HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8137)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

GROUP RESULTS

The board of directors (the "Board") of Honbridge Holdings Limited (the "Company") announced the annual consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017 together with the comparative audited figures for last financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Turnover	4	**17,476**	34,045
Cost of sales		**(17,756)**	(33,160)
Gross (loss)/profit		**(280)**	885
Other operating income		**144,403**	33,959
Selling and distribution costs		**(3,187)**	(1,457)
Administrative expenses		**(114,701)**	(102,175)
Other operating expenses		**(7,910)**	(2,884)
Reverse of impairment/(Impairment) of exploration and evaluation assets		**1,131,284**	(270,826)
Impairment of other intangible assets		**(60,003)**	(85,964)
Impairment of property, plant and equipment		**(50,368)**	(37,643)
Fair value gain on derivative financial liabilities		**58,164**	9,892
(Loss)/Gain on changes in fair value and terms of contingent consideration payables		**(5,993)**	1,039,423
Finance costs		**(68,535)**	(72,138)
Profit before income tax		**1,022,874**	511,072
Income tax (expense)/credit	6	**(366,900)**	122,135
Profit for the year		**655,974**	633,207
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of financial statements of foreign operations		**30,324**	326,139
Other comprehensive income for the year, net of tax		**30,324**	326,139
Total comprehensive income for the year		**686,298**	959,346
Profit for the year attributable to:			
Owners of the Company		**676,063**	700,010
Non-controlling interests		**(20,089)**	(66,803)
		655,974	633,207
Total comprehensive income attributable to:			
Owners of the Company		**697,825**	1,036,103
Non-controlling interests		**(11,527)**	(76,757)
		686,298	959,346
Earnings per share	8		
— Basic		**8.41 cents**	HK9.04 cents
— Diluted		**7.04 cents**	HK7.81 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**411,493**	104,743
Exploration and evaluation assets	*11*	**4,103,876**	2,947,964
Prepaid land lease payments		**88,965**	84,928
Other intangible assets		**–**	65,536
Goodwill	*12*	**–**	–
Other financial assets	*13*	**285,632**	812,545
		4,889,966	4,015,716
Current assets			
Inventories		**28,549**	36,653
Trade and bill receivables	*9*	**30,224**	101,137
Other financial assets		**540,000**	–
Prepayments, deposits and other receivables		**85,145**	21,670
Financial assets at fair value through profit or loss		**1,985**	1,936
Tax recoverable		**110**	1,956
Restricted bank deposits		**15,978**	3,367
Cash and cash equivalents		**583,492**	669,052
Total current assets		**1,285,483**	835,771
Current liabilities			
Trade and bill payables	*10*	**28,592**	35,910
Other payables, accrued expenses, deposits received and receipts in advance		**77,715**	40,884
Borrowings		**240,143**	11,206
Derivative financial liabilities		**–**	58,297
Convertible bonds		**–**	623,433
Total current liabilities		**346,450**	769,730
Net current assets		**939,033**	66,041
Total assets less current liabilities		**5,828,999**	4,081,757

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Borrowings		**120,072**	112,061
Deferred income		**1,542**	95,708
Deferred tax liabilities		**1,284,348**	910,279
Contingent consideration payables		**159,080**	153,087
		1,565,042	1,271,135
Net assets		**4,263,957**	2,810,622
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**9,855**	7,862
Reserves		**3,955,666**	2,580,297
		3,965,521	2,588,159
Non-controlling interests		**298,436**	222,463
Total equity		**4,263,957**	2,810,622

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to the owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium*	Treasury shares reserve*	Share-based payment reserve*	Translation reserve*	Convertible bond equity reserve*	Retained earnings*	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	7,862	2,627,306	(142,864)	136,741	(4,869,117)	258,836	3,488,507	1,507,271	44,205	1,551,476
Capital contribution from non-controlling interests	–	–	–	–	–	–	44,785	44,785	255,015	299,800
Transactions with owners	–	–	–	–	–	–	44,785	44,785	255,015	299,800
Profit for the year	–	–	–	–	–	–	700,010	700,010	(66,803)	633,207
Other comprehensive income										
Currency translation	–	–	–	–	336,093	–	–	336,093	(9,954)	326,139
Total comprehensive income	–	–	–	–	336,093	–	700,010	1,036,103	(76,757)	959,346
At 31 December 2016 and 1 January 2017	7,862	2,627,306	(142,864)	136,741	(4,533,024)	258,836	4,233,302	2,588,159	222,463	2,810,622
Issuance of new shares upon conversion of convertible bonds	**2,000**	**948,078**	**–**	**–**	**–**	**(258,836)**	**–**	**691,242**	**–**	**691,242**
Shares repurchased and cancelled	**(7)**	**(11,698)**	**–**	**–**	**–**	**–**	**–**	**(11,705)**	**–**	**(11,705)**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**87,500**	**87,500**
Transactions with owners	**1,993**	**936,380**	**–**	**–**	**–**	**(258,836)**	**–**	**679,537**	**87,500**	**767,037**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**676,063**	**676,063**	**(20,089)**	**655,974**
Other comprehensive income										
Currency translation	**–**	**–**	**–**	**–**	**21,762**	**–**	**–**	**21,762**	**8,562**	**30,324**
Total comprehensive income	**–**	**–**	**–**	**–**	**21,762**	**–**	**676,063**	**697,825**	**(11,527)**	**686,298**
At 31 December 2017	**9,855**	**3,563,686**	**(142,864)**	**136,741**	**(4,511,262)**	**–**	**4,909,365**	**3,965,521**	**298,436**	**4,263,957**

* The aggregate amount of these balances of approximately HK$3,955,666,000 (2016: HK$2,580,297,000) is included as reserves in the consolidated statement of financial position.

Notes:

1. GENERAL INFORMATION

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

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

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

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

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

3. ADOPTION OF NEW OR AMENDED HKFRSs

3.1 Adoption of new or amended HKFRSs

During the year, the Group has adopted all the new or amended HKFRSs which are first effective for the reporting year and relevant to the Group. Except as explained below, the adoption of these new or amended HKFRSs did not result in material changes to the Group's accounting policies.

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the cash flow statement.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

Annual improvements to HKFRSs 2014-2016 Cycle — Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

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

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

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time adoption of Hong Kong Financial Reporting Standards[1]
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs[2]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKFRS 17	Insurance Contracts[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventrure[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

4 Effective for annual periods beginning on or after 1 January 2021

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

Amendments to HKFRS 2 — Classification and Measurement of Share-based Payment Transactions

This standard is effective for accounting periods beginning on or after 1 January 2018. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The directors of the Company anticipate that this amendment does not result in any significant impact on the Group's financial position and results of operations.

HKFRS 9 — Financial Instruments

This standard is effective for accounting periods beginning on or after 1 January 2018. HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

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

During the year ended 31 December 2017 and 2016, there were no significant impairment for the Group's financial assets. The directors of the Company anticipate that the implementation of HKFRS 9 is not expected to result in any significant impact on the Group's financial position and results of operations.

