision for impairment of inventories	12,360	9,918
Impairment of property, plant and equipment	–	54,434
(Reversal of)/provision for impairment of trade receivables*	(11,571)	4,635
Provision for impairment of prepayments and other receivables*	<u>5,180</u>	<u>128,545</u>

* Included in other (income)/expenses

6 GAIN ON DECONSOLIDATION OF SUBSIDIARIES, NET

During the year ended 31 December 2017, the Group received an Order of Court upon the hearing of the winding up application against CNR Group Pte. Ltd (“CNRG”), a wholly-owned subsidiary of the Company, at the High Court of the Republic of Singapore (“Winding Up Order”). Pursuant to the Winding Up Order, the High Court of the Republic of Singapore ordered that CNRG be wound up under provision of Singapore Companies Act (Cap 50) and a liquidator be appointed to commence the winding up proceedings. Following the appointment of the liquidator, the directors of CNRG ceased to have power over the business activities of CNRG and the assets of CNRG were under custody and control of the liquidator. Consequently, the directors of the Company are of the opinion that the Group lost control over the operating and financing activities of CNRG and CNRG ceased to be a subsidiary of the Group. Accordingly, assets and liabilities of CNRG together with its subsidiaries (collectively the “CNRG Group”) were deconsolidated from the Group when the Group ceased to control CNRG and a gain on deconsolidation of subsidiaries was resulted. Net liabilities of CNRG at the time when the Group ceased to control is analysed as follows:

	<i>HK\$'000</i>
Property, plant and equipment	1,389
Prepayment, deposit and other receivables	4,431
Cash and bank balances	257
Trade payables	(714)
Other payables and accruals	(9,835)
Other long term payables	(900)
Income tax payables	<u>(26,143)</u>
Net liabilities deconsolidated	(31,515)
Non-controlling interests	(6,067)
Release of exchange reserve	<u>(6,873)</u>
Gain on deconsolidation of subsidiaries, net	<u><u>(44,455)</u></u>

7 FINANCE COSTS, NET

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Finance income		
Interest income on time deposits	139	3,240
Finance costs		
Interest on bank and other borrowings	(338,094)	(312,245)
Interest on convertible bonds	(5,825)	(7,941)
	(343,919)	(320,186)
Finance costs, net	(343,780)	(316,946)

8 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which the Group's entities are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

The applicable Hong Kong profits tax rate of the Company, and its subsidiaries, which operate in Hong Kong, is 16.5% (2016: 16.5%).

According to the PRC Corporate Income Tax Law, the applicable income tax rate of the Group's PRC subsidiaries is 25% for the year (2016: 25%).

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Current income tax:		
– Mainland China	–	–
– Singapore		
– Under-provision in prior year	–	443
Deferred income tax	–	–
Income tax expense	–	443

9 DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

10 LOSS PER SHARE

Basic

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares of 3,088,131,105 (2016: 2,937,454,876) in issue during the year.

Diluted

The calculation of the diluted loss per share for the year ended 31 December 2017 is based on the loss for the year attributable to equity holders of the Company, adjusted to reflect the interest on and change in fair value of the derivative component of the convertible bonds and share options. The weighted average number of ordinary shares used in the calculation is the weighted average number of the ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

Diluted loss per share is the same as basic loss per share for the years ended 31 December 2017 and 2016 because the impact of dilution of the convertible bonds and share options is anti-dilutive.

11 TRADE AND NOTES RECEIVABLES

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Trade receivables	<i>(a)</i>	90,489	56,157
Notes receivables	<i>(b)</i>	<u>—</u>	<u>112</u>
		90,489	56,269
<i>Less: provision for impairment losses</i>		<u>(15,583)</u>	<u>(29,857)</u>
		74,906	26,412

The Group's trading terms with its customers are mainly on credit, except for new customers and customers of limonitic ores, where payment in advance is normally required. The credit period is generally one to two months. During the year, the Group generated its revenue from sales of alloys and special steel products to other steel producers, thereby exposing the Group to concentration of credit risk in the steel industry. The Group does not hold any collateral or other credit enhancements over these balances. Trade and notes receivables are non-interest-bearing. The carrying amounts of trade and notes receivables approximate their fair values.

Note:

(a) Trade receivables

An ageing analysis of trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	65,208	25,108
91 to 180 days	9,695	456
181 to 365 days	3	736
Over 1 year	15,583	29,857
	<u>90,489</u>	<u>56,157</u>

(b) Notes receivables

As at the end of the reporting period, the maturity period of the Group's notes receivables is as follows:

	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	–	56
91 to 180 days	–	56
	<u>–</u>	<u>112</u>

12 TRADE AND NOTES PAYABLES

	<i>Notes</i>	2017 HK\$'000	2016 <i>HK\$'000</i>
Trade payables	<i>(a)</i>	133,008	120,358
Notes payables	<i>(b)</i>	<u>1,436</u>	<u>1,444</u>
		<u>134,444</u>	<u>121,802</u>

(a) Trade payables

An ageing analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	2017 HK\$'000	2016 <i>HK\$'000</i>
Within 90 days	68,773	22,843
91 to 180 days	5,380	2,718
181 to 365 days	6,165	4,987
1 to 2 years	6,537	4,940
2 to 3 years	2,250	18,183
Over 3 years	<u>43,903</u>	<u>66,687</u>
	<u>133,008</u>	<u>120,358</u>

Trade payables are normally settled on terms of 60 to 180 days. The carrying amounts of trade payables approximate their fair values at the end of the reporting period.

(b) **Notes payables**

An ageing analysis of the notes payables of the Group at 31 December 2017 is as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within 90 days	<u><u>1,436</u></u>	<u><u>1,444</u></u>

At 31 December 2017, notes payables of HK\$1,436,000 (2016: HK\$1,444,000) were denominated in RMB and secured by time deposits of HK\$12,000 (2016: HK\$1,674,000). The carrying amounts of notes payables approximate their fair values at the end of the reporting period.

13 CONTINGENT LIABILITIES, CLAIMS AND DISPUTES

The Group follows the guidance of IAS37 “Provisions, Contingent Liabilities and Contingent Assets” to determine when contingent liabilities should be recognised, which requires significant judgement.

A contingent liability will be disclosed when a possible obligation has arisen, but its existence has to be confirmed by future events outside the Group’s control, or when it is not possible to calculate the amount. Realisation of any contingent liabilities not currently recognised or disclosed could have a material impact on the Group’s financial position.

The Group reviews significant outstanding litigations in order to assess the need for provisions. Among the factors considered are the nature of the litigation, legal processes and potential level of damages, the opinions and views of the legal counsels and advisors, and the management’s intentions to respond to the litigations. To the extent the estimates and judgements do not reflect the actual outcome, this could materially affect the results for the period and the financial position.

(a) **Litigation with Rock Resource Limited (“RR”) and United Mineral Limited (“UM”) (collectively referred to as the “Buyers”)**

In March 2014, the Company received certain legal letters (the “Letters”) from the Buyers dated 20 March 2014, which purported to be statutory demands serviced to the Company pursuant to section 178(1)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) (“Statutory Demand”).

The Letters concern disputes between the Group and the Buyers relating to certain primary contracts for the sale and purchase of Indonesian iron ores, and contain claims for (i) an amount of US\$10,347,698 (equivalent to approximately HK\$80,242,000) which comprises the demand for return of an advance payment made by RR to the Group of US\$3,000,000 (equivalent to approximately HK\$23,264,000) and interest thereon to the extent of US\$7,347,698 (equivalent to approximately HK\$56,978,000) payable up to 20 March 2014; and (ii) an amount of RMB70,355,783 (equivalent to approximately HK\$89,488,000) which comprises the demand for return of an advance payment made by UM to the Group of RMB20,000,000 (equivalent to approximately HK\$25,438,000) and interest thereon to the extent of RMB50,355,783 (equivalent to approximately HK\$64,050,000) payable up to 20 March 2014. The Company as guarantor to the abovementioned primary contracts is therefore also a party to these litigations.

On 4 April 2014, the Group issued a legal letter to the legal representative of the Buyers requesting them to withdraw the Statutory Demand as the Group considers that it has bona fide defences on substantial grounds to the claims asserted from the Buyers, and the Group also considers it has very substantial counterclaims against the Buyers as a result of their non-performance of the relevant contracts.

On 7 April 2014, the Group received another legal letter from the legal representative of the Buyers informing that the Buyers will not present their winding up petition against the Company without serving a 3-day notice.

On 11 April 2014, the Company received another statutory demand from the legal representative of UM to claim for certain interest charge (“Interest Charge”) on certain loans provided by UM to the Group (the principal of which had been fully repaid before 31 December 2013) calculated up to 11 April 2014 (as supplemented by another legal letter dated 15 April 2014), together with the related penalty, to the extent of US\$3,839,000 (equivalent to approximately HK\$29,770,000). The Group has subsequently replied, through its legal representative, that most of the claimed Interest Charge are unenforceable at law but agreed to pay the relevant interest charge (after tax) calculated under normal contract terms in the amount of US\$345,000 (equivalent to approximately HK\$2,675,000) which had been provided for during the year ended 31 December 2013.

On 9 May 2014, the Group received another legal letter from the legal representative of UM informing that UM will not present its winding up petition against the Company without serving a 3-day notice.

In October 2014, the legal representative of UM issued a letter to the Group requesting payment for the amount of US\$345,000 and the Group fully settled the amount in November 2014.

On 18 November 2014, a subsidiary of the Group received a legal letter from RR, which purported to be statutory demand serviced to the subsidiary pursuant to section 254(2)(a) of the Singapore Companies Act (Cap.50), requesting for settlement of a payable of US\$1,726,000 (equivalent to approximately HK\$13,387,000) (the “Unpaid Invoices”), which has been included as current liabilities of the Group in the consolidated financial statements.

On 8 December 2014, the Group issued a legal letter to RR requesting RR to withdraw such statutory demand and confirm that RR will not commence winding up of the aforementioned subsidiary as the Group considers it has bona fide defences on substantial grounds to the claims asserted in RR’s letter dated 18 November 2014 and significant cross-claims against RR and therefore the Unpaid Invoices should not be settled at this stage since the Group would be entitled to set these sums off against its very substantial counterclaims for RR and/or UM.

On 8 September 2015, Easyman entered into a Swap of Debt Agreement with RR and CNR Group Holdings Pte Ltd (“CNRG”), a subsidiary of the Group, which gave effect to provide a charge over a total of 31,762,295 shares in the Company to RR as a security for the above litigation. These shares can be used by RR for settlement of any liabilities that may arise and become payable by the Group to RR in respect of the above litigation.

In order to resolve certain of the above claims and disputes, Yongtong Special Steel and CNRG, subsidiaries of the Group, also entered into an agreement with RR on 6 June 2016, pursuant to which, and on a “no admission of liability” basis that, Yongtong Special Steel shall deliver certain equipment to RR as a consideration for offsetting any payables due by the Group to RR to the extent of RMB30,000,000 (the “Consideration Equipment”). Upon delivery of all relevant equipment and acknowledgement receipt by RR, any liabilities that the Group may owe to RR shall be reduced by RMB30,000,000. These equipment have been delivered to and acknowledged receipt by RR before 31 December 2016.

During the year ended 31 December 2017, the Company, Mr. Dong and the Buyers entered into a settlement agreement (the “Settlement Agreement”) pursuant to which all these parties agreed to fully settle the above litigation matters, amongst other terms and conditions, at an aggregate consideration of US\$12,000,000 as follows:

- (i) an amount of US\$5,000,000 to be satisfied by the aforementioned Consideration Equipment of Yongtong Special Steel delivered to RR during the year ended 31 December 2016; and
- (ii) the remaining amount of US\$7,000,000 to be settled by Mr. Dong on behalf of the Company, by transferring his entire personally interest in 50% equity interests in an unlisted entity to UM or a party specified by UM.

As at 31 December 2017, the above Settlement Agreement is still under execution. Based on the terms of the Settlement Agreement, the directors consider that the Settlement Agreement will be fully executed in 2018 and no material loss to the Group will be resulted upon final settlement of the above litigation matters.

(b) Dispute on Contracts of Affreightment (“COAs”)

The Group entered into certain COAs with various marine vessel owners committing certain minimum number of cargoes per calendar month for exporting iron ores from Indonesia. As a result of the unfavourable economic environment and the various changes in rules and regulations stipulated by the Indonesian government authorities since year 2012, the Group’s ores export was adversely affected and therefore unable to fulfil the minimum cargoes commitments as stipulated by some of these COAs.

During the year ended 31 December 2014, the Group received various legal letters from TORM A/S (“TORM”), a marine vessel owner, to (i) claim for an outstanding freight charges payable by the Group to TORM of approximately US\$1,834,000 (equivalent to approximately HK\$14,268,000) (“Outstanding Freight Charges”); and (ii) notify the commencement of arbitration proceedings pursuant to the terms of the relevant COAs to claim for loss and damage suffered by TORM (“Other Losses”) with respect to approximately 51 unfulfilled cargoes under the terms of the relevant COAs which is estimated by TORM to be approximately US\$11,828,000 (equivalent to approximately HK\$91,721,000) up to 27 March 2014 (the amount stated in the latest claim submissions from TORM).

The dispute with TORM in respect of the Outstanding Freight Charges had been settled at an amount of US\$419,000 (equivalent to HK\$3,253,000) during the year ended 31 December 2014 and the claim had been fully discharged in June 2014.

In connection with the claims on Other Losses, the Group has engaged legal advisors to commence arbitration procedures with TORM in February 2014.

During the year ended 31 December 2017, the Group has been actively negotiating with TORM on settlement of the above claims on Other Losses. In preparing the consolidated financial statements, the directors have obtain legal advice in this respect and, based on the current status of the proceedings, evidence exchanged and the latest communication with TORM, consider that most likely the Group will be able to settle the claims on Other Losses at a consideration of approximately US\$5 million (equivalent to HK\$38,782,000). A provision for claims of the same amount has been made by the Group during the year ended 31 December 2015.

As at 31 December 2017 and up to the date of approval of this announcement, based on the best knowledge and information of the directors, there are no other major claims in relation to any COAs that the Group has entered into saved as disclosed in the consolidated financial statements.

Should the resolution of these legal claims and disputes turn out to be unfavourable to the Group, the Group may need to record additional losses in respect of these claims and disputes in future reporting periods.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT ANALYSIS

Impact of Export Ban

The Group purchases ores for both trading of limonitic ore business and self- use manufacturing of iron and special steel products. In the past few years, the Group enjoyed fixed price in ore supply through an exclusive offtake agreement entered into with PT. Yiwon Mining (“Yiwon”) (“EOA”).

Pursuant to the relevant regulations promulgated in Indonesia, unprocessed ore export by mining business licence holders in Indonesia (“IUP Holders”) has been banned from 12 January 2014 onwards unless the IUP Holders have carried out processing and refining domestically according to Government Regulation No. 23 of 2010 regarding implementation of activities of business of minerals and coal mining and have conducted refining and smelting in accordance with Law No. 4 of 2009 regarding minerals and coal mining (“Export Ban”). Due to the Export Ban, Yiwon can no longer export unprocessed ore to the Group.

After the Export Ban, the ore trading business of the Group continued suspension in the whole year of 2017.

Besides the direct impact on the ore trading business, the Export Ban also adversely affected the manufacturing of iron and special steel products. Without ore supply in stable price under the EOA, the Group had to purchase the ores from the PRC market with volatile ore price fluctuation which affected the cost of manufacturing of the iron and special steel products.

Operating environment in the year of 2017

The steel product price along with the iron ore price became narrow in the year of 2017.

Despite the rebound of the PRC steel market since 2016, we remain pessimistic about the steel market in the PRC in the short term due to the continuation of over-supply and the persisting weak steel price under fierce competition in the steel market. Although the PRC government started to implement certain solutions to mitigate the over-supply situation, we expect the prices of iron and steel products may continue to fluctuate in the near future. However, in the long term, we expect the global economy will gradually recover and the economy of the PRC will maintain its healthy growth trend. Going forward, domestic market in the PRC will become quality-oriented, which will impose higher requirements on products in terms of environmental-friendliness, safety and durability, sustainability and recycling. We expect that the quantitative demand for high quality steel products will increase significantly in the long run, and product development will incline to the high-end market.

To capture these business opportunities, the Group has shifted to the production of high quality iron and special steel products through the application of more environmental-friendly production method. Moreover, the Group completed the innovation on the new “high-strength special steel” product in 2014 which can be applied to bridge construction, offshore oil platform construction, marine construction, ship construction, power transmission engineering and marine transport facilities. The Directors believe that the “high-strength special steel” product can contribute substantially to the Group’s future operating profits upon the successful exploration and development of the new “high-strength special steel” products in the PRC steel market in the near future.

BUSINESS REVIEW

Project Progress

In the PRC

Lianyungang City East Harvest Mining Company Limited, a wholly-owned subsidiary of the Company, has constructed a production plant to produce nickel fine powder. The first production line of the production plant started trial production in 2012. The nickel fine powder can be treated as finished product for direct sales; alternatively, it can be treated in a blast furnace and processed into nickel-iron alloy fluid, which becomes a high-quality raw material for the production of stainless steel. The Lianyungang plant applies low carbon metallurgical technology developed by the Group. Ordinary coal, rather than coke used in traditional process, is used in the reduction purification process, under which the consumption of carbon may decrease by up to 40%. In addition, the plant can utilise low grade nickel ore for production, the cost of which is much lower than that used in traditional production process. The project is highly recognised by the local government. Moreover, the plant is situated at the Lianyungang port and benefits from geographical advantages. Ores and other raw materials from overseas can be conveniently transported to the plant, largely reducing the inland transportation costs and logistics pressure.

In Indonesia

On 11 March 2018, the Group entered into a sale and purchase agreement with Mr. Sun, who is an indirect shareholder of the Subscriber, pursuant to which the Group agreed to sell 7% equity interest in SEAM to Mr. Sun at a consideration of RMB210,000,000 (equivalent to approximately HK\$251,223,000). This transaction is conditional upon, obtaining amongst others, approval from shareholders of the Company at an extraordinary general meeting and resumption of trading of the Company's shares.

Upon the disposal of 7% equity interest in SEAM has been entered, the Group is actively assessing the available financing sources and considering any possible alternatives, including but not limited to, co-operation with local enterprises for building up special steel mills in Indonesia.

Business Development

Ore trading business

The Group purchases ores from Indonesia through the EOA at fixed price for self-use or for sale, and has started selling ores to third parties since the end of 2009. The ore trading business had a remarkable contribution to our profitability and cash flows due to strong demand from the PRC customers in the past.

However, the ore trading business of the Group has been suspended upon the Export Ban and it is anticipated that this will have a continuous significant negative impact on the financial and operating results of the Group.

It is possible that the relevant mining regulations in Indonesia may be amended but there is no guarantee that the Export Ban will be uplifted in near future.

The Directors are considering any possible alternatives, including but not limited to, co-operation with local enterprises for building up special steel mills in Indonesia.

Special steel-making operations

For the special steel-making operations of the Group, sales volume increased substantially as compared to the year of 2016 whereas the profit margins of stainless steel products and Ni-Cr alloy steel ingots narrowed during the year. In order for deploying the Group's readjustment of the business operations, the production plant of Zhengzhou Yongtong Special Steel Company Limited ("Yongtong Special Steel"), a wholly-owned subsidiary of the Company, suspended production from early of May to early of June 2017 and resumed production in middle of June 2017 gradually. During the year, Yongtong Special Steel commenced providing sub-contracting services to external customers by utilisation of the existing production capacity for enhancing its cash flow position and generating stable revenue.

While we expect the keen competition in the steel market of the PRC will continue in 2018, the demand for steel products will gradually pick up. Following the Environmental Protection Bureau taking measures to monitor and control the air pollution index since 2016, we expect the environmental protection issues will continue in 2018 and the supply of the stainless steel products market may be affected. Therefore, the Group will take this opportunity to produce substantially the market needed stainless steel products in near future. The Group is also actively developing and launching new high value-added special steel products and identifying PRC and overseas markets with growth potentials to strengthen our product portfolio and reduce market concentration risk.

Financing Arrangement

As at 31 December 2017, the Group had net current liabilities of approximately HK\$3,810.2 million. The Group has been actively negotiating with PRC and overseas banks and institutional investors for new borrowings and renewal of existing borrowings when they fall due. During the year, the Group had successfully obtained bank and other borrowings of HK\$296.6 million to finance its operation and for repayment of its borrowings when they fall due.

In addition, based on the framework agreement with a potential investor for the disposal of 30% equity interest of SEAM, a wholly-owned subsidiary of the Group, the aggregate consideration will be approximately US\$150 million (equivalent to approximately HK\$1,170 million). The transaction is still in progress or may be modified in near future (currently under negotiation with relevant parties) due to the rapid change in operating and regulatory environment of SEAM, and the potential investor needs more time for conducting due diligence work.

On 11 March 2018, the Group entered into a sale and purchase agreement with Mr. Sun, who is also an indirect shareholder of the Subscriber, pursuant to which the Group agreed to sell 7% equity interest in SEAM to Mr. Sun at a consideration of RMB210,000,000 (equivalent to approximately HK\$251,223,000).

Subscription agreement

References are made to the announcements of the Company dated 7 March 2016 and 29 September 2016 in respect of, among other things, the (i) proposed issue of Subscription Shares under the Specific Mandate; (ii) application for the Whitewash Waiver; and (iii) Special Deal (the “Subscription Announcements”). Unless otherwise stated, capitalised terms used in these announcements shall have the same meanings as defined in the Subscription Announcements.

On 5 March 2016, the Company and a potential investor (the “Potential Investor” or “Subscriber”) entered into a share subscription agreement pursuant to which the Subscriber agreed to subscribe for a total of 1,465,898,410 new ordinary shares of the Company at a subscription price of approximately HK\$0.1876 per share (the “Subscription Shares”), with proposed gross proceeds totalling HK\$275 million (the “Subscription”), subject to certain conditions precedent which, among others, include the following:

- approval from the Company’s shareholders, or independent shareholders when appropriate, for (i) allotment and issuance of the Subscription Shares; (ii) a Whitewash Waiver; and (iii) a Special Deal (as defined hereunder), at the extraordinary general meeting of the Company (“EGM”);
- a Whitewash Waiver being granted by The Securities and Futures Commission of Hong Kong (“SFC”) in respect of any obligation of the Subscriber and parties acting in concert with it to make a mandatory general offer in cash for all the issued shares and other relevant securities of the Company not already owned (or agreed to be acquired) by the Subscriber and parties acting in concert with it which might otherwise arise as a result of the Subscription;

- the consent from the SFC for repayment to any creditor who is a shareholder of the Company using the proceeds from the Subscription under a proposed debt restructuring as mentioned below (the “Special Deal”);
- approval of resumption of trading of the Company’s shares, and listing of the Subscription Shares from the Stock Exchange; and
- completion of a debt restructuring by the Company by way of the “Schemes” (the “Debt Restructuring Proposal”). The debt restructuring refers to a plan for restructuring of the indebtedness of the Company which involves, among other things: (i) the reduction and cancellation of the outstanding principal amount of the Bonds by at least 80%; (ii) the reduction and cancellation of all the outstanding accrued interests of the Bonds; (iii) the release and discharge of all security collateral provided in relation to the 12% Coupon Senior Bonds and the 8% Coupon Convertible Bonds; and (iv) the reduction of and cancellation of all other indebtedness and contingent liabilities of the Company as referred to in the Debt Restructuring Proposal, by at least 80%.

On 29 September 2016 and 23 September 2017, the Company and the Subscriber agreed to extend the Long Stop Date from 31 December 2016 to 30 September 2017 and from 30 September 2017 to 30 June 2018 respectively. As at the date of this announcement, the Company has actively negotiating and discussing with the Subscriber to supplement the Subscription agreement major terms and conditions upon the recent development of the Company and current market situation.

Update on the status of the Debt Restructuring Proposal and Event of Default and Cross-Default

Bonds

References are made to the announcements of the Company dated 30 May 2016, 24 June 2016 and 7 July 2016 regarding the convening of Meetings and Adjourned Meetings of Bondholders (the “Bond Announcements”). Capitalised terms used herein have the same meanings as those defined in the Bond Announcements unless defined otherwise.

Since December 2014, the Group had continuous default in payment of due interest and principal under the terms and conditions of the Bonds, the default may trigger a cross-default in accordance with respective terms and conditions of the Bonds. In such an event, DB Trustees (Hong Kong) Limited, in its respective capacities as trustee for the holders of the Bonds is entitled to, amongst other things, accelerate the Company's obligations under the Bonds and declare the outstanding principal amounts of the Bonds to be immediately due and payable, together with outstanding interest and all other sums payable. Upon the passing of the Extraordinary Resolutions by the Company on 21 June 2016 and 6 July 2016, no Senior Bondholder or Convertible Bondholder shall demand repayment of any amount due under such Bonds or take any action to enforce the payment of monies or exercise any other right thereunder or otherwise take any action against the Company whether or not under the terms and conditions of such Bonds or request or require the relevant bonds trustee to take any action against the Company from the date of the Extraordinary Resolutions to (and including) the date upon which the Schemes are implemented.

As disclosed in the announcement of the Company dated 13 June 2016, (i) the principal amount of the 12% Coupon Senior Bonds of HK\$390,990,000 and the accrued interest of HK\$90,769,000 were outstanding; (ii) the principal amount of the 8% Coupon Convertible Bonds of HK\$117,525,000 and the accrued interest of HK\$18,725,000 were outstanding; and (iii) the principal amount of the Modified 10% Coupon Bonds of HK\$28,400,000 and the accrued interest of HK\$5,996,000 were outstanding as at 12 June 2016 .

Following the passing and effectiveness of the Extraordinary Resolutions on 6 July 2016, (for details of background of the meetings of the Bondholders and the results of the Bondholders' meetings, please refer to paragraphs below headed "Background of the meetings of the Bondholders", "Meetings of the Bondholders", "Results, adjournment and dissolution of the meetings of the Bondholders" and "Results of the adjourned meeting of the convertible bondholders"), the Company is preparing the necessary documents to submit to the courts for the creditors' approval and court sanction for the Cayman Scheme and Hong Kong Scheme under the Debt Restructuring Proposal. As disclosed in the Company's announcements, completion of the Subscription is conditional upon, among other things, the approval of the Schemes by the courts under the Debt Restructuring Proposal. The application to the courts and the approval of the Schemes by the creditors at the Scheme Meetings will be the next steps towards the satisfaction of the condition precedent to completion of the Subscription.

As at the date of this announcement, there was no new material development to report since the publication of the periodic announcement by the Company on 14 March 2018.

Background of the meetings of the Bondholders

As disclosed in the announcement of the Company dated 7 March 2016, completion of the Subscription is conditional upon, among other things, the necessary order of the High Court of Hong Kong and consent of the other relevant parties with respect to the execution of an approved scheme of arrangement between the Company and the creditors under the Debt Restructuring Proposal having been obtained.

As an initial step of the Debt Restructuring Proposal, separate meetings of the Convertible Bondholders, the Senior Bondholders and the 10% Bondholders were convened in order to give effect to the following:

- the Convertible Bondholders to be treated as a separate and single class under the Schemes, not as part of the class of secured creditors of the Company, who are creditors under the Schemes nor as part of the same class as the Senior Bondholders;
- the Senior Bondholders to be treated as part of the same class as the existing unsecured creditors of the Company (including the 10% Bondholders), who are creditors under the Schemes;
- the cancellation of all outstanding principal on the Bonds;
- the cancellation of all outstanding interest, accrued and unpaid, on the Bonds; and
- the release and discharge of all of the Convertible Bonds Security and the Senior Bonds Security, respectively,

in return for, in the case of the Senior Bonds and the 10% Bonds, a Cash Distribution and in the case of the Convertible Bonds, either a Cash Distribution or a Shares Distribution. No Convertible Bondholders shall be entitled to receive a combination of a Cash Distribution and a Shares Distribution. For details, please refer to the Bond Announcements.

Meetings of the Bondholders

Separate meetings of the Convertible Bondholders, the Senior Bondholders and the 10% Bondholders were convened by the Company to consider and, if thought fit, pass separate extraordinary resolutions of the Convertible Bondholders, the Senior Bondholders and the 10% Bondholders, as the case may be (the “Extraordinary Resolutions”):

- for the Convertible Bondholders and the Senior Bondholders, as the case may be, to agree, and to instruct the relevant bonds trustee and the Security Trustee, not to enforce the Security in relation to the Convertible Bonds and the Senior Bonds, as the case may be, from the date of the meeting to the date the Schemes become Effective, or if the Debt Restructuring Proposal is not approved at the Scheme Meetings, the completion of the Scheme Meetings;
- to approve the terms of the Debt Restructuring Proposal; and
- to give instructions to the relevant Bonds Trustee to vote the full principal amount of the relevant Bonds which are outstanding in favour of the Schemes at the Scheme Meetings and any adjourned or rescheduled Scheme Meeting.

Results, adjournment and dissolution of the meetings of the Bondholders

As at the date of the Meetings of the Bondholders, according to DB Trustees (Hong Kong) Limited, in its capacities as trustees for the relevant Bonds, the outstanding principal amounts of the Convertible Bonds, the Senior Bonds and the 10% Bonds were HK\$87,850,000, HK\$390,990,000 and HK\$28,400,000, respectively.

The Company announced that:

- (a) as a quorum was not present at the Meeting of the Convertible Bondholders convened and held at 10:30 a.m. (Hong Kong time) on 21 June 2016 after 15 minutes since the time appointed for holding such Meeting, such Meeting was adjourned in accordance with the terms of the Convertible Bonds Trust Deed to 6 July 2016 at 10:30 a.m. (Hong Kong time) at the same address as the original Meeting of the Convertible Bondholders, i.e. Room 3501, 35th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong. The notice for the adjourned Meeting of the Convertible Bondholders will be published in accordance with the terms of the Convertible Bonds Trust Deed.

- (b) the Meeting of the Senior Bondholders convened and held at 11:00 a.m. (Hong Kong time) on 21 June 2016 was quorate at the first calling and the number of votes cast at such Meeting was as follows:

	FOR	AGAINST
Total number of votes cast	14,270	104
Votes as a percentage of all votes cast (%)	99.28%	0.72%
Votes as a percentage of all outstanding Senior Bonds (%)	91.24%	0.67%

As at least three-quarters of the votes cast at the Meeting of the Senior Bondholders were cast in favour of the Extraordinary Resolution, the Extraordinary Resolution put forward to the Senior Bondholders was passed, and will become effective subject to the Extraordinary Resolution to be considered by the Convertible Bondholders also being passed at the adjourned Meeting of the Convertible Bondholders (or any further adjournment thereof). No holder of the Senior Bonds was required to abstain from voting on the Extraordinary Resolution at the Meeting of the Senior Bondholders; and

- (c) as a quorum was not present at the Meeting of the 10% Bondholders convened and held at 11:30 a.m. (Hong Kong time) on 21 June 2016 after 15 minutes since the time appointed for holding such Meeting, as agreed by the Company and the 10% Bonds Trustee, such Meeting was dissolved in accordance with the 10% Bonds Trust Deed.

Results of the adjourned meeting of the convertible bondholders

As at the date of the adjourned Meeting of the Convertible Bondholders, according to DB Trustees (Hong Kong) Limited, in its capacity as trustee for the Convertible Bonds, the outstanding principal amount of the Convertible Bonds was HK\$46,775,000.

The Company announced that the adjourned Meeting of the Convertible Bondholders convened and held at 10:30 a.m. (Hong Kong time) on 6 July 2016 was quorate and the number of votes cast at such adjourned Meeting was as follows:

	FOR	AGAINST
Total number of votes cast	1,446	285
Votes as a percentage of all votes cast (%)	83.54%	16.46%
Votes as a percentage of all outstanding Convertible Bonds (%)	77.28%	15.23%

As at least three-quarters of the votes cast at the adjourned Meeting of the Convertible Bondholders were cast in favour of the Extraordinary Resolution, the Extraordinary Resolution put to the Convertible Bondholders was passed and became effective. No holder of the Convertible Bonds was required to abstain from voting on the Extraordinary Resolution at the adjourned Meeting of the Convertible Bondholders.

The Extraordinary Resolution put to the Meeting of the Senior Bondholders which was passed on 21 June 2016 has also become effective from the time the Extraordinary Resolution put to the Convertible Bondholders at the adjourned Meeting of the Convertible Bondholders was passed.

Third Delisting Stage, Resumption Conditions and Decision of the Listing (Review) Committee

On 13 January 2017, the Stock Exchange issued a letter to the Company stating, among other things, that the Stock Exchange considered that the Company had not satisfactorily demonstrated sufficiency of operations or assets as required under Rule 13.24 of the Listing Rules. Accordingly, the Stock Exchange decided to place the Company into the third delisting stage under Practice Note 17 to the Listing Rules (the “Third Delisting Stage”).

The Company was required to submit a viable resumption proposal addressing the resumption conditions below at least 10 business days before the expiry of the Third Delisting Stage:

1. demonstrate its compliance with Rule 13.24 of the Listing Rules;
2. publish all outstanding financial results and address any audit qualifications;

3. demonstrate that the Company has sufficient working capital for its operation for at least twelve months from its expected resumption date;
4. demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rules obligations; and
5. inform the market of all material information for the shareholders of the Company and the investors to appraise the Company's position.

The viable resumption proposal must be clear, plausible and coherent, and contain sufficient details (including forecasts and clear plan for future business development) for the Stock Exchange's assessment. The Company must demonstrate that it has business of substance and the business model is viable and sustainable. The resumption proposal should also comply with the Listing Rules and all applicable laws and regulations.

The Third Delisting Stage expired on 24 July 2017. At the end of the Third Delisting Stage, if no viable resumption proposal was received by the Stock Exchange, the Company's listing would be cancelled.

As disclosed in the announcement of the Company dated 27 July 2017, a resumption proposal ("Resumption Proposal") has been submitted to the Stock Exchange to demonstrate that the Company can satisfy the resumption conditions via the successful completion of its revised proposed restructuring (the "Revised Proposed Restructuring"). The Revised Proposed Restructuring has two major elements, namely (1) the readjustment of business operations of the Group and (2) the proposed financial restructuring of the Company.

The Company received a letter on 25 August 2017 which stated that the Listing Committee considered the Resumption Proposal not viable and decided to cancel the listing of the Shares in accordance with the delisting procedures under Practice Note 17 to the Listing Rules. Under Rule 2B.06 of the Listing Rules, the Company has the right to have the Decision referred to the Listing (Review) Committee for review.

An application had been filed to the Secretary of the Listing (Review) Committee and the Review Hearing was scheduled on 5 December 2017.

Following the Review Hearing held on 5 December 2017, the Listing (Review) Committee informed the Company by a letter dated 12 December 2017 (the “LRC Decision Letter”) that it decided to set aside the cancellation of the Company’s listing status to enable the Company to proceed with implementing the Resumption Proposal. This decision is subject to compliance with the following conditions to the satisfaction of the Listing Department:

- (a) submit (i) a letter addressing to the Company from the Company’s auditors explaining the impairment assessment of certain intangible assets of the Company for the years 2014 to 2016; and (ii) a written commentary from the Company incorporating the views of its auditors that there would not be any material audit qualifications on the Company’s next audited consolidated financial statements and no material impairment of the Company’s intangible assets would be made, should the Resumption Proposal be implemented as planned; to the Listing Department within 3 months from the date of the LRC Decision Letter (i.e. 12 March 2018);
- (b) the transactions and arrangements contemplated under the Resumption Proposal shall be supported by signed and legally binding agreements within 6 months from the date of the LRC Decision Letter (i.e. 12 June 2018) and evidence thereof be provided to the Listing Department by way of certified copies of all such agreements;
- (c) a circular to the shareholders (in substantially final form) regarding the implementation of the Resumption Proposal shall be submitted to the Listing Department and, in relation to Takeovers Code matters, the Securities and Futures Commission for clearance within 6 months from the date of the LRC Decision letter (i.e. 12 June 2018) and shall be in form and content satisfactory to the Listing Department both in relation to the implementation of the Resumption Proposal itself and that the Company would be able to comply with Rule 13.24 of the Listing Rules and meet all resumption of trading conditions previously identified by the Listing Department to the Company;
- (d) the documents necessary for the scheme of arrangement of the Company shall be formalised within 6 months from the date of the LRC Decision Letter (i.e. 12 June 2018);
- (e) the implementation of the Resumption Proposal shall be completed by 30 September 2018, should the Resumption Proposal be approved by the Company’s shareholders; and

- (f) the Company shall report to the Listing Department on a 3-month basis, reporting on the progress of the implementation of the Resumption Proposal.

It is also stated in the LRC Decision Letter that should the Company fail to comply with any of the above conditions to the satisfaction of the Listing Department, the listing of the Company's shares on the Stock Exchange will be cancelled.

On 12 March 2018, the Company submitted (i) a letter addressing to the Company from the Company's auditors explaining the Company's impairment assessment of the intangible asset for the years 2014 to 2016; (ii) a written commentary from the Company incorporating the views of its auditors on any material audit qualifications for the Company's next audited consolidated financial statements and any material impairment of the Company's intangible asset should the Resumption Proposal be implemented as planned; and (iii) a report on the progress of the implementation of the Resumption Proposal to the Listing Department pursuant to conditions (a) and (f) as imposed under the LRC Decision Letter.

As contained in the progress report mentioned above, on 11 March 2018, a legally binding sales and purchase agreement was entered into between the Company and a purchaser in relation to the disposal of 7% equity interest in S.E.A. Mineral Limited (the "Disposal"), which forms part of the Company's resumption plan. Details of the Disposal will be disclosed and published in a separate announcement in due course.

The Company is also in the process of negotiating the terms of and implementing other transactions and arrangements contemplated under the Resumption Proposal, which include, among others, the scheme of arrangement, the disposal of certain interest in the Company's subsidiaries and the proposed open offer. Further announcement(s) will be made by the Company to inform the shareholders and potential investor of the Company in respect of the progress of the implementation of the Resumption Proposal as and when appropriate.

WINDING UP OF AN OVERSEAS SUBSIDIARY

CNR Group Holdings Pte. Ltd. (“CNRG”), a wholly-owned subsidiary of the Group, received a statutory demand letter dated 25 August 2016 from a legal adviser acting for the Comptroller of Singapore Income Tax (the “Comptroller”) demanding a sum of approximately S\$5,159,000 (equivalent to approximately HK\$28,756,000), comprising the unpaid income tax and penalties imposed by the Comptroller to be paid or secured or compounded to the Comptroller’s satisfaction within three weeks from the date of the statutory demand, failing which the legal advisor had instructions to commence winding-up proceedings against CNRG pursuant to section 254(1)(e) read with section 254(2)(a) of the Singapore Companies Act (Cap.50). These liabilities have been fully provided for by the Group in 2016.

On 1 November 2016, CNRG was notified that an application was filed on 28 October 2016 to the High Court of the Republic of Singapore seeking the winding up of CNRG and appointment of liquidator of CNRG pursuant to Rule 31 of the Companies (Winding Up) Rules R1 (the “Winding Up Application”).

The Group received an Order of Court upon the hearing of the Winding Up Application at the High Court of the Republic of Singapore held on 6 March 2017. The High Court of the Republic of Singapore ordered that, amongst others, CNRG be wound up and a liquidator be appointed to commence the winding up proceedings. Following the appointment of the liquidator, the directors of CNRG ceased to have power over the business activities of CNRG and the assets of CNRG were under custody and control of the liquidator. Consequently, the directors of the Company are of the opinion that the Group lost control over the operating and financing activities of CNRG and CNRG ceased to be a subsidiary of the Group. Accordingly, assets and liabilities of CNRG together with its subsidiaries (collectively the “CNRG Group”) were deconsolidated from the Group.

SUBSEQUENT EVENT

On 11 March 2018, the Group entered into a sale and purchase agreement with Mr. Sun, pursuant to which the Group agreed to sell 7% equity interest of SEAM to Mr. Sun at a consideration of RMB210,000,000 (equivalent to approximately HK\$251,223,000). Mr. Sun is an indirect shareholder of the Subscriber and the sale and purchase agreement is conditional upon, amongst others, obtaining approval from shareholders of the Company at an extraordinary general meeting and the resumption of trading of the Company's shares. As at the date of this announcement, the transaction is yet to be completed.

FINANCIAL REVIEW

Turnover and sales volume

Major income of the Group were manufacturing of ferro-nickel alloys, Ni-Cr alloy steel ingot and stainless steel products and sub-contracting services. The table below sets out the turnover and sales volume of our products for the years indicated:

Turnover

	For the year ended 31 December			
	2017		2016	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Iron and Special Steel Products:				
Stainless steel products	187,480	63%	20,872	12%
Ferro-nickel alloy steel ingot and others	50,114	17%	82,083	46%
Ni-Cr alloy steel ingot	18,748	6%	73,805	42%
Sub-contracting services	40,088	14%	–	–%
Total	296,430	100%	176,760	100%

Sales volume

	For the year ended 31 December			
	2017		2016	
	<i>(tonnes)</i>	<i>%</i>	<i>(tonnes)</i>	<i>%</i>
Iron and Special Steel Products:				
Stainless steel products	44,006	35%	3,035	7%
Ferro-nickel alloy steel ingot and others	13,048	10%	18,233	40%
Ni-Cr alloy steel ingot	3,525	3%	23,677	53%
Sub-contracting services	65,305	52%	–	–%
Total	125,884	100%	44,945	100%

In 2017, the turnover of the Group recorded a significant increase of HK\$119.6 million, or 67.7%, to HK\$296.4 million (2016: HK\$176.8 million) due to the recent rebound of the PRC steel market.

In 2017 the Group commenced providing sub-contracting services to an external customer. The sub-contracting services recorded a turnover of HK\$40.1 million in the year.

Nearly half of the revenue of the Group in 2017 was contributed by sales of stainless steel base materials which recorded an increase of HK\$166.6 million, or 798.2% to HK\$187.5 million (2016: HK\$20.9 million). The sales volume was increased by 40,971 tonnes, or 1,350.0% to 44,006 tonnes (2016: 3,035 tonnes). The average selling price per tonne was decreased by HK\$2,617, or 38.1% to HK\$4,260 (2016: HK\$6,877).

Sales of Ferro-nickel alloy steel ingot and others was decreased by HK\$32.0 million or 38.9% to HK\$50.1 million (2016: HK\$82.1 million). The sales volume was decreased by 5,185 tonnes or 28.4% to 13,048 tonnes (2016: 18,233 tonnes). The average selling price per tonne was decreased by HK\$661, or 14.7% to HK\$3,841 (2016: HK\$4,502).

The sales of Ni-Cr alloy steel ingot, which was decreased by HK\$55.1 million or 74.6% to HK\$18.7 million (2016: HK\$73.8 million). The sales volume was decreased by 20,152 tonnes, or 85.1% to 3,525 tonnes (2016: 23,677 tonnes). The average selling price per tonne was increased by HK\$2,202, or 70.6% to HK\$5,319 (2016: HK\$3,117).

Cost of sales

The cost of sales in 2017 was increased by HK\$101.2 million, or 64.7%, to approximately HK\$257.6 million (2016: HK\$156.4 million). The increase in cost of sales was consistent with increase in sales.

Gross profit

The Group's recorded a gross profit amounted to HK\$38.9 million in 2017 (2016: HK\$20.4 million). The gross profit margin in 2017 was 13.1% (2016: 11.5%).

Other gains, net

The gain of HK\$42.4 million (2016: gains of HK\$74.3 million) in 2017 was mainly due to gain on deconsolidation of subsidiaries. The gain in 2016 were mainly composed of change in fair value of derivative financial instruments and foreign exchange gain.

Selling and distribution expenses

Selling and distribution expenses in 2017 were decreased by HK\$1.6 million, or 42.1%, to HK\$2.3 million (2016: HK\$3.9 million), representing 0.8% of turnover (2016: 2.2%).

Administrative expenses

Administrative expenses in 2017 decreased by HK\$18.1 million, or 7.8%, to HK\$214.3 million (2016: HK\$232.4 million). The decrease in administrative expense was mainly due to implementing cost control measures and reduction of litigation provision in 2017 as compared with in 2016.

Finance income

Finance income in 2017 was decreased by HK\$3.1 million, or 95.7%, to HK\$0.1 million (2016: HK\$3.2 million).

Finance costs

Finance costs in 2017 were increased by HK\$23.7 million, or 7.4%, to HK\$343.9 million (2016: HK\$320.2 million). Increase in finance cost was mainly due to increase in loan balance during the year.

Other income/(expenses)

Other income in 2017 of HK\$6.4 million mainly due to reversal of provision for impairment of trade receivables. Other expenses in 2016 of HK\$133.2 million mainly represents impairment of prepayments and other receivables.

Loss before income tax

As a result of the factors discussed above, the loss before income tax for the year ended 31 December 2017 was HK\$472.7 million (2016: HK\$646.2 million). The Group's loss before income tax margin was 159.5% (2016: 365.6%). The loss before interest, tax, depreciation and amortisation (LBITDA) margin was 17.6% (2016: 106.0%).

Income tax expense

The applicable Hong Kong profits tax rate of the Company and its subsidiaries which operate in Hong Kong is 16.5% based on existing legislation. The entities within the Group which operate in the PRC are subject to corporate income tax at rate of 25% for the year ended 31 December 2017.

Loss for the year and loss attributable to shareholders

As a result of the factors discussed above, the Group's 2017 loss for the year was HK\$472.7 million (2016: HK\$646.7 million) and the 2017 loss attributable to owners of the Company was HK\$472.4 million (2016: HK\$646.0 million).

Key financial ratios

		For the year ended	
		31 December	
	Notes	2017	2016
Current ratio	1	9%	12%
Inventory turnover days	2	254 days	538 days
Debtor turnover days	3	92 days	55 days
Creditor turnover days	4	191 days	284 days
Interest cover	5	-0.4 times	-1.0 time
Interest-bearing gearing ratio	6	-305%	-886%
Debt to LBITDA ratio	7	-48.7 times	-12.7 times
Net debt/Capital and net debt ratio	8	<u>125%</u>	<u>108%</u>

Note:

1. Current assets/Current liabilities x 100%

2.
$$\frac{\text{Inventories}}{\text{Cost of sales}} \times 365 \text{ days}$$

3.
$$\frac{\text{Trade and notes receivables}}{\text{Turnover}} \times 365 \text{ days}$$

4.
$$\frac{\text{Trade and notes payables}}{\text{Cost of sales}} \times 365 \text{ days}$$

5.
$$\frac{\text{Loss before interest and tax}}{\text{Net interest expense}}$$

6.
$$\frac{\text{Interest-bearing loans and other borrowings (including convertible bonds)}}{\text{Equity attributable to the owners of the parent}} \times 100\%$$

7.
$$\frac{\text{Interest-bearing loans and other borrowings (including convertible bonds)}}{\text{LBITDA}}$$

$$8. \quad \frac{\text{Net debt}^*}{\text{Capital and net debt}} \times 100\%$$

* Net debt included bank and other borrowings, convertible bonds (the liability component), trade and notes payables and other payables and accruals less cash and cash equivalents and pledged time deposits.

Property, plant and equipment

Property, plant and equipment as at 31 December 2017 mainly comprised plant and machinery. The decrease in balance by HK\$21.4 million or 4.8% to HK\$428.9 million (2016: HK\$450.3 million) was mainly attributable by the depreciation charges for the year.

Intangible asset

The intangible asset solely represents the unamortised amount of the EOA from Yiwan secured by the Group in May 2007.

Inventories

The inventory turnover days decreased from 538 days in 2016 to 254 days in 2017. As at 31 December 2017, inventories balance decreased by HK\$51.2 million, or 22.2%, to HK\$179.4 million (2016: HK\$230.6 million). Decrease in inventory balance was mainly due to management's effort to reduce the inventory level.

Trade and notes receivables

The debtor turnover days increased from 55 days in 2016 to 92 days in 2017. As at 31 December 2017, trade and notes receivables balances were increased by HK\$48.5 million, or 183.6%, to HK\$74.9 million (2016: HK\$26.4 million) mainly due to increase in sales within 90 days.

Prepayments, deposits and other receivables

As at 31 December 2017, prepayments, deposits and other receivables balance decreased by HK\$32.7 million, or 22.6%, to HK\$112.0 million (2016: HK\$144.7 million). The decrease in balance was mainly due to recovery of certain prepayments during the year.

Cash and cash equivalents and pledged time deposits

The aggregate amount of cash and cash equivalents and pledged time deposits decreased by approximately HK\$1.7 million, or 8.1%, to HK\$20.1 million as at 31 December 2017 (2016: HK\$21.8 million).

Trade and notes payables

The creditor turnover days decreased from 284 days in 2016 to 191 days in 2017. As at 31 December 2017, trade and notes payables balance increased by HK\$12.6 million, or 10.4%, to HK\$134.4 million (2016: HK\$121.8 million). The increase in trade and notes payables balance was mainly due to increased purchase in the fourth quarter of year 2017. The trade payables are unsecured, interest-free and are normally settled on terms of 60 to 180 days while the bank bills are generally on terms of 90 to 180 days.

Convertible bonds

There was no conversion or repayment of the convertible bonds during the year.

Bank and other borrowings

As at 31 December 2017, total bank and other borrowings balance were increased by HK\$162.3 million, or 7.0%, to HK\$2,493.8 million (2016: HK\$2,331.5 million). Increase in the bank and other borrowings was mainly due to new financing granted to the Group during the year.

Liquidity, going concern and capital resources

During the year ended 31 December 2017, the Group incurred a loss of approximately HK\$472.7 million and had a net operating cash outflow of approximately HK\$3.9 million. As at 31 December 2017, the Group's had a shareholders' deficit of HK\$832.8 million and current liabilities exceeded its current assets by HK\$3,810.2 million. Its total bank and other borrowings amounted to HK\$2,493.0 million are overdue or repayable on demand. The cash and cash equivalents of the Group amounted to HK\$20.0 million as at 31 December 2017.

Following the Export Ban which has substantially affected the cash generating ability from operations of the Group, a series of remedial measures to mitigate the liquidity pressure were taken in 2017 to improve its financial and liquidity position of the Group, details of which are set out in the Board's consideration – Mitigation measures to going concern issue of this announcement. Please also refer to the details regarding uncertainties on the going concern of the Group as stipulated in the section headed "Going concern" in Note 2.1(a) to the consolidated financial statements.

The Group's working capital has been principally sourced from cash generated from operations and from long-term and short-term borrowings.

As at 31 December 2017, the Group had current liabilities of HK\$4,196.5 million, of which HK\$2,493.8 million were bank and other borrowings repayable within one year, overdue or due for immediate repayment and HK\$1,512.8 million were other payables and accruals.

Interest rate risk

The Group's bank borrowings mainly bear floating rates. The Group has implemented certain interest rate management which includes, among the others, closely monitoring of interest rate movements and refinancing on existing banking facilities or entering into new banking facilities when good pricing opportunities arise.

Foreign currency risk

The Group's purchase and sales for the year are mainly denominated in Renminbi ("RMB"). As at 31 December 2017, the bonds were denominated in Hong Kong dollar ("HK\$") while bank and other borrowings were mainly denominated in RMB, and other assets and liabilities of the Group are mainly denominated in RMB.

As at 31 December 2017, the Group did not enter into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors considered the Group had no significant foreign currency risk. However, the Group will closely monitor the foreign currency risk and consider using necessary financial instruments for hedging purposes if they foresee the foreign currency risk is significant.

Material acquisitions and disposals of investments

The Group did not undertake any material acquisitions or disposals of investments during the year under review.

CONCLUSION AND PROSPECTS

The year of 2017 continues to be a challenging year full of uncertainties for both the PRC steel market and the Group. The over-supply situation had not fundamentally improved amid the increasingly fierce competition between similar products in the steel market although the PRC government started to implement certain solutions to mitigate the over-supply situation affecting the iron and steel market. During the year, despite the recent rebound of the PRC steel market, the steel price was persistently weak but fluctuated. In addition, Export Ban which was implemented in early 2014 by the relevant governmental authorities of Indonesia has continuously casted significant doubt on the Group's financial performance and cash flows in 2017.

Following the confirmed orders, indicative orders and framework agreements obtained from customers since 2016 and in the year of 2017, the continuous development of the high strength stainless structural special steel products by the Group and the success of launching market strategies which would generate higher margin and be less affected by macro-economic environment for household, electricity, communications, photovoltaic and animal husbandry uses, we foresee the Group will launch various new products to the higher margin market in the near future.

We also expect the economy of the PRC will continue its healthy growth and the demand for and profitability of the stainless steel products will rebound in the foreseeable future.

In the longer term, we expect the PRC will continue its modernisation and urbanisation that the demand of high quality special steel products for public infrastructure and equipment manufacturing will increase steadily. This definitely will bring enormous business opportunities for our Group.

We believe that after the technology industrialisation and modernisation of special steel products, the Group will have a stronger competitive advantage in the industry as well as the new market segments.

In view of the recent readjustment of the business operations and the proposed financial restructuring of the Group, we are confident that the Group will have a stronger position in the industry as well as in the special steel products market.

EMPLOYEES REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 980 employees, of whom 30 were management personnel. The remuneration policy of the Group to reward its employees and Executive Directors is based on their performance, qualifications, competence displayed, market comparable and the performance of the Group. Remuneration packages typically comprise salary, housing allowances, discretionary bonus, other fringe benefits and the Group's contribution to retirement benefits schemes. The remuneration of executive Directors and senior management are determined by the remuneration committee of the Company which will review them regularly.

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Directors recognise the importance of good corporate governance in the management of the Group. During the year ended 31 December 2017, the Company has complied with the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Listing Rules, except for the following deviations:

(1) Code Provision A.2.1

The Executive Director, Mr. Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with both internal rules and statutory requirements, and promoting the corporate governance of the Company. The Company did not appoint another individual to act as the Chief Executive Officer for the year ended 31 December 2017. This constitutes a deviation from code provision A.2.1. The Board believes that it is in the best interests of the Company and the shareholders as a whole since Mr. Dong Shutong is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board. Important decision-making and the day-to-day management of the Company are carried out by all of the Executive Directors. Although the roles of the Chairman and the Chief Executive Officer of the Company are not segregated, the functions of the chief executive were carried out by all of the Executive Directors collectively.

The Board considered that the Group's prevailing structures and systems met the code provisions in the CG Code. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

(2) Code Provision A.4.1

Under code provision A.4.1, Non-executive Directors should be appointed for a specific term. Except for Mr. Fahmi Idris, Independent Non-executive Director, who was appointed for a term of three years, Mr. Yang Tianjun, Non-executive Director and the remaining Independent Non-executive Directors including Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung were not appointed for a specific term. This constitutes a deviation from code provision A.4.1. However, according to the articles of association of the Company, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice in this respect is in line with that provided in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors. Having made specific enquiries, the Company has confirmed that all Directors have complied with the requirements set out in the Model Code.

REVIEW OF ANNUAL RESULTS

The consolidated financial statements of the Group for the year ended 31 December 2017 have been reviewed and approved by the Audit Committee, and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board's approval of the Group's consolidated financial statements for the year ended 31 December 2017.

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The below sections set out an extract of the report by PricewaterhouseCoopers, the auditor of the Company, regarding the consolidated financial statements of the Group for the year ended 31 December 2017:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group because we have not been able to obtain sufficient appropriate audit evidence and due to the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Impairment of intangible asset

As at 31 December 2017, the carrying amount of the Group's intangible asset amounted to HK\$2,384,543,000. As detailed in Note 16 to the consolidated financial statements, such intangible asset represents an exclusive offtake right secured from PT. Yiwang Mining ("Yiwang"), a limited company incorporated in Indonesia, whereby Yiwang agreed to exclusively sell the limonitic ores produced by Yiwang to the Group at pre-determined prices within a specific period of time.

During the year 2012, certain Indonesian governmental authorities promulgated several new rules and regulations regarding ores export approval and export tax. During the year 2013, the relevant Indonesian governmental authorities further promulgated that unprocessed ore export by mining business licence holders in Indonesia ("IUP Holders") will be banned from 12 January 2014 onwards unless the IUP Holders have carried out processing and refining domestically according to the relevant regulations regarding implementation of activities of business of minerals and coal mining and have conducted refining and smelting in accordance with those relevant laws. Consequently, the export of unprocessed iron ores from Yiwang to the Group ceased with effect from 12 January 2014.

As further explained in Note 16 to the consolidated financial statements, in determining the recoverable amount of the intangible asset as at 31 December 2017, the directors of the Company, amongst other considerations, made reference to the disposal consideration as stipulated in a non-binding framework agreement entered into between the Group and Beijing Wincapital Management Co., Ltd. ("Beijing Wincapital"), an independent third party, on 21 January 2013, pursuant to which the Group proposed to dispose of a 30% equity interest in S.E.A. Mineral Limited ("SEAM"), a wholly-owned subsidiary of the Group, which holds the intangible asset of the Group and was engaged in the trading of ores, to Beijing Wincapital. In addition, the directors also take into account of a sale and purchase agreement entered into on 11 March 2018 between the Group and a purchaser pursuant to which the Group agreed to sell 7% equity interest of SEAM to the purchaser conditional upon, amongst others, obtaining approval from shareholders of the Company at an extraordinary general meeting and resumption of trading of the Company's shares. As these proposed disposal considerations substantially exceed the attributable carrying amounts of the aforesaid intangible asset, the directors are of the opinion that there was no impairment of the intangible asset as at 31 December 2017.

However, as there is no formal sales and purchase agreement entered into for the proposed disposal of the 30% equity interest to Beijing Wincapital; and the disposal of the 7% equity interest to the purchaser is yet to complete up to the date of this audit report, we were unable to obtain sufficient appropriate audit evidence we consider necessary to assess the recoverable amount of the intangible asset. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amount of the intangible asset and whether any impairment charge should be made. Any adjustment to the carrying amount of the intangible asset found to be necessary would affect the Group's net liabilities as at 31 December 2017, the Group's loss for the year then ended and the related note disclosures to the consolidated financial statements.

Impairment of property, plant and equipment and prepaid land lease payments

As detailed in Note 14 to the consolidated financial statements, an impairment assessment was carried out by the directors of the Company on the Group's property, plant and equipment and prepaid land lease payments in respect of the cash generating unit for the manufacturing and sales of iron and steel products in Zhengzhou (the "Zhengzhou Plants"). As a result of the assessment, the directors considered that no further provision for impairment of the property, plant and equipment and prepaid land lease payments of Zhengzhou plants is required for the year ended 31 December 2017. The recoverable amount of the cash generating unit has been determined by the directors based on value-in-use calculations. These calculations included applying certain assumptions in preparing cash flows projections for the cash generating unit. In preparing these projections, the directors assumed that, amongst other factors, business performance of the Zhengzhou Plants can be gradually improved noticeably during the projection period as a result of improving operating environment and by launching new products and seeking new orders from new customers with improved gross margins.

However, we were unable to obtain sufficient appropriate audit evidence we consider necessary as to the basis upon which the directors have formed in determining the recoverable amounts of these property, plant and equipment and prepaid land lease payments and thus to assess the valuation of these assets. There were no alternative audit procedures that we could perform to satisfy ourselves as to the recoverable amounts of these assets totalling HK\$373,535,000 as at 31 December 2017 and whether any impairment charge should be made for the year ended 31 December 2017. Any adjustment to the carrying amounts of property, plant and equipment and prepaid land lease payments of the Zhengzhou Plants found to be necessary would affect the Group's net liabilities as at 31 December 2017, the Group's loss for the year then ended and the related notes disclosures to the consolidated financial statements.

Impairment of the Company's interests in subsidiaries

In addition, as the intangible asset, property, plant and equipment and prepaid land lease payments as stated above were held by various subsidiaries of the Company, any adjustment on the carrying amounts of these assets found to be necessary would also affect the carrying amount of the Company's interests in subsidiaries and its accumulated losses which amounted to HK\$137,826,000 and HK\$4,712,681,000 respectively as at 31 December 2017 and the related notes disclosures in the Note 37 to the consolidated financial statements.

Multiple uncertainties relating to going concern

As described in Note 2.1(a) to the consolidated financial statements, the Group incurred a net loss of HK\$472,689,000 and had a net operating cash outflow of HK\$3,892,000 during the year ended 31 December 2017. As at 31 December 2017, the Group had a shareholders' deficit of HK\$832,772,000; its current liabilities exceeded its current assets by HK\$3,810,153,000; and its total borrowings amounted to HK\$2,541,987,000 while its cash and cash equivalents amounted to HK\$20,046,000 only. In addition, as at 31 December 2017, the Group's borrowings to the extent of HK\$2,539,731,000 were either overdue or due for immediate repayment. The Group also involved in various claims and disputes as detailed in Note 32 to the consolidated financial statements. These conditions, along with other matters as described in Note 2.1(a) to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, which are set out in Note 2.1(a) to the consolidated financial statements, and to resolve the outstanding claims and disputes detailed in Note 32 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures and litigation matters, which are subject to multiple uncertainties, including (i) whether the Group is able to successfully complete the issuance of certain new ordinary shares after fulfilling all conditions precedent as detailed in Note 2.1(a) to the consolidated financial statements, and in particular by the successful completion of a debt restructuring proposal; (ii) whether the Group is able to successfully negotiate with banks for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of

certain bank loans; (iii) whether the Group is able to successfully negotiate for an extension of the repayment date of certain borrowings until completion of the proposed disposal of interest in SEAM under the relevant framework agreement at the prescribed consideration and be able to collect the disposal consideration in full immediately upon completion of the transaction after properly offsetting the relevant borrowings; (iv) whether the Group is able to successfully negotiate with certain related parties of the Group and other lenders as detailed in Notes 27(e) to (h) to the consolidated financial statements for extension of their relevant borrowings, by maintaining relationship with them such that no action will be taken by these lenders to demand immediate repayment of the overdue borrowings under negotiation; (v) whether the Group is able to obtain additional new financing and other sources of funding as and when required; (vi) whether the Group is able to implement its operation plans to control costs and to generate adequate cash flows from operations; and (vii) whether the Group is able to resolve the outstanding claims and disputes, without significant cash outflows in the next twelve months.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

PUBLICATION OF THE ANNUAL RESULTS AND ANNUAL REPORT

This announcement will be published on the Company's website (ir.nickelholdings.com) and Stock Exchange's website (www.hkexnews.hk). The 2017 Annual Report containing all the information required by the Listing Rules will be published on the websites of the Company and the Stock Exchange and despatched to the shareholders of the Company in due course.

SUSPENSION OF TRADING

At the request of the Company, trading in its shares on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2015. Publication of 2017 Annual Results and 2017 Annual Report is not an indication that the trading of the Company's shares will be resumed. The Company is required to implement the Resumption Proposal and subject to compliance with all conditions to the satisfaction of the Listing Department, as detailed in the announcement published by the Company on 13 December 2017, imposed by the Stock Exchange before resumption of trading in the Company's shares.

The trading in the shares of the Company will continue to be suspended until further notice.

On Behalf of the Board

Nickel Resources International Holdings Company Limited

Dong Shutong

Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Dong Shutong (Chairman), Mr. Dong Chengzhe, Mr. Wang Ping, Mr. Song Wenzhou and Mr. Yang Fei; the non-executive director of the Company is Mr. Yang Tianjun; and the independent non-executive directors of the Company are Mr. Bai Baohua, Mr. Huang Changhuai, Mr. Wong Chi Keung and Mr. Fahmi Idris.