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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 2018**

	For the year ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
Revenue	448,207	296,430
Gross Profit	7,523	38,871
Loss before Interest, Tax, Depreciation and Amortisation	(96,938)	(52,143)
Loss before Tax	(508,996)	(472,689)
Loss Attributable to Equity Holders of the Company	(508,966)	(472,372)
Gross Profit Margin	1.7%	13.1%
LBITDA Margin	(21.6%)	(17.6%)

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 2018 together with the comparative figures for the corresponding year in 2017:

The Resumption Proposal

Decision of the Listing (Review) Committee

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 on any material audit qualifications on the Company’s next audited consolidated financial statements and any material impairment of the Company’s intangible assets 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.

Fulfillments of the Resumption Conditions

Pursuant to the LRC Decision Letter, details of which are set out in the Company's announcement dated 13 December 2017, the Listing (Review) Committee decided to set aside the cancellation of the Company's listing status to enable the Company to proceed with implementing the Resumption Proposal subject to certain conditions. Since then, the Company has been working closely with its professional advisers in fulfilling the conditions set out in the LRC Decision Letter. According to the timeline, the Company submitted:

- (i) a letter addressing to the Company from the Company's auditors explaining the impairment assessment of the intangible assets of the Company for the years 2014 to 2016 and a written commentary from the Company incorporating the views of its auditors on any material audit qualifications on the Company's next audited consolidated financial statements and any material impairment of the Company's intangible assets should the Resumption Proposal be implemented as planned to the Listing Department (i.e. condition (a) in the LRC Decision Letter);
- (ii) certified copies of all the signed and legally binding agreements in relation to the transactions and arrangements contemplated under the Resumption Proposal to the Listing Department (i.e. condition (b) in the LRC Decision Letter);
- (iii) a draft circular to the regulators regarding the implementation of the Resumption Proposal and the Company's fulfilment of Rule 13.24 of the Listing Rules and all other resumption conditions imposed by the Listing Department (i.e. condition (c) in the LRC Decision Letter);
- (iv) the Scheme documents to the Hong Kong High Court and the Grand Court of the Cayman Islands for leave to convene the Schemes meetings (i.e. condition (d) in the LRC Decision Letter); and
- (v) reports dated 12 March 2018 and 12 June 2018 respectively, on the progress of the implementation of the Resumption Proposal to the Listing Department (i.e. condition (f) in the LRC Decision Letter).

In June 2018, the Company reviewed its progress of the Resumption Proposal and fulfillments of the Resumption Conditions and believed that the Resumption Proposal would be completed by 30 September 2018 (i.e. condition (e) in the LRC Decision Letter).

Disruption to the Resumption Proposal

In stark contrast to the above achievements, the Listing Department issued a letter to the Company stating that the Listing Department recommended the Listing Committee to cancel the Company's listing status. It was followed by the Decision on 3 July 2018 which stated that the Listing Committee was not satisfied that the Company had fully met the conditions set out in the LRC Decision Letter and decided to cancel the Company's listing status under Practice Note 17 to the Listing Rules.

The Board strongly disagreed with such Decision and was most concerned whether the Company's case had been assessed fairly, in particular the Company was aware of certain actual, perceived or potential conflict of interest in the composition of the Listing Committee.

More importantly, due to the uncertainty given rise by the Decision, the court convening hearings in relation to the Schemes for the Grand Court of the Cayman Islands and the Hong Kong High Court, which had originally been scheduled for 3 July 2018 and 10 July 2018 respectively, were adjourned. The investors and creditors of the Company are also concerned as to whether the Company will still be able to continue with the implementation of the Resumption Proposal and whether the resumption of the Company will take place and have been reassessing whether to provide the Company with further funding support.

The Decision has indeed caused substantial disruption to the restructuring of the Company and hence adversely affected the financial and operational performance of the Company which was already picking up that time.

Latest Development

On 15 October 2018, the Company received a letter from the Listing (Review) Committee stating that the Listing (Review) Committee was not satisfied that the Company had fully met the condition imposed by the Listing (Review) Committee set out in its letter dated 12 December 2017 and therefore decided to uphold the Listing (Review) Committee's decision to cancel the Company's listing under Practice Note 17 to the Listing Rules (the "LRC Decision").

The Company does not understand the reasoning of the LRC Decision and as the concern whether the Company's case has been assessed fairly remains un-resolved. Under Rule 2B.07 of the Listing Rules, the Company referred the LRC Decision to the Listing Appeals Committee for a further and final review. The review hearing of the Listing Appeals Committee (the "LAC Review Hearing") has been scheduled for 5 June 2019.

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 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\$95,811,000 which contains a repayable on demand clause, the Group is actively negotiating with the bank for waiver of the relevant clause and renewal of the loan, including extension of the related interest payments.
- (3) In relation to the syndicated bank loan and the bank loan under the Unsecured Loan Facility to the extent of HK\$568,409,000 and HK\$404,777,000, respectively, the Group is actively negotiating with the respective banks for the waiver of the breach of the undertaking and restrictive covenant requirements; and the renewal of these loans, including extension of the related interest payments.
- (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. The Group is currently negotiating with Beijing Wincapital to modify the structure and detailed terms of the disposal on equity interest in SEAM.

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\$239,263,000) has been novated to Henan Pingyuan Holding Group Co., Ltd (“河南平原控股集團股份有限公司” or “Pingyuan”).

As at 31 December 2018, the outstanding Financing Loans amounted to approximately RMB200 million (equivalent to HK\$228,258,000) 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 repayment of these borrowings to facilitate the completion of the proposed disposal. Management believes that with bona fide intention for all relevant parties, the proposed disposal will be completed and the Group will be able to offset all these borrowings against the disposal consideration.

On each of 11 March 2018 and 8 June 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 an aggregate 14% equity interest in SEAM to Mr. Sun at an aggregate consideration of RMB420,000,000 (equivalent to approximately HK\$479,343,000) 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\$88,809,000, HK\$225,976,000, HK\$300,057,000 and HK\$184,611,000, respectively that were either overdue or due for immediate repayment as at 31 December 2018. 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. The Group has also engaged in providing sub-contracting services to external customers since 2017 and entered into a cooperation agreement with a potential business partner in August 2018 to better utilise the Group's production capacities. 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.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	4	448,207	296,430
Cost of sales	4	<u>(440,684)</u>	<u>(257,559)</u>
Gross profit		7,523	38,871
Other gains, net	4	26,566	42,414
Selling and distribution expenses		(2,399)	(2,255)
Administrative expenses		(194,699)	(214,330)
Finance income	7	118	139
Finance costs	7	(341,168)	(343,919)
(Provision for)/reversal of impairment of financial assets, net		(815)	10,096
Other expenses	5	<u>(4,122)</u>	<u>(3,705)</u>
Loss before income tax	5	(508,996)	(472,689)
Income tax expense	8	<u>–</u>	<u>–</u>
Loss for the year		<u>(508,996)</u>	<u>(472,689)</u>
Attributable to:			
Owners of the Company		(508,966)	(472,372)
Non-controlling interests		<u>(30)</u>	<u>(317)</u>
		<u>(508,996)</u>	<u>(472,689)</u>
Loss per share attributable to owners of the Company			
– Basic (<i>HK dollar</i>)	10	<u>(0.16)</u>	<u>(0.15)</u>
– Diluted (<i>HK dollar</i>)	10	<u>(0.16)</u>	<u>(0.15)</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK\$'000	HK\$'000
Loss for the year	(508,996)	(472,689)
Other comprehensive income/(loss)		
<i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	101,617	(84,708)
Release of exchange reserve on deconsolidation of subsidiaries	—	(6,873)
Other comprehensive income/(loss) for the year, net of tax	101,617	(91,581)
Total comprehensive loss for the year	(407,379)	(564,270)
Attributable to:		
Owners of the Company	(407,367)	(563,975)
Non-controlling interests	(12)	(295)
	(407,379)	(564,270)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		As at 31 December	
		2018	2017
	Notes	HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		395,499	428,917
Prepaid land lease payments		159,271	171,610
Intangible asset		2,384,543	2,384,543
Interest in an associate		–	–
Other non-current assets		1,458	1,531
		<u>2,940,771</u>	<u>2,986,601</u>
Current assets			
Inventories		184,675	179,392
Trade receivables	11	77,021	74,906
Prepayments, deposits and other receivables		139,177	112,023
Pledged time deposits		24	25
Cash and cash equivalents		4,256	20,046
		<u>405,153</u>	<u>386,392</u>
Total assets		<u>3,345,924</u>	<u>3,372,993</u>
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		308,813	308,813
Reserves		(1,548,596)	(1,141,229)
		(1,239,783)	(832,416)
Non-controlling interests		(368)	(356)
Total shareholders' deficit		<u>(1,240,151)</u>	<u>(832,772)</u>

		As at 31 December	
		2018	2017
	<i>Notes</i>	HK\$'000	HK\$'000
LIABILITIES			
Non-current liabilities			
Deferred government grants		7,567	7,932
Deferred tax liabilities		<u>1,229</u>	<u>1,288</u>
		<u>8,796</u>	<u>9,220</u>
Current liabilities			
Trade payables	12	187,514	133,008
Notes payables	12	14,207	1,436
Other payables and accruals		1,804,315	1,512,790
Bank and other borrowings		2,516,098	2,493,776
Convertible bonds		46,775	46,775
Derivative financial instruments		–	–
Tax payable		<u>8,370</u>	<u>8,760</u>
		<u>4,577,279</u>	<u>4,196,545</u>
Total liabilities		<u>4,586,075</u>	<u>4,205,765</u>
Total equity and liabilities		<u>3,345,924</u>	<u>3,372,993</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 2003, 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 the ultimate controlling party.

These 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 29 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 2018, the Group incurred a net loss of HK\$508,996,000 and had a net operating cash outflow of HK\$49,736,000. As at 31 December 2018, the Group had a shareholders' deficit of HK\$1,240,151,000 and net current liabilities of HK\$4,172,126,000, and the Group's total borrowings amounted to HK\$2,577,080,000 which comprised bank and other borrowings, convertible bonds and notes payables of HK\$2,516,098,000, HK\$46,775,000 and HK\$14,207,000, respectively as at 31 December 2018. Cash and cash equivalents of the Group amounted to HK\$4,256,000 as at 31 December 2018.

As at 31 December 2018, the Group's borrowings to the extent of HK\$2,562,873,000 were either overdue or due for immediate repayment despite the original contractual repayment dates of some of these borrowings are still within twelve months as at the reporting date. This is mainly because:

- (i) on 19 December 2014, the Group failed to make interest payment totalling 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. The Bonds had become overdue as at 31 December 2018 and the Group failed to pay interest payment of the Bonds in aggregate of HK\$184,432,000 up to 31 December 2018;
- (ii) as at 31 December 2018, a secured bank loan of HK\$95,811,000 contains a repayable on demand clause was immediate due and payable and the Group failed to pay interest expense amounting approximately to HK\$8,868,000 up to 31 December 2018;

- (iii) 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; and the Group also failed to pay interest totalling HK\$34,003,000 up to 31 December 2018. As a result, the outstanding amount of the 3-year syndicated loan of HK\$568,409,000 and the related interest expense are immediately due and payable as at 31 December 2018. In addition, the Group failed to repay the principal amount of the loan together with the related interest in January 2019;
- (iv) 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 2018, approximately RMB355 million (equivalent to HK\$404,777,000) 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. However, the Group failed to fulfil certain undertakings and restrictive covenant requirements under this Unsecured Loan Facility upon signing the loan agreement. In addition, the Group also failed to pay interest totalling HK\$34,286,000 up to 31 December 2018. As a result, the outstanding amount of this loan of HK\$404,777,000 and the related interest are immediately due and payable as at 31 December 2018;
- (v) as at 31 December 2018, other loans to the extent of HK\$228,258,000 had become overdue; and
- (vi) other borrowings to the extent of HK\$625,226,000 were overdue and HK\$147,227,000 were on repayable on demand terms.

Together with the accrued interest for borrowings to the extent of HK\$1,154,620,000 (included those overdue bank loan interest mentioned in (ii) to (iv) above) as at 31 December 2018 included in other payables and accruals, the aggregate borrowings and interest that were either overdue or due for immediate repayment amounted to HK\$3,717,493,000 as at 31 December 2018.

In addition, the Group is involved in various claims and dispute 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\$95,811,000 which contains a repayable on demand clause, the Group is actively negotiating with the bank for the waiver of the relevant clause and renewal of the loan, including extension of the related interest payments.
- (3) In relation to the syndicated bank loan and the bank loan under the Unsecured Loan Facility to the extent of HK\$568,409,000 and HK\$404,777,000, respectively, the Group is actively negotiating with the respective banks for the waiver of the breach of the undertaking and restrictive covenant requirements; and the renewal of these loans, including extension of the related interest payments.
- (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. The Group is currently negotiating with Beijing Wincapital to modify the structure and detailed terms of the disposal on equity interest in SEAM.

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\$239,263,000) has been novated to Henan Pingyuan Holding Group Co., Ltd (“河南平原控股集團股份有限公司” or “Pingyuan”).

As at 31 December 2018, the outstanding Financing Loans amounted to approximately RMB200 million (equivalent to HK\$228,258,000) 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 repayment of these borrowings to facilitate the completion of the proposed disposal. Management believes that with bona fide intention for all relevant parties, the proposed disposal will be completed and the Group will be able to offset all these borrowings against the disposal consideration.

On each of 11 March 2018 and 8 June 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 an aggregate 14% equity interest in SEAM to Mr. Sun at an aggregate consideration of RMB420,000,000 (equivalent to approximately HK\$479,343,000) 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\$88,809,000, HK\$225,976,000, HK\$300,057,000 and HK\$184,611,000, respectively that were either overdue or due for immediate repayment as at 31 December 2018. 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. The Group has also engaged in providing sub-contracting services to external customers since 2017 and entered into a cooperation agreement with a potential business partner in August 2018 to better utilise the Group's production capacities. 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, and the renewal of these loans totalling HK\$1,068,997,000; together with the extension of the related overdue interest expense totalling HK\$77,157,000 up to 31 December 2018 and any further default in repayment of principal and interest after the year end date;
- (3) successful negotiation with the financiers to extend the repayment date of a loan arranged by Beijing Wincapital of RMB200 million (equivalent to HK\$228,258,000) 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 completion of the disposal of an aggregate 14% equity interest in SEAM to Mr. Sun under the above-mentioned sale and purchase agreements at the prescribed consideration and be able to collect the disposal consideration of RMB420,000,000 (equivalent to HK\$479,343,000) in full immediately upon completion of the transactions;
- (5) 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;
- (6) successful negotiation with the lenders for obtaining additional new financing and other sources of funding as and when required;
- (7) successful implementation of its operation plans described above to control costs and generate more revenue for adequate operating cash flows; and
- (8) 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 these consolidated financial statements.

(b) Changes in accounting policy and disclosures

(1) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 – *Financial Instruments*
- IFRS 15 – *Revenue from Contracts with Customers*
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- Amendments to IFRS 15 – *Clarifications to IFRS 15*
- Amendments to IFRSs – *Annual Improvements 2014-2016 cycle*
- Amendments to IAS 40 – *Transfers of Investment Property*
- Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*

The Group had to change its accounting policies and make retrospective adjustments, where relevant, as a result of adopting IFRS 9 and IFRS 15. The impact of the adoption of these standards are disclosed below. Reclassification of impairment losses on financial assets is also required as a result of consequential changes made to IAS 1 Presentation of Financial Statements. Impairment losses on financial assets that were previously classified as administrative expenses are now presented separately in the consolidated income statement.

Saved as disclosed below, the adoption of other amendments on standards and interpretation did not have any material impact on the consolidated financial statements of the Group for the year.

(a) Adoption of IFRS 9

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

Classification and measurement of financial instruments

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. There were no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

There is also 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.

Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables
- other financial assets at amortised cost

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

(i) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

The Group has assessed the expected credit loss model applied to the trade receivables as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect. The adoption of expected loss approach under IFRS 9 has not resulted in any material additional impairment loss for trade receivables as at 1 January 2018.

(ii) Other financial assets at amortised cost

For other financial assets at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is relatively insignificant.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(b) Adoption of IFRS 15

IFRS 15 establishes a comprehensive framework for recognizing revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts. The Group has elected to use the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

(i) Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the Group's performance, as the Group performs;
- When the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- When the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If the contract terms and the Group's activities do not fall into any of these 3 situations, then under IFRS 15 the Group recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs. The adoption of IFRS 15 does not have a significant impact on the Group's financial position and results of operation for the period. There is also no material impact to the Group's retained earnings as at 1 January 2018.

(ii) Presentation of contract assets and liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assume performance obligations to transfer goods or services to the customer. The combination of those rights and performance obligations give rise to a net asset or net liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the measure of the remaining conditional rights to consideration exceeds the satisfied performance obligations. Conversely, the contract is a liability and recognised as contract liabilities if consideration received (or an amount of consideration is due) from the customer exceed the measure of the remaining unsatisfied performance obligations. The impact on the Group's financial position by the application of IFRS 15 as compared to IAS 18 that was previously in effect before the adoption of IFRS 15 is as follows:

	As at 1 January 2018		
	As previously stated <i>HK\$'000</i>	Reclassification under IFRS 15 <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Consolidated Statement of			
Financial Position (Extract)			
Current liabilities:			
Other payables and accruals	34,799	(34,799)	–
Other payables and accruals			
– Contract liabilities	–	34,799	34,799
	<u>34,799</u>	<u>–</u>	<u>34,799</u>

(2) *Impact of standards issued but not yet applied by the Group*

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the consolidated 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 Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments in respect of certain properties of HK\$4,444,000. Upon the initial adoption of IFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be recognised, after taking into account the effects of discounting, as at 1 January 2019. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the profit or loss over the period of the lease.

The Group has not yet assessed the adjustments, if any, that 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. The Group will apply the standard from its mandatory adoption 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 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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Mainland China recognised		
At a point in time	420,219	256,342
Over time	<u>27,988</u>	<u>40,088</u>
	<u><u>448,207</u></u>	<u><u>296,430</u></u>

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

(b) Non-current assets

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Mainland China	556,179	602,018
Indonesia	2,384,543	2,384,543
Others	<u>49</u>	<u>40</u>
	<u><u>2,940,771</u></u>	<u><u>2,986,601</u></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 2018, revenue of approximately HK\$196,965,000 (2017: HK\$207,358,000) were derived from three (2017: four) customers, amounted to approximately HK\$76,243,000, HK\$71,194,000 and HK\$49,528,000 respectively which individually accounted for over 10% of the Group's total revenue.

4 REVENUE AND OTHER GAINS, NET

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue		
Sale of goods:		
Stainless steel products	65,752	187,480
Ni-Cr alloy steel ingot	273,629	18,748
Ferro-nickel alloys and others	<u>80,838</u>	<u>50,114</u>
Sub-contracting income	<u>27,988</u>	<u>40,088</u>
Total revenue	<u><u>448,207</u></u>	<u><u>296,430</u></u>
Other gains, net		
Gain on disposal of property, plant and equipment, net	5,064	185
Foreign exchange gains/(losses), net	2,332	(3,865)
Gain on deconsolidation of subsidiaries, net (<i>Note 6</i>)	–	44,455
Write off of other payables	3,779	–
Government subsidy	11,342	–
Others	<u>4,049</u>	<u>1,639</u>
	<u><u>26,566</u></u>	<u><u>42,414</u></u>

5 LOSS BEFORE INCOME TAX

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

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Costs of inventories sold	416,411	257,241
Employee benefits expense	61,832	59,970
Research expenses	150	579
Auditors' remuneration		
– Audit services	4,400	3,950
– Non-audit services	43	231
Depreciation	66,398	72,260
Amortisation of prepaid land lease payments	4,610	4,506
Minimum lease payments under operating leases in respect of buildings and equipment	4,740	4,976
Provision for impairment of inventories	24,273	12,360
Provision for/(reversal of) impairment of trade receivables	2,069	(11,571)
(Reversal of)/provision for impairment of other receivables	(1,254)	1,475
Provision for impairment of prepayments*	4,122	3,705

* *Included in other 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 Holdings 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 the 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 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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Finance income		
Interest income on time deposits	118	139
Finance costs		
Interest on bank and other borrowings	(338,068)	(338,094)
Interest on convertible bonds	(3,100)	(5,825)
	(341,168)	(343,919)
Finance costs, net	(341,050)	(343,780)

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% (2017: 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 (2017: 25%).

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Income tax expense	-	-

9 DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 (2017: 3,088,131,105) in issue during the year.

Diluted

The calculation of the diluted loss per share for the year ended 31 December 2018 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 2018 and 2017 because the impact of dilution of the convertible bonds and share options is anti-dilutive.

11 TRADE RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables (<i>note</i>)	93,883	90,489
Loss allowance	<u>(16,862)</u>	<u>(15,583)</u>
	<u><u>77,021</u></u>	<u><u>74,906</u></u>

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 mainly 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 receivables are non-interest-bearing. The carrying amounts of trade receivables approximate their fair values.

Note:

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

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	72,161	65,208
91 to 180 days	2,138	9,695
181 to 365 days	2,722	3
Over 1 year	16,862	15,583
	<u>93,883</u>	<u>90,489</u>

The Group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables. This has not resulted in a significant change to the loss allowance of trade receivables as at 1 January 2018.

The loss allowance was increased to HK\$16,862,000 for trade receivables during the year ended 31 December 2018.

12 TRADE AND NOTES PAYABLES

		2018	2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	<i>(a)</i>	187,514	133,008
Notes payables	<i>(b)</i>	14,207	1,436
		<u>201,721</u>	<u>134,444</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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 90 days	84,958	68,773
91 to 180 days	5,180	5,380
181 to 365 days	31,511	6,165
1 to 2 years	25,322	6,537
2 to 3 years	6,248	2,250
Over 3 years	34,295	43,903
	187,514	133,008

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 2018 is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 90 days	4,268	1,436
91 to 180 days	8,239	–
181 to 365 days	1,700	–
	14,207	1,436

At 31 December 2018, notes payables of HK\$14,207,000 (2017: HK\$1,436,000) were denominated in RMB and secured by time deposits of HK\$12,000 (2017: HK\$12,000). 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 served 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 then 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 2018, 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 2019 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”)

- (i) 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 2018, the Group has been actively negotiating with TORM on settlement of the above claims on Other Losses. In preparing these 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.

- (ii) On 21 November 2018, the Group received a Statutory Demand under Section 178 (1)(a) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap.32) from PCL (Shipping) Pte Ltd (“PCL”) in respect of a Final Partial Arbitration Award dated 11 October 2018 (the “Award”) demanding the Group for an aggregate amount of approximately HK\$17.4 million mainly relating to detention and demurrage claims under a COA that the Group entered into with PCL, together with the related interest charges and legal costs. On 23 November 2018, PCL issued another legal letter to the Group proposing a settlement schedule with the Group on the above Award, together with another claim under arbitration proceedings with the Group in relating to certain unpaid freight and demurrage arising out of certain other shipments under the above COA amounting to approximately HK\$32 million. All these claims have been fully provided for and included as current liabilities in the consolidated financial statements of the Group as at 31 December 2018. The directors have already engaged legal advisors to assist in resolving the above claims with PCL.

As at 31 December 2018 and up to the date 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 these 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. Yiwang Mining (“Yiwang”) (“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, Yiwang can no longer export unprocessed ore to the Group.

After the Export Ban, the ore trading business of the Group continued suspension in the year of 2018.

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 2018

The steel product price fluctuated during the year of 2018.

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 continuing exploration, development, recognition and application 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 each of 11 March 2018 and 8 June 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 an aggregate 14% equity interest in SEAM to Mr. Sun at an aggregate consideration of RMB420 million (equivalent to approximately HK\$479.3 million) 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.

Along with the disposal of 14% equity interest in SEAM, the Group is actively assessing the available financing sources and considering any possible alternatives, including but not limited to, co-operation with local enterprises or PRC giant steel manufacturer 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, cooperation with local enterprises or PRC giant steel manufacturer for building up special steel mills in Indonesia.

Special steel-making operations

For the special steel-making operations of the Group, sales volume increased enormously as compared to the year of 2017 whereas the profit margins lowered during the year. Yongtong Special Steel continued to provide sub-contracting services to external customers by utilisation of its existing production capacity for enhancing its cash flow position and generating stable revenue. During the year, the Group recorded sub-contracting service income amounted to HK\$28.0 million.

In August 2018, in order to explore different avenues to further enhance the business operation, the Group entered into a strategic cooperation agreement (the “Cooperation Agreement”) with a strategic partner (the “Strategic Partner”), pursuant to which the Group agreed to provide its fixed assets and the Strategic Partner agreed to provide management personnel, technical support and a loan of not more than RMB100 million for production of the steel products by utilising the production plants of the Group. Pursuant to the Cooperation Agreement, the Strategic Partner has undertaken enhancement work on the production plants of the Company in order to strengthen the existing production capacity and its ability, during which the production of certain production facilities has been temporarily suspended.

We expect while the keen competition in the steel market of the PRC will continue in 2019, 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 2019 and the supply of the stainless steel products market may be affected. Therefore, the Group will take this opportunity to produce substantially the stainless steel products in demand in near future. The Group is also proactively 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 the market concentration risk.

Financing Arrangement

As at 31 December 2018, the Group had net current liabilities of approximately HK\$4,172.1 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\$200.8 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 each of 11 March 2018 and 8 June 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 an aggregate 14% equity interest in SEAM to Mr. Sun at an aggregate consideration of RMB420 million (equivalent to approximately HK\$479.3 million).

Subscription

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 this announcement 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”);
- 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.

Supplemental Subscription Agreements

On 21 May 2018 and 10 June 2018, the Subscriber, the Company and Mr. Dong Shutong entered into the Supplemental Subscription Agreements, pursuant to which the Subscriber, the Company and Mr. Dong Shutong, being the chairman and executive Director of the Company, agreed to supplement and/or amend certain terms and conditions of the Subscription Agreement as follows:

Long Stop Date

Pursuant to the Supplemental Subscription Agreements, the Company and the Subscriber agreed to further extend the Long Stop Date from 30 June 2018 to 30 September 2018 or such other date as may be agreed by the Company and the Subscriber in writing from time to time.

Conditions Precedent

Pursuant to the Supplemental Subscription Agreements:

- (1) The conditions precedent to Completion as contemplated under the Subscription Agreement (as set out in the section headed “Conditions Precedent” in the Company’s announcement dated 7 March 2016), which require (i) approvals by the Shareholders, or Independent Shareholders when appropriate, at the EGM; (ii) grant of the Whitewash Waiver by the Executive to the Subscriber; and (iii) consent to the Special Deal by the Executive, are expanded to include all the necessary Shareholders’ or Independent Shareholders’ approval(s) and waiver(s)/consent(s) by the Executive in relation to not only the Subscription but all the transactions and arrangements contemplated under the Resumption Proposal.
- (2) Subject to all the other conditions precedent to Completion having been satisfied or waived (if applicable) before the Long Stop Date, the Subscriber agreed to waive the following conditions:
 - (i) a written confirmation having been given by the Stock Exchange and the SFC (if applicable) confirming that they have no further comments on the announcement in relation to the resumption of trading in the Shares on the Stock Exchange and/or the Resumption Proposal; and
 - (ii) the approval of resumption of trading in the Shares having been obtained from the Stock Exchange (subject to other Resumption Conditions having been satisfied and such Resumption Conditions not having adverse effect on the transactions contemplated under the Subscription Agreement or the right of the Subscriber thereunder), and such approval not having been revoked.

Settlement of consideration

The Subscriber will pay no more than HK\$150 million (as set out in the section headed “Use of proceeds and future business plan” in the Company’s announcement dated 7 March 2016) directly to the designated trust account of, or such other account as directed by, the scheme administrator pursuant to the Debt Restructuring under the Resumption Proposal on the Completion Date, subject to all the Conditions Precedent having been satisfied or waived (as the case may be).

Post-completion obligation of the Company

The Company must fulfil the following conditions (“Post-completion Obligation”) within 2 months from the Completion Date or on or before 5 October 2018, whichever is later (“Post-completion Long Stop Date”):

- (i) all the Resumption Conditions and the conditions set out in the LRC Decision Letter (including any other resumption conditions as imposed or amended by the Stock Exchange from time to time) having been satisfied in full; and
- (ii) the approval from the Stock Exchange to the resumption of trading in the Shares having been obtained and such approval not having been revoked.

In the event the Company fails to fulfil the Post-completion Obligation on or before the Post-completion Long Stop Date or such later date as the parties to the Supplemental Subscription Agreements may agree, the Company shall, subject to the applicable rules and regulations, use its best endeavours to facilitate the Subscriber to receive in cash an amount equivalent to the sum of (i) the actual consideration paid by it under the Subscription, and (ii) 10% of such actual consideration paid (being the finance costs and administrative expenses incurred in connection with the Subscription) (together, the “Agreed Amount”) on or before the expiration of the 18th months from the Post-completion Long Stop Date (the “Due Date”).

Such endeavours shall not involve any transfer of Shares from the Subscriber to the Company, Mr. Dong Shutong and/or any other person which will trigger any obligation to make a mandatory general offer to the Shareholders under Rule 26.1 of the Takeovers Code by any person.

Guarantee

The Company's Post-completion Obligation and its obligation to facilitate the Subscriber's receipt of the Agreed Amount on or before the Due Date are unconditionally and irrevocably guaranteed by Mr. Dong Shutong. In the event the Subscriber fails to receive the Agreed Amount in full on or before the Due Date, Mr. Dong Shutong, being the guarantor, shall be obligated to pay to the Subscriber the shortfall of the Agreed Amount together with interest thereon calculated at the rate of 0.05% per calendar day and accruing from the Due Date up to (and including) the date on which the Agreed Amount is paid in full. Such guarantee shall not involve any transfer of Shares from the Subscriber to Mr. Dong Shutong and/or any other person which will trigger any obligation to make a mandatory general offer to the Shareholders under Rule 26.1 of the Takeovers Code by any person.

Save as disclosed above, other terms and conditions of the Subscription Agreement remain unchanged.

On 29 September 2018, the Company and the Subscriber agreed to further extend the Long Stop Date from 30 September 2018 to 31 December 2019 or such other date as may be agreed by the Company and the Subscriber in writing from time to time.

Update on the status of the Debt Restructuring Proposal

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.

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.

Scheme meetings

Following the passing and effectiveness of the Extraordinary Resolutions on 6 July 2016, the Company prepared 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.

On 3 July 2018, the Company received a letter from Stock Exchange which stated that the Listing Committee was not satisfied that the Company had fully met the conditions set out in the LRC Decision Letter and decided to cancel the Company's listing status under Practice Note 17 to the Listing Rules. The Board strongly disagrees with such Decision. More importantly, due to the uncertainty given rise by the Decision, the court convening hearings in relation to the Schemes for the Grand Court of the Cayman Islands and the Hong Kong High Court, which were originally scheduled for 3 July 2018 and 10 July 2018 respectively, have been adjourned, and the implementation of the Resumption Proposal and thus the fulfillment of all resumption conditions will be adversely affected.

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			
	2018		2017	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Iron and Special Steel Products:				
Ni-Cr alloy steel ingot	273,629	61%	18,748	6%
Stainless steel products	65,752	15%	187,480	63%
Ferro-nickel alloy steel ingot and others	80,838	18%	50,114	17%
Sub-contracting services	27,988	6%	40,088	14%
Total	448,207	100%	296,430	100%

Sales volume

	For the year ended 31 December			
	2018		2017	
	<i>(tonnes)</i>	<i>%</i>	<i>(tonnes)</i>	<i>%</i>
Iron and Special Steel Products:				
Ni-Cr alloy steel ingot	68,220	39%	3,525	3%
Stainless steel products	18,656	11%	44,006	35%
Ferro-nickel alloy steel ingot and others	21,154	12%	13,048	10%
Sub-contracting services	66,937	38%	65,305	52%
Total	174,967	100%	125,884	100%

In 2018, the turnover of the Group recorded a significant increase of HK\$151.8 million, or 51.2%, to HK\$448.2 million (2017: HK\$296.4 million) due to the recent rebound of the PRC steel market.

More than half of the revenue of the Group in 2018 was contributed by sales of Ni-Cr alloy steel ingot, which was increased by HK\$254.9 million or 1363.1% to HK\$273.6 million (2017: HK\$18.7 million). The sales volume was significantly increased by 64,695 tonnes, or 1835.3% to 68,220 tonnes (2017: 3,525 tonnes). The average selling price per tonne was lowered by HK\$1,308, or 24.6% to HK\$4,011 (2017: HK\$5,319).

Sales of stainless steel base materials were decreased by HK\$121.7 million, or 64.9% to HK\$65.8 million (2017: HK\$187.5 million). The sales volume was decreased by 25,350 tonnes, or 57.6% to 18,656 tonnes (2017: 44,006 tonnes). The average selling price per tonne was decreased by HK\$736, or 17.3% to HK\$3,524 (2017: HK\$4,260).

Sales of Ferro-nickel alloy steel ingot and others were increased by HK\$30.7 million or 61.3% to HK\$80.8 million (2017: HK\$50.1 million). The sales volume was increased by 8,166 tonnes or 62.1% to 21,154 tonnes (2017: 13,048 tonnes). The average selling price per tonne was decreased by HK\$20, or 0.5% to HK\$3,821 (2017: HK\$3,841).

Sub-contracting services income to an external customer was decreased by HK\$12.1 million, or 30.2% to HK\$28.0 million (2017: HK\$40.1 million). The service volume was increased by 1,632 tonnes, or 2.5% to 66,937 tonnes (2017: 65,305 tonnes). The average service income per tonne was decreased by HK\$196, or 31.9% to HK\$418 (2017: HK\$614).

Cost of sales

The cost of sales in 2018 was increased by HK\$183.1 million, or 71.1%, to approximately HK\$440.7 million (2017: HK\$257.6 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\$7.5 million in 2018 (2017: HK\$38.9 million). The gross profit margin in 2018 was 1.7% (2017: 13.1%). The gross profit margin fluctuated mainly caused by the market price changed on different product mix during the year.

Other gains, net

The gain of HK\$26.6 million (2017: gains of HK\$42.4 million) in 2018 was mainly composed of government subsidy received from PRC local government and write off of other payables. The gain in 2017 was mainly composed of gain on deconsolidation of subsidiaries.

Selling and distribution expenses

Selling and distribution expenses in 2018 were increased by HK\$0.1 million, or 6.4%, to HK\$2.4 million (2017: HK\$2.3million), representing 0.5% of turnover (2017: 0.8%).

Administrative expenses

Administrative expenses in 2018 were decreased by HK\$19.6 million, or 9.2%, to HK\$194.7 million (2017: HK\$214.3 million). The decrease in administrative expense was mainly due to implementing cost control measures.

Finance costs

Finance costs in 2018 were decreased by HK\$2.7 million, or 0.8%, to HK\$341.2 million (2017: HK\$343.9 million). Decrease in finance cost was mainly due to repayment of certain loans with higher interest rate during the year.

Other expenses

Other expenses were composed of provision for impairment of prepayments and other expenses in 2018 were increased by HK\$0.4 million, or 11.3% to HK\$4.1 million (2017: HK\$3.7 million).

Loss before income tax

As a result of the factors discussed above, the loss before income tax for the year ended 31 December 2018 was HK\$509.0 million (2017: HK\$472.7 million). The Group's loss before income tax margin was 113.6% (2017: 159.5%). The loss before interest, tax, depreciation and amortisation (LBITDA) margin was 21.6% (2017: 17.6%).

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 2018.

Loss for the year and loss attributable to shareholders

As a result of the factors discussed above, the Group's 2018 loss for the year was HK\$509.0 million (2017: HK\$472.7 million) and the 2018 loss attributable to owners of the Company was HK\$509.0 million (2017: HK\$472.4 million).

Key financial ratios

		For the year ended	
		31 December	
	Notes	2018	2017
Current ratio	1	9%	9%
Inventory turnover days	2	153 days	254 days
Debtor turnover days	3	63 days	92 days
Creditor turnover days	4	167 days	191 days
Interest cover	5	-0.5 times	-0.4 times
Interest-bearing gearing ratio	6	-207%	-305%
Debt to LBITDA ratio	7	-26.4 times	-48.7 times
Net debt/Capital and net debt ratio	8	<u>137%</u>	<u>125%</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.
$$\frac{\text{Net debt*}}{\text{Capital and net debt}} \times 100\%$$

* *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 2018 mainly comprised plant and machinery. The decrease in balance by HK\$33.4 million or 7.8% to HK\$395.5 million (2017: HK\$428.9 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 were decreased from 254 days in 2017 to 153 days in 2018. As at 31 December 2018, inventories balance was increased by HK\$5.3 million, or 2.9%, to HK\$184.7 million (2017: HK\$179.4 million). Increase in inventory balance was mainly due to increment of sales activities.

Trade receivables

The debtor turnover days were decreased from 92 days in 2017 to 63 days in 2018. As at 31 December 2018, trade receivables balances were increased by HK\$2.1 million, or 2.8%, to HK\$77.0 million (2017: HK\$74.9 million) mainly due to increase in sales in the fourth quarter of year 2018.

Prepayments, deposits and other receivables

As at 31 December 2018 prepayments, deposits and other receivables balance was increased by HK\$27.2 million, or 24.2%, to HK\$139.2 million (2017: HK\$112.0 million). The increase in balance was mainly due to increase in payments to other suppliers.

Cash and cash equivalents and pledged time deposits

The aggregate amount of cash and cash equivalents and pledged time deposits was decreased by approximately HK\$15.8 million, or 78.7%, to HK\$4.3 million as at 31 December 2018 (2017: HK\$20.1 million).

Trade and notes payables

The creditor turnover days was decreased from 191 days in 2017 to 167 days in 2018. As at 31 December 2018, trade and notes payables balance was increased by HK\$67.3 million, or 50.0%, to HK\$201.7 million (2017: HK\$134.4 million). The increase in trade and notes payables balance was mainly due to increased purchase in the fourth quarter of year 2018. 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 2018, total bank and other borrowings balance was increased by HK\$22.3 million, or 0.9%, to HK\$2,516.1 million (2017: HK\$2,493.8 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 2018, the Group incurred a loss of approximately HK\$509.0 million and had a net operating cash outflow of approximately HK\$49.7 million. As at 31 December 2018, the Group's had a shareholders' deficit of HK\$1,240.2 million and current liabilities exceeded its current assets by HK\$4,172.1 million. Its total bank and other borrowings amounted to HK\$2,562.9 million are overdue or repayable on demand. The cash and cash equivalents of the Group amounted to HK\$4.3 million as at 31 December 2018.

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 2018 to improve its financial and liquidity position of the Group, details of which are set out in the section headed "Board's Consideration – Mitigation Measures to Going Concern Issues" 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 2018, the Group had current liabilities of HK\$4,577.3 million, of which HK\$2,516.1 million were bank and other borrowings repayable within one year, overdue or due for immediate repayment and HK\$1,804.3 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 2018, 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 2018, 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 2018 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 2018.

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 macroeconomic 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 expect the economy of PRC will continue its healthy growth trend and the demand and profitability of our steel products will rebound in future.

In a longer term, we expect 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 modernization of special steel products, the Group will have a stronger competitive advantage in the industry.

We believe that upon on the success of implementing all the plans contained in the Resumption Proposal, including the financial restructuring exercises, the Group's financial position will be substantially improved in the coming future.

We believe that upon completion of the enhancement works by the Strategic Partner, the production capacity of the Company will be further strengthened and better utilised. The production of steel products under the Cooperation Agreement may bring substantial improvement on the Group's financial performance and cash flow position.

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 2018, the Group had approximately 900 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 2018 (2017: 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 2018.

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 2018, 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.1.1

Only 2 regular Board meetings were held as the Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. This constitutes a deviation from Code Provision A.1.1

(2) 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 2018. 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.

(3) 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 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 2018 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 2018.

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 2018 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 2018:

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 2018, 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 2018, 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 the sale and purchase agreements entered into between the Group and a purchaser during the year ended 31 December 2018 pursuant to which the Group agreed to sell an aggregate the 14% equity interest in 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 2018.

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 14% 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 2018, 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 2018. 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\$352,323,000 as at 31 December 2018 and whether any impairment charge should be made for the year ended 31 December 2018. 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 2018, 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\$Nil and HK\$4,965,969,000 respectively as at 31 December 2018 and the related notes disclosures in the Note 36 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\$508,996,000 and had a net operating cash outflow of HK\$49,736,000 during the year ended 31 December 2018. As at 31 December 2018, the Group had a shareholders' deficit of HK\$1,240,151,000; its current liabilities exceeded its current assets by HK\$4,172,126,000; and its total borrowings amounted to HK\$2,577,080,000 while its cash and cash equivalents amounted to HK\$4,256,000 only. In addition, as at 31 December 2018, the Group's borrowings to the extent of HK\$2,562,873,000 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; and for the extension of these bank loans including all relevant interest expense that became overdue during the year ended 31 December 2018; (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 more revenue for 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 2018 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 2018 Annual Results and 2018 Annual Report is not an indication that the trading of the Company's shares will be resumed.

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, 29 March 2019

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. Wong Chi Keung and Mr. Fahmi Idris.