HKFRS 15 — Revenue from Contracts with Customers

This standard is effective for accounting periods beginning on or after 1 January 2018. The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

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

This standard is effective for accounting periods beginning on or after 1 January 2018. The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The directors of the Company anticipate that the application of HKFRS 15 in the future will not have a material impact on the amounts reported to the consolidated financial statements of the Group in the future based on the existing business model of the Group as at 31 December 2017.

Amendments to HKFRS 9 — Prepayment Features with Negative Compensation

This amendment is effective for accounting periods beginning on or after 1 January 2019. The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met — instead of at fair value through profit or loss. The directors of the Company anticipate that this amendment does not result in any significant impact on the Group's financial position and results of operations.

HKFRS 16 — Leases

This standard is effective for accounting periods beginning on or after 1 January 2019. HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

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

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for property, plant and equipment which are currently classified as operating leases. 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 statement of profit or loss over the period of the lease. The future aggregate minimum lease payments under non-cancellable operating lease of the Group as at 31 December 2017 amounted to HK$3,476,000. Based on current leasing patterns, the Group do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that the certain portion of the lease commitment will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

HK(IFRIC)-Int 22 — Foreign Currency Transactions and Advance Consideration

This Interpretation is effective for accounting periods beginning on or after 1 January 2018. The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The directors of the Company anticipate that this interpretation does not result in any significant impact on the Group's financial position and results of operations.

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

This Interpretation is effective for accounting periods beginning on or after 1 January 2019. The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

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

The directors of the Company anticipate that this interpretation does not result in any significant impact on the Group's financial position and results of operations.

4. TURNOVER

Turnover represents total invoiced value of goods supplied and income from provision of services. The amounts of revenue recognised in turnover during the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
Sale of lithium batteries	**17,476**	34,045

5. SEGMENT REPORTING

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

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

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

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

	Mineral resources exploration and trading *HK$'000*	**Lithium battery production** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2017			
Reportable segment turnover (external customers)	**–**	**17,476**	**17,476**
Reportable segment profit/(losses)	**1,134,740**	**(100,247)**	**1,034,493**
Reportable segment assets	**4,114,217**	**1,080,598**	**5,194,815**
Reportable segment liabilities	**145,160**	**478,548**	**623,708**
Capital expenditure	**2**	**341,849**	**341,851**
Reverse of impairment of exploration and evaluation assets	**(1,131,284)**	**–**	**(1,131,284)**
Impairment of other intangible assets	**–**	**60,003**	**60,003**
Impairment of property, plant and equipment	**–**	**50,368**	**50,368**
Interest income	**(217)**	**(3,579)**	**(3,796)**
Interest expense	**–**	**860**	**860**
Depreciation	**596**	**6,551**	**7,147**
Amortisation charge	**–**	**12,010**	**12,010**
Write-down of inventories	**–**	**7,959**	**7,959**
Year ended 31 December 2016			
Reportable segment turnover (external customers)	–	34,045	34,045
Reportable segment losses	(286,548)	(167,311)	(453,859)
Reportable segment assets	2,952,531	802,986	3,755,517
Reportable segment liabilities	156,795	288,612	445,407
Capital expenditure	48	55,695	55,743
Impairment of exploration and evaluation assets	270,826	–	270,826
Impairment of other intangible assets	–	85,964	85,964
Impairment of property, plant and equipment	–	37,643	37,643
Interest income	(159)	(2,303)	(2,462)
Interest expense	–	1,091	1,091
Depreciation	629	11,951	12,580
Amortisation charge	–	27,260	27,260
Write-down of inventories	–	2,319	2,319

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

	2017 HK$'000	2016 HK$'000
Reportable segment turnover	**17,476**	34,045
Reportable segment profit/(loss)	**1,034,493**	(453,859)
Other operating income	**20,983**	12,625
Administrative expenses	**(17,147)**	(25,397)
Fair value gain on derivative financial liabilities	**58,164**	9,892
Fair value (loss)/gain on contingent consideration payables	**(5,993)**	1,039,423
Gain/(Loss) on financial assets at fair value through profit or loss	**49**	(565)
Finance costs	**(67,675)**	(71,047)
Profit before income tax	**1,022,874**	511,072
Reportable segment assets	**5,194,815**	3,755,517
Property, plant and equipment	**627**	861
Loan receivable	**540,000**	540,000
Prepayments and other receivables	**3,664**	3,751
Financial assets at fair value through profit or loss	**1,985**	1,936
Cash and cash equivalents	**434,358**	549,422
	6,175,449	4,851,487
Reportable segment liabilities	**623,708**	445,407
Other payables and accrued expenses	**3,436**	3,449
Derivative financial liabilities	**–**	58,297
Convertible bonds	**–**	623,433
Deferred tax liabilities	**1,284,348**	910,279
	1,911,492	2,040,865

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

	2017 HK$'000	2016 HK$'000
Turnover from external customers		
PRC	**17,476**	34,045
Reportable segment turnover	**17,476**	34,045
Non-current assets (excluding other financial assets)		
Hong Kong	**627**	861
PRC	**499,201**	253,303
Brazil	**4,104,506**	2,949,007
Reportable segment non-current assets	**4,604,334**	3,203,171

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

During the year ended 31 December 2017, over 91% (2016: 86%) of the Group's turnover was derived from 2 major customers (2016: 2) in lithium battery production segment and turnover generated from these customers are HK$13,710,000 and HK$2,209,000 respectively (2016: HK$24,882,000 and HK$4,507,000 respectively).

6. INCOME TAX EXPENSE/(CREDIT)

	2017	2016
	HK$'000	*HK$'000*
Overseas tax		
Current year	**–**	–
Under/(Over) provision in respect of prior years	**814**	(2,128)
Deferred tax	**366,086**	(120,007)
Income tax expense/(credit)	**366,900**	(122,135)

During the years ended 31 December 2017 and 31 December 2016, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profits arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

During the year, corporate income tax rates in Brazil of 34% (2016: 34%) is applicable to Sul Americana de Metais S.A. ("SAM"), being the Group's subsidiary established in Brazil.

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

	2017	2016
	HK$'000	*HK$'000*
Profit before income tax	**1,022,874**	511,072
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**363,303**	20,520
Tax effect of non-deductible expenses	**21,718**	28,836
Tax effect of non-taxable revenue	**(34,698)**	(179,031)
Tax effect of tax losses not recognised	**15,741**	9,581
Tax effect on temporary difference not recognised	**22**	87
Under/(Over) provision in respect of prior years	**814**	(2,128)
Income tax expense/(credit)	**366,900**	(122,135)

7. DIVIDEND

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

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$676,063,000 (2016: HK$700,010,000) and weighted average of 8,042,284,000 (2016: 7,744,722,000) ordinary shares in issue (after adjusting the effect of treasury shares held by the Company) during the year.

For the year ended 31 December 2017, the calculation of diluted earnings per share attributable to the owners of the Company was based on the following data:

	2017	2016
	HK$'000	*HK$'000*
Earnings for the purposes of basic earnings per share	**676,063**	700,100
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**67,675**	71,047
Fair value gain on derivative financial assets	**(58,164)**	(9,892)
Earnings for the purposes of diluted earnings per share	**685,574**	761,165

	2017	2016
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**8,042,284**	7,744,722
Effect of dilutive potential ordinary shares:		
— share options	**543**	–
— convertible bonds	**1,701,918**	2,000,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**9,744,745**	9,744,722

9. TRADE AND BILL RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**29,383**	101,059
Bill receivables	**841**	78
Trade and bill receivables	**30,224**	101,137

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

The Group allows a credit period from 0 day to 180 days (2016: 0 days to 180 days) to its trade customers. The following is ageing analysis of net trade and bill receivables at the reporting date:

	2017	2016
	HK$'000	*HK$'000*
0 — 30 days	**5,458**	20,125
31 — 90 days	**–**	13,077
91 to 180 days	**5,846**	–
Over 180 days	**18,920**	67,935
	30,224	101,137

All trade receivables are subject to credit risk exposure. At each of the reporting dates, the Group reviews receivables for evidence of impairment on both individual and collective basis.

Ageing analysis of trade and bill receivables that were past due as at the reporting date but not impaired, based on the due date is as follows:

	2017	2016
	HK$'000	*HK$'000*
Neither past due nor impaired	**5,458**	31,212
31 — 60 days	**–**	1,990
91 — 180 days	**5,846**	–
Over 180 days but not more than 1 year	**12,482**	67,857
Over 1 year past due	**6,438**	78
	30,224	101,137

Trade and bill receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Trade and bill receivables that were past due but not impaired related to customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable. The Group does not hold any collateral over these balances.

10. TRADE AND BILL PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**18,618**	32,552
Bill payables	**9,974**	3,358
	28,592	35,910

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

	2017	2016
	HK$'000	*HK$'000*
0 — 30 days	**788**	5,211
31 — 60 days	**292**	5,122
61 — 90 days	**3,244**	5,949
91 — 180 days	**9,790**	5,151
Over 180 days	**14,478**	14,477
	28,592	35,910

11. EXPLORATION AND EVALUATION ASSETS

	2017	2016
	HK$'000	*HK$'000*
At 1 January		
Cost	**10,705,546**	9,044,536
Accumulated impairment	**(7,757,582)**	(6,328,536)
Net book amount	**2,947,964**	2,716,000
For the year ended 31 December		
Opening net book amount	**2,947,964**	2,716,000
Additions	**3,201**	5,502
Exchange realignments	**21,427**	497,288
Reverse of impairment/(Impairment)	**1,131,284**	(270,826)
Net book amount	**4,103,876**	2,947,964
At 31 December		
Cost	**10,918,374**	10,705,546
Accumulated impairment	**(6,814,498)**	(7,757,582)
Net book amount	**4,103,876**	2,947,964

As at 31 December 2017 and 2016, exploration and evaluation assets represented the rights to explore and identify prospective deposits of mineral resources in the states of Minas Gerais and Bahia, Brazil and the expenditures incurred in the search for mineral resources.

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

During the year, the Directors reviewed the carrying amount of exploration and evaluation assets, reverse of impairment loss of HK$1,131,284,000 (2016: Impairment loss of HK$270,826,000) had been identified and recognised in the consolidated statement of profit or loss and other comprehensive income. The reverse of impairment loss during the year is mainly due to the increse in iron one price.

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

The major assumptions and parameters of the valuation as at 31 December 2016 included (1) all major required licenses would be obtained in the first half of 2020 and the mining production would be commenced on 2023 with nominal annual production capacity of 27.5 million tonnes; (2) estimated 66.5% iron concentrates of 640 million tonnes, which was based on the resource estimates at cut-off grade 14% (measured resources of 1,135 million tonnes (20.57%) and indicated resources of 1,479 million tonnes (19.64%); (3) forecasted price of 66.5% iron concentrate ranged between US$61 to US$79 per ton during the forecast period; (4) operating costs of US$29.4 per tonnes over the whole mining period; (5) capital expenditure of US$3,025 million for the construction of infrastructure and annual capital expenditure for maintenance of US$50 million, totaling US$5,166 million for the whole mining period; and (6) discount rate of 16.80%.

During the year, the Group revised its mining plan with reference to the conceptual mining project developed by Venturini Consulting, the mining adviser, together with reports from other professional firms and the professional staff of SAM. As a whole, there are some changes in the major assumptions and parameters of the valuation.

The major assumptions and parameters of the valuation as at 31 December 2017 included (1) all major required licenses would be obtained in the end of 2020 and the mining production would be commenced in 2024 with nominal annual production capacity of 27.5 million tonnes; (2) estimated 63%-68% iron concentrates of 774 million tonnes, which was based on the updated resource estimates at cut-off grade 4.25% (measured resources of 3,583 million tonnes (16.63%) and indicated resources of 1,556 million tonnes (16.05%), (3) forecasted price of 66.5% iron concentrate ranged between US$76 to US$102 per ton during the forecasted period; (4) operating costs of US$31.4 per tonnes for the first 18 years of mining and US$42.2 per tonnes for the remaining period of mining; (5) capital expenditure of US$2,999 million for the construction of infrastructure and totaling US$4,069 million for the whole mining period (no port will be constructed by SAM under the revised plan) and (6) discount rate of 18.96%.

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

12. GOODWILL

As at 31 December 2017 and 2016, the balance represented goodwill which arose from the acquisition of Triumphant Glory Investment Limited ("Triumphant Glory") and its subsidiary, namely Shandong Forever, which are engaged in the production and sales of lithium batteries during the year ended 31 December 2017. The net carrying amount of goodwill can be analysed as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January		
Gross carrying amount	**165,569**	176,370
Accumulated impairment	**(165,569)**	(176,370)
Net carrying amount	**–**	–
Carrying amount at 1 January	**–**	–
Exchange realignment	**–**	–
Impairment losses	**–**	–
Net carrying amount at 31 December	**–**	–
At 31 December		
Gross carrying amount	**177,404**	165,569
Accumulated impairment	**(177,404)**	(165,569)
Net carrying amount	**–**	–

As at 31 December 2017 and 2016, goodwill allocated to the CGU of lithium battery production segment was fully impaired.

Impairment assessment of the relevant assets of CGU of lithium battery production segment

As at 31 December 2017, the relevant assets of CGU of lithium battery production segment, operated by Shandong Forever, included property, plant and equipment of HK$50,368,000 (2016: HK$88,452,000), prepaid land lease payments of HK$48,765,000 (2016: HK$46,635,000), other intangible assets of HK$60,003,000 (2016: HK$151,500,000) and no goodwill during 2017 and 2016. (before current year impairment).

The recoverable amount for this CGU is determined based on fair value less cost of disposal calculation using discounted cash flow technique, covering detailed five-year budget plans, followed by an extrapolation of expected cash flows without growth rate. The post-tax discount rate used for fair value less cost of disposal calculation is 17.68% (2016: 17.36%) per annum, which reflects specific risks relating to the relevant CGU.

The key assumptions for the fair value less cost of disposal calculation are those regarding the discount rate, growth rate and budgeted gross margin, which had been determined based on the market comparables and budgeted revenue, which had been determined based on the management's expectation for the market development and the production capacity of the CGU.

Apart from the considerations described above in determining the fair value less cost of disposal of the CGU, the Group's management is not currently aware of any other probable changes that would necessitate changes in their key assumptions. However, the estimate of recoverable amount of the Group's CGU is particularly sensitive to the discount rate applied.

The recoverable amount has been determined based on fair value less cost of disposal estimated by an independent professional valuer, Greater China Appraisal Limited with the discount cash flow approach. The fair value less cost of disposal of the CGU is classified as level 3 measurement.

As at 31 December 2017, based on the assessment, the recoverable amount of the CGU was below the total carrying amounts of the relevant assets of the CGU. Accordingly, impairment losses of HK$50,368,000 (2016: HK$37,643,000) and HK$60,003,000 (2016: HK$85,964,000) on property, plant and equipment and other intangible assets that relates to this CGU, respectively, have been recognised in the profit or loss for the year. The significant impairment loss recognised was mainly due to downward adjustment in forecast sales amount after a disappointing performance of Shandong Forever for the year ended 31 December 2017.

13. OTHER FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
Loan and receivables		
— Amounts due from non-controlling interests of a subsidiary *(note (a))*	**285,632**	272,545
— Loan receivable *(note (b))*	**540,000**	540,000
	825,632	812,545
Represented by:		
Non-current assets	**285,632**	812,545
Current assets	**540,000**	–
	825,632	812,545

Note:

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

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

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

	2017	2016
	HK$'000	*HK$'000*
Upon the date of capital contribution agreement	**272,545**	299,800
Repayment	**–**	(32,708)
Imputed interest income	**13,087**	5,453
	285,632	272,545

The fair value of the liability on 26 July 2016 of HK$299,800,000 was calculated using cash flows discounted at an estimate discount rate of 4.9%, which is reference to market interest rate.

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

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

As at 31 December 2016, in the opinion of directors, such balance was not expected to be realised within twelve months after the reporting period. Accordingly, it was classified as non-current assets.

During the year, the borrower exercises its option to extend the loan receivable for further twelve months and as at 31 December 2017, this loan receivable is repayable within one year and accordingly, it is classified as current assets.

As at 31 December 2017 and 2016, the loan receivable is within the maturity date. The directors assessed the collectability of loan receivable at the end of the reporting period individually with reference to the borrower's past collection history and current creditworthiness. In the directors' opinion, there was no indication of deterioration in the collectability of the loan receivable and no impairment was considered necessary.

14. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	*HK$'000*
Contracted but not provided for property, plant and equipment	**211,214**	90,530

As at 31 December 2017, the estimated capital expenditures for the mineral resources exploration business in Brazil, which is operated by SAM, are stated in note 11.

MANAGEMENT DISCUSSION AND ANALYSIS

Lithium-Ion Battery Business

In 2017, the Group has been developing the lithium-ion battery project actively and cautiously by improving its technology, upgrading its products and expanding its production capacity, as well as conducting product matching with automobile enterprises, and has developed a product portfolio which consists of lithium iron phosphate batteries, prismatic type ternary batteries and pouch type ternary batteries, their energy density, power density, life cycle, consistency, safety, etc. have reached an advanced level. Following the procurement arrangement with Volvo Car, a famous brand in the world and also with the CMA platform vehicle models including Lynk & Co under Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely"), the Group is also promoting the product matching with Geely Emgrand EC7, Geely Yuan Cheng Commercial Vehicle and London Electric Vehicle Company and also exploring new customers including major automobile enterprises and new energy vehicle enterprises. The Group is constantly negotiating and conducting products matching with major and new automobile manufacturers and potential new customers in the energy storage field. The Group is going to seize the historic opportunity of the development of new energy vehicle industries and is committed to develop in the powered battery industry.

As at the date of this announcement, the car models installed with battery packs of the Group listed in the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products《道路機動車輛生產企業及產品公告》and the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles《新能源汽車推廣應用推薦車型目錄》of Ministry of Industry and Information Technology of the PRC include the Plug-in Hybrid Electric Vehicle (PHEV) model "XC60" of Volvo and "Lynk 01" PHEV model of Geely, Geely K12, Geely Vision X1, Kandi K10, Kandi K11, Guangtong Bus EV and Tongjiafu Van. Moreover, the application for three of the PHEV models in the "S90" series of Volvo to be listed in the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products is in progress.

Subject to various factors such as technology, crafts, investment and sales of products, the Company is re-valuating the expansion plan in Zou Cheng, Shandong and exploring the possibilities of massive expansion in areas other than Jinhua in Zhejiang.

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

Zhejiang Forever New Energy is an indirect non-wholly owned subsidiary of the Company and is owned as 49%, 48% and 3% by the Group, Shanghai Maple Automobile Company Limited ("Shanghai Maple"), a subsidiary of Zhejiang Geely and Jiaxing Jiale Investment Partnership Corporation (limited partnership) ("Jiaxing Jiale") respectively. Zhejiang Geely owns and controls the automobile brand "Geely", "Lynk & Co", "Yuan Cheng Commercial Vehicle" as well as renowned European automobile brand "Volvo", "Lotus" and "London Electric Vehicle Company", and Zhejiang Geely is also one of the Fortune Global 500 companies as well as the largest shareholder of Volvo AB and Daimler AG.

Zhejiang Forever New Energy is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion battery and battery system. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to possess a maximum production capacity of approximately 1,500,000 kWh ternary lithium-ion battery annually. All of the major construction works have been completed and the first 500,000 kWh production line was installed. The fully automatic production line adopts a state-of-the-art design and technologies for producing pouch type cells and the trial production has begun. The second 500,000 kWh production line which will be used to produce pouch type cell is scheduled to be installed by the end of 2018. The time for installation of the third 500,000 kWh production line will be decided based on the market demand.

Volvo Car Sales Agreement

On 23 October 2017, Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation ("Volvo Car") in relation to the sales of lithium-ion battery packs for PHEV models of Volvo Car planning to be manufactured in the PRC (the "Volvo Car Sales Agreement"). The total proposed annual caps (excluding VAT) in respect of the Volvo Car Sales Agreement for the financial year ending 31 December 2018 are RMB280 million.

Zhejiang Geely Components Sales Agreement

On 25 October 2017, Zhejiang Forever New Energy entered into a three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 ("Zhejiang Geely Components") in relation to the sales of lithium-ion battery packs for vehicle models including Lynk & Co and other models manufactured under the CMA platform of Zhejiang Geely (the "Zhejiang Geely Components Sales Agreement"). The total proposed annual caps (excluding VAT) in respect of the Zhejiang Geely Components Sales Agreement for the financial years ending 31 December 2018 and 31 December 2019 are RMB600 million and RMB900 million respectively.

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

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

The Group expects the sales to companies under Zhejiang Geely will count a significant portion of revenue generated from the first production line of Zhejiang Forever New Energy after mass production. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other mainstream automobile enterprises to reduce the sales concentration risk. Other details of the above two sales agreement have been disclosed in the announcements of the Company dated 23 October 2017 and 25 October 2017.

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

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

During the year ended 31 December 2017, the lithium-ion battery segment recorded a revenue of approximately HK$17.5 million (equivalent to approximately RMB15.2 million), which decreased by 48.5% when compared to HK$34.0 million (equivalent to approximately RMB29.1 million) revenue recognised in last year. The reasons were discussed in the Business Review section in this announcement.

The lithium-ion battery segment losses before non-cash items including impairment, depreciation, amortisation expenses and release of deferred income were approximately HK$75.1 million (2016: HK$4.5 million). The loss increased during the year because more operating costs were incurred by the new Zhejiang factory and the increase in the research and development expenses and staff costs and the provision on inventories and decreased in gross profits by Shandong Forever New Energy.

For the HK$110.4 million (equivalent to approximately RMB96 million) impairment loss on other intangible assets and property, plant and equipment recognised in the current year. The significant impairment loss recognised was mainly due to downward adjustment in forecast sales amount after a disappointing performance of Shandong Forever New Energy for the year ended 31 December 2017. In view of the impairment of assets of Shandong Forever New Energy was recognised, the relevant amount of deferred income (represented government grant received by Shandong Forever New Energy in relation to the construction of factory building and purchase of production facilities) of HK$103.8 million was released to profit or loss during the year. Details of impairment assessment have been set out in note 12 of this announcement.

Research And Development

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

Our research and development team consists of both national and overseas (such as China and Korea) experts from top-tier powered battery manufacturers. For the year ended 31 December 2017, the Group was granted 55 patents, among which 51 are utility model patents, 2 appearance design patents and 2 innovation patents. At present, 81 patents are under application. Our patent portfolio covers the whole process from the preparation to the application of batteries, including the preparation technique of battery materials, the preparation technique of batteries, the assemble technique of batteries, the screening technique of batteries, the packing technique of battery pack as well as battery management systems, coupled with various fields of cutting-edge technology, including reuse and recycling of battery modules and systems, solid-state battery electrolyte, lithium-sulphur batteries and fuel cells. Moreover, the Group has introduced various kinds of advanced battery technology through its technological collaboration with renowned battery suppliers from overseas. The Company has established a product design and development process and technology management system compatible with the research and development of vehicles. With relevant research and development capabilities, we have also established a data archive to which information about the research and development of our products can be accessed. For the year ended 31 December 2017, the research and development expenses of our Group were approximately HK$36 million (2016: approximately HK$18 million).

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

PROGRESS OF SAM

As of the date of this announcement, the Group has provided funding with principal amount of approximately US$69 million to the iron ore project in Brazil, through shareholders' loans and increase of registered capital in Sul Americana de Metais S.A. ("SAM"), an indirect wholly owned subsidiary of the Company in Brazil.

SAM is devoted to develop Block 8 as phase I operation with an annual production capacity of 27.5 million tons with an average grading of 66.4% Fe in the first 18 years' operation and average grading of 63.9% Fe after 18 years' operation. The project will have an integrated system comprised an open–pit mine, a beneficiation plant, a 480km underground slurry pipeline, filtering plant, and its product will be exported through Porto Sul (the "Port") in Bahia State which has been granted all environmental licenses for construction. On 1 September 2017, a Chinese Consortium signed a MOU with Bahia State government and intends to lead and participate in an investment group to finance the development of Porto Sul, including equity investment and procurement of debt financing. SAM will be a pure user of the Port.

According to local topographic features, Block 8 was named as Vale do Rio Pardo Project ("Previous Project"). As SAM started licensing process for the mine and its facilities in Minas Gerais since November 2017, the mine complex project is renamed as "Vale do Rio Pardo Iron Project" (the "Project") in order to differentiate the new environmental licensing process in the Secretariat of Environment and Sustainable Development ("SEMAD") from the previous one in Institution of Environment and Renewable Natural Resources ("IBAMA").

Environmental Licensing Progress of the Project

Since March 2016 when the IBAMA issued a negative conclusive technical opinion — "based on the current engineering design mode, IBAMA technical staff are not able to certify environmental viability", in which the main concerns are related to tailing dam, SAM had been working on engineering optimisation to reduce the potential environmental impacts of the Project and keeping close contact with IBAMA.

In November 2016, as IBAMA suggested, SAM decided to reopen a new environmental licensing administrative process and hired Brandt Meio Ambiente ("Brandt") to prepare the Terms of Reference ("TR"), which outlines the terms for the new Environmental Impact Study ("EIA") and Environmental Impact Report ("RIMA"). IBAMA agreed that SAM could use most of the studies finished in the previous EIA/RIMA. On 12 January 2017, SAM submitted the proposed TR to IBAMA.

On 12 April 2017, SAM received a TR draft from IBAMA, which was a general TR for any new mine project, without considerations of SAM's project specifics and licensing history.

On 12 May 2017, after deep analysis of the TR draft from IBAMA by SAM's environmental consultants, lawyers and other professional parties, SAM replied IBAMA officially and make it clear item by item how SAM would use the information from the previous EIA/RIMA, and what supplementary studies would be undertaken.

Since then, SAM had been keeping close contact and communicating with IBAMA, consultants and other professional parties, pursing that IBAMA could confirm the specific details and the proposed supplementary studies in the TR so that SAM could start the required work for the new EIA/RIMA as soon as possible.

In order to speed up the licensing process, SAM had meetings with the governments of Minas Gerais State and Bahia State of Brazil to get more support in the Project. As the Project could generate thousands of jobs and significant economic benefits to the two States, both governments are committed to assign representatives to attend the meetings with IBAMA together with SAM when the new EIA/RIMA is ready.

On 18 April 2017, the Strategic Affairs Committee of Minas Gerais State made a decision to list SAM's Vale do Rio Pardo project as a priority project for the Minas Gerais State. The State of Minas Gerais established Superintendency of Priority Projects ("SUPPRI") under SEMAD in September 2016, to be responsible for the environmental analysis of priority projects. Thus, the priority projects in Minas States could enjoy a faster environmental licensing process than other projects.

On 11 September 2017, together with SAM, Minas Gerais State Government had sent two representatives to have meeting with IBAMA to show their support on SAM`s project aiming to speed up the TR confirmation.

To reduce environmental impact and risk, SAM has been making great efforts to optimise the engineering design of the project. In 2017, SAM has finished revising the mining plan which shows a significant reduction of tailings volume and favor of environment. Beside that, SAM also reviewed the project model and decided to include Vacarias water dam into the iron ore mining project as an alternative of water supply and also as a water solution for the region since the region suffers drought in recent years. Most of the environmental studies of Vacarias water dam project was done by SAM as a social compensation which was established in a MOU with Minas Government in 2010.

After the inclusion of Vacarias water dam, SAM`s mine and its facilities project, which is a project completely located in the state of Minas Gerais Sate, is renamed as Vale do Rio Pardo Iron Project and consists of the following areas:

- Open pit mine
- Beneficiation plant (process plant)
- Tailings and water dams
- Vacarias dam
- Power transmission line
- Water supply pipeline from Irapé
- Water supply pipeline from Vacarias dam

According to the opinion of SAM`s environmental consultants and lawyers, based on the best practices of similar projects in Brazil, it is suggested SAM to license the mine and its facilities at State level environmental institution. Therefore, on 14 November 2017, SAM sent a letter to IBAMA and requested to cancel and file SAM`s environmental licensing administrative process in IBAMA.

On 16 November 2017, SAM immediately submitted the FCE (Integrated Enterprise Characterization Forms) to SEMAD to initiate the environmental licensing process at the state level. Since Vale do Rio Pardo Iron Project is a priority project of Minas Gerais State, the licensing process is directed to the SUPPRI.

On 21 November 2017, IBAMA answered SAM through an official letter saying that the licensing administrative process in IBAMA was filed as SAM requested.

On 21 November 2017, SUPPRI issued the FOBI (Basic Guidance Form–Integrated) to give SAM guidance on formalizing the licensing process. Soon later on 28 November 2017 and 18 December 2017, SAM had meetings with SUPPRI's technical team to understand their requirements for the LP application.

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

In the beginning of January 2018, SAM hired engineering firm WALM to optimise the engineering parameters of tailings and waste disposal, and update the hidro–geologic model.

In order to undertake complementary fauna surveys required by SUPPRI, SAM submitted related necessary authorizations applications in time. In January 2018, SUPPRI issued the authorization for management (capture, collect and transport) of wildlife. In February 2018, State Forestry Institute (IEF) issued the authorization for management of aquatic and limnology biota. In March 2018, SUPPRI issued the authorization for management of cave animals.

By the date of this announcement, all the necessary studies for the LP at state level are well proceeding. An application for environmental license for pipeline and filtration plant is to be lodged with IBAMA.

Other details of the Vale do Rio Pardo project including the history of license application and the major licenses, permits, approvals obtained have been set out in the 2016 annual report of the Company.

CAPEX and OPEX

For the year ended 31 December 2017, the estimated capital expenditure ("CAPEX") for the Vale do Rio Pardo Iron Project was approximately US$3.00 billion (2016: US$3.03 billion) while average F.O.B. operating cost ("OPEX") (per ton of iron concentrate) was approximately US$31.4 for year 1 to 18 and US$42.2 for year 19 to 32 based on the detailed, optimised mining plan. The latest mining plan can significantly reduce the tailing volume and make the project more environmental friendly. Under the plan, iron ores with higher Fe grading will be processed in the first 18 years while those with lower Fe grading will be processed starting from year 19. Lower Fe grading iron ore requires more mining and beneficiation process so the OPEX for mining and beneficiation increase significantly starting from year 19. Compared to last year, the key reason for the increase in estimated OPEX is because SAM will become a pure user of the port rather than one of the shareholders of the port, so the estimated OPEX of the port increased to US$7.0/ton (2016: US$1.4/ton). There was no material difference in CAPEX when compared to the year ended 31 December 2016 although there is no capital investment in the port. It was mainly because of the increase in steel price, making the estimated infrastructure costs increased.

The professional team engaged by the Group has analysed the CAPEX of a number of comparable mines and OPEX (per ton of iron concentrate) of over 300 operating iron ore mines. Relatively, construction phase I of Block 8 is competitive in terms of both estimated CAPEX and OPEX.

REVALUATION OF EXPLORATION AND EVALUATION ASSETS

A revaluation on SAM's exploration and evaluation assets has been performed as at year end date 31 December 2017 with the latest mining plan, US$3.00 billion CAPEX (2016: US$3.03 billion) and US$31.4 (year 1 to 18) and US$42.2 (year 19 to 32) per ton of OPEX (2016: US$29.4 per ton) applied. Regarding the project timeline, the new operation commencement date is expected to be 2024 (2016: year 2023) as it requires more time for relevant government authorities in reviewing applications. Other major assumptions used have been set out in the note 11 in this announcement.

After the revaluation, the exploration rights, revaluated by an independent professional valuer, Roma Appraisal Limited, were valued at approximately US$529 million (equivalent to approximately HK$4,104 million) (2016: US$380 million, equivalent to approximately HK$2,948 million). A reverse of impairment of US$146 million (equivalent to approximately HK$1,131 million) on exploration and evaluation assets has been recognised in current year accordingly. The corresponding deferred tax liabilities also increased by US$50 million (equivalent to approximately HK$385 million). The increase in fair value of the exploration and evaluation assets was mainly due to the increase in iron ore price, especially for higher grade iron ore that the Vale do Rio Pardo Iron Project planned to produce (iron ore price ranged between US$76 to US$102 per ton during the forecast period in 2017 valuation (2016 : US$61 to US$79 per ton)).

CONTINGENT CONSIDERATION AND LIABILITIES

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

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

Conditional additional payment

If, however:

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

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

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

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

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

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

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

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

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

(5) the total sum of any additional loans and capital invested (and not repaid, reduced or returned) by the Company, Infinite Sky and/or New Trinity in SAM or the Project, in each case which is related to the development of the Project, between the date of the Settlement Agreement and the date of any Disposal Event ("Honbridge's Investment"), with the aggregate of items (1) to (5) above in no event exceeding US$250,000,000, then the net proceeds from the Disposal Event that exceed 120% of Honbridge's Investment shall be shared equally by the Company and Votorantim, with payment to Votorantim in no event to exceed US$60,000,000 (the "Additional Payment"). As at the date of this announcement, the additional loans and capital invested was approximately US$4,800,000.

Conditional mining production payment to Votorantim

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

As at 31 December 2017, the contingent consideration payable was approximately HK$159.1 million (equivalent to approximately US$20.5 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

CONNECTED TRANSACTIONS

There were two continuing connected transactions entered into by the Company during the year ended 31 December 2017. Details of the two transactions have been set out in the Management Discussion and Analysis Section of this Report. No sales were recognised under the two continuing connected transactions agreement during the year ended 31 December 2017.

On 20 November 2017, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd., a substantial shareholder of the Company, provided a loan with the principal amount of RMB100,000,000 (approximately HK$123,000,000) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company and will be matured 12 months after the drawdown date and has a fixed interest rate of 4.35% per annum. During the year ended 31 December 2017, a finance costs of HK$0.61 million was recognised by the Company. The Board considers the loan arrangement is conducted on normal commercial terms or better.

CONTINUING CONNECTED TRANSACTIONS

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

Volvo Car Sales Agreement

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

2017 annual cap	:	RMB30 million
2018 annual cap	:	RMB280 million

Zhejiang Geely Components Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Zhejiang Geely Components (as the purchaser)
Date	:	25 October 2017
Term	:	From 25 October 2017 to 24 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Zhejiang Geely Components Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Zhejiang Geely Components Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	:	RMB600 million
2019 annual cap	:	RMB900 million

Before 6 November 2017, Shanghai Maple was a substantial shareholder of Zhejiang Forever New Energy as it held 48% equity interest in Zhejiang Forever New Energy, and therefore as at the date of entering the Volvo Car Sales Agreement and Zhejiang Geely Components Sales Agreement, it was a connected person of the Company at the subsidiary level. Shanghai Maple was held as to 90% by Zhejiang Geely. Volvo Car was a non-wholly owned subsidiary of Zhejiang Geely. As such, both Zhejiang Geely and Volvo Car were associates of Shanghai Maple in accordance with Rule 20.11 of the GEM Listing Rules, and each of them was therefore connected persons of the Company at the subsidiary level.

On 6 November 2017, the Company received a conversion notice from Geely International (Hong Kong) Limited ("Geely International"), in respect of the conversion of the Convertible Bonds issued by the Company on 4 June 2013 in an aggregate principal amount of HK$592,000,000 at the conversion price of HK$0.37 per Share (the "Conversion"). In accordance with the notice, the Company allotted and issued 1,600,000,000 Conversion Shares to Geely International on 6 November 2017. After the Conversion, Geely International controlled more than 10% of the issued shares of the Company and became a substantial shareholder (as defined under the GEM Listing Rule) of the Company. Geely International is a wholly-owned subsidiary of Zhejiang Geely, as such, Volvo Car and Zhejiang Geely Components, both are subsidiaries of Zhejiang Geely, became connected persons of the Company at the issuer level.

The continuing connected transactions mentioned above have been reviewed by the independent non-executive Directors who have confirmed that the transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) either on normal commercial terms or better; and

(c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as whole.

Further details of the Conversion are disclosed in the announcement of the Company dated 6 November 2017. No sales were recognised under the above two Sales Agreement for the year ended 31 December 2017.

The Company will comply in full with applicable reporting, disclosure and if applicable, independent shareholders' approval requirements under Chapter 20 of GEM Listing Rules if the Company entered into any transactions with the connected persons or its associates.

Ninghai Zhidou Sales Agreement

Shandong Forever New Energy entered into a sales agreement with Ninghai Zhidou Electric Vehicles Company Limited ("Ninghai Zhidou", 寧海知豆電動汽車有限公司) in relation to the sales of lithium-ion battery modules (the "Ninghai Zhidou Sale Agreement") on 2 September 2016.

At the time of entering the Ninghai Zhidou Sales Agreement, Zhejiang Geely Auto was a substantial shareholder of Shandong Forever New Energy as it held 48% equity interest in Shandong Forever New Energy, and therefore it was a connected person of the Company at the subsidiary level. Zhejiang Geely Auto was held as to 90% by Zhejiang Geely, and Zhejiang Geely owned 45% interest in Ninghai Zhidou. So at the time Shandong Forever New Energy signed the Ninghai Zhidou Sales Agreement, both Zhejiang Geely and Ninghai Zhidou were associates of Zhejiang Geely Auto in accordance with Rule 20.11 of the GEM Listing Rules, and each of them was a connected person of the Company at the subsidiary level. Sales of lithium-ion battery modules from Shandong Forever New Energy to Ninghai Zhidou under the Ninghai Zhidou Sales Agreement then constituted continuing connected transactions of the

Company pursuant to Chapter 20 of the GEM Listing Rules. According to the latest information available, the several or joint equity interests of the connected persons of the Company in Ninghai Zhidou have fallen below 30%. As such, Ninghai Zhidou is no longer a connected person of the Company in accordance with the GEM Listing Rules. In addition, no sales were recognised under the Sales Agreement for the year ended 31 December 2017.

LOAN AGREEMENT ENTERED INTO WITH CLOUDRIDER LIMITED

On 11 April 2016, the Company entered into a loan agreement with Cloudrider Limited (the "Borrower"), pursuant to which the Company granted to the Borrower the loan with principal amount of HK$540 million (the "Loan") with an interest rate of 3% per annum (the "Loan Agreement") for funding Borrower's merger and acquisitions. HK$251,100,000 and HK$288,900,000 were lent to the Borrower on 22 April 2016 and 12 May 2016 respectively. Since the Borrower has exercised its option to extend the repayment date by 12 months' the repayment period has extended from 12 months to 24 months. The Loan is secured by the share charges provided by two of the shareholders of the Borrower over all of their shareholdings in the Borrower and a debenture consisting of a fixed and floating charge over all of the assets of the Borrower in favour of the Company. During the year ended 31 December 2017, a loan interest income of approximately HK$16.2 million was recognised by the Company. Other details of the Loan Agreement have been disclosed in the circular of the Company dated 24 May 2016.

Business Review

For the year ended 31 December 2017, the total turnover of the Group recognised was HK$17.5 million, representing a 49% decrease when compared to the HK$34.0 million turnover recognised for the year ended 31 December 2016.

Because of the change in government policies such as general decreased in central government subsidies in 2017 on new energy vehicles by 20% and the re-examination of the "Recommended Models Directory of New Energy Vehicles"《新能源汽車推廣應用推薦車型目錄》in December 2016 and the ever increasing competition in the new energy vehicle industry, some our major customers adjusted their strategy while some did not perform very well. As a results, purchase order received from our major customers decreased. For those leading new energy vehicle enterprises, they have already formed an complementary business relationship with their lithium-ion batteries suppliers. The design, matching and testing process between lithium-ion batteries and new energy vehicles also require a significant of time. So it is not easy to obtain large orders from leading new energy vehicle enterprises. Besides, the industry still not fully recovered from the impact of misappropriation of the government subsidies and delay in distribution of subsidies to automobile enterprises. The Company has taken a more cautious approach before taking new orders in order to mitigate the credit risk. The above factors severely affected the performance of the lithium-ion battery business. Despite the unsatisfactory performance of Shandong Forever New Energy in 2017, on 23 October 2017 Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation ("Volvo Car") in relation to the sales of high performance ternary lithium-ion powered battery packs for the hybrid models of Volvo Car planning to be manufactured in the PRC. Another three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 was secured on 25 October 2017, in relation to the sales of high performance ternary lithium-ion powered battery packs for vehicle models including Lynk & Co and other models manufactured under the CMA platform of Zhejiang Geely. The total annual caps (excluding VAT) in respect of the above two sales agreements for the financial years ending 31 December 2018 and 2019 are RMB880 million and RMB900 million respectively. The two sales agreements mark a very positive start for our brand new factory plant in Zhejiang. For Shandong Forever New Energy, 2017 was a year focusing on production line and products improvement.

The Group recorded a gross loss of approximately HK$0.28 million (gross profit ratio: -1.6%) in current year as compared with the gross profit of approximately HK$0.89 million (gross profit ratio: 2.6%) in the last year. Gross loss was recorded and the major reason was the difficulty to decrease the unit cost of battery cells under the current low production level. In addition, the lithium-ion battery industry has been affected by the increase in average cost of raw materials and the decrease in average selling price of battery cells for the year ended 31 December 2017, this led to the gross loss in the current year. The Group will continue to control and improve the costs structure of lithium-ion battery products by increasing the energy density and decreasing the failure rate of our products, strengthening the management skill, promoting effective use of materials, etc.

Although operating loss was recorded by the Group, the profit attributable to the owners of the Company was HK$676.1 million for the year ended 31 December 2017, which was mainly due to the HK$1,131 million reversal of impairment of exploration and evaluation assets. This extraordinary income was partially set-off by the corresponding HK$385 million deferred tax expense recognised due to the change in fair value.

The other operating income was approximately HK$144.4 million, increased by approximately HK$110.4 million in the current year mainly due to the increase in HK$92.6 million government grant recognised during the year and the increase in loan interest income from Cloudrider Limited by HK$5.3 million and the increase in imputed interest income of amounts due from non-controlling interests of a subsidiary by HK$7.6 million. The bank interest income also increased by approximately HK$2.7 million in the current period as the Group has been placing short term fixed deposits in banks to generate more income from idle cash.

The administrative expenses were increased by HK$12.5 million mainly because of the increase in research and development costs and wages and salaries of approximately HK$18.3 million and HK$10.3 million respectively in the current year. The increase in administrative expenses were mainly net-off by the decrease in amortisation of other intangible assets by HK$15.6 million. As the arbitration process in relation to the SAM project was closed in 2016, the legal and professional expenses were decreased by HK$7.3 million.

Along with the more cautious approach before taking new orders to mitigate credit risk, the Group also monitored the outstanding trade and bill receivables closely. The amount of trade and bill receivables were HK$30.2 million as at 31 December 2017, decreased by HK$70.9 million or 70.1% when compared to HK$101.1 million as at 31 December 2016.

On 20 November 2017, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely, a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$120 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.35% per annum.

In November 2017, the Company allotted and issued 2,000,000,000 Conversion Shares in relation to the convertible bonds issued in June 2013. After that, Geely International (Hong Kong) Limited became one of the substantial shareholders of the Company. This not only greatly improved the financial position of the Group, the early conversion of convertible bonds is also a vote of confidence for the future development of the Group. Geely International (Hong Kong) Limited is a subsidiary of Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely") Zhejiang Geely owns and controls the automobile brand "Geely", "Lynk & Co", "Yuan Cheng Commercial Vehicle", as well as famous European automobile brand "Volvo", "Lotus" and "London Electric Vehicle Company", and Zhejiang Geely is also one of the Fortune Global 500 companies as well as the largest shareholder of Volvo AB and Daimler AG. As at 31 December 2017, the cash and cash equivalent balance of the Group was approximately HK$583 million with a net current assets of HK$939 million. The working capital will be mainly used for the development of new energy vehicles related business of the Group.

As at 31 December 2017, the gearing ratio of the Group which is measured by total loans and borrowings (including convertible bonds) to total equity was 0.08 (2016: 0.27). The gearing ratio of the Group has improved significantly after the full conversion of convertible bonds in November 2017.

During the year ended 31 December 2017, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015 as well as by the loan interests received from Cloudrider Limited.

The use of proceeds from placing and share subscription

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

As at 31 December 2017, out of the HK$1,336 million net proceeds that have been raised from the Placing and the Share Subscription, HK$540.0 million has been lent to the Borrower, HK$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK$83.5 million has been used for new energy vehicle related business approximately HK$37.8 million has been used for general working capital and approximately HK$75.4 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK$490.2 million, HK$326.5 million will be invested into the new energy vehicle related business, HK$124.6 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK$39.1 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

THE PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Customer Concentration Risk

The total annual caps in respect of the two sales agreements entering into between Zhejiang Forever New Energy and Volvo Car and Zhejiang Geely Components are RMB880 million and RMB900 million for the financial years ending 31 December 2018 and 2019 respectively. Although the two sales agreements represent a very positive start for our brand new factory plant in Zhejiang and it is not unusual for customer concentration in the lithium-ion batteries industry, the management is aware of the business risk to rely on limited key customer. Should Volvo Car and Zhejiang Geely Components reduce substantially the size of their purchase orders placed with the Group or terminate their business relationship with the Group entirely, the results of operations and financial performance of the Group may be adversely affected.

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

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

Increasing Raw Materials and Purchase Costs

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

Others

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

CAPITAL COMMITMENTS

As at 31 December 2017, the Group has contracted but not provided for capital commitments in relation to property, plant and equipment amounted to approximately HK$211 million.

Capital Contribution Agreement

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

EMPLOYEES

As at 31 December 2017, the total number of employees of the Group was 522 (2016: 352). Employee benefit expenses (including directors' emoluments) amounted to HK$58.7 million for the year (2016: HK$35.2 million).

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

PROSPECTS

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

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

As an important milestone of the Group, the new lithium-ion battery plant in Zhejiang was completed with the first 500,000kWh capacity production line installed. First batch battery packs samples produced in the new plant were provided to Volvo Car and Zhejiang Geely Components. Subsequently, Volvo XC60 PHEV and LYNK 01 PHEV models equipped with Zhejiang forever New Energy battery packs were listed in the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles《新能源汽車推廣應用推薦車型目錄》released by the Ministry of Industry and Information Technology. Zhejiang Forever New Energy has secured Volvo car and Zhejiang Geely Components as the anchor customers and pending to install a second 500,000kWh production line in late 2018. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other mainstream automobile manufacturers. To achieve the aim, the Group also has been investigating the possibility of massive expansion in other cities in China.

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

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

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

SUBSEQUENT EVENT

On 16 March 2018, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely, a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$124 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.75% per annum. The Board considers the loan arrangement is conducted on normal commercial terms or better.

CORPORATE GOVERNANCE PRACTICES

The Company complied with the corporate governance code in Appendix 15 to the GEM Listing Rules throughout the year ended 31 December 2017 with the exception of code Provision A.2.7 and C.2.5. Code Provisions A.2.7 requires that the Chairman should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Although the Chairman did not hold any formal meeting with the non-executive Directors without the presence of executive Directors during the year, he had frequent communications with the non-executive Directors. In addition, he delegated the Company Secretary to gather any opinions/questions that the non-executive Directors might have and report to him for follow up. As such, the non-executive Directors of the Company were given opportunities to voice their concerns to the Chairman directly. Under Code Provision C.2.5, the Group should have an internal audit function. The Company has no internal audit function because the Company has maintained an internal control system and its implementation has been considered effective by the audit committee and the Board. In addition, the audit committee has communicated with external auditor of the Company and understand that there is no material control deficiency. Nevertheless, the Company will review the need for one on an annual basis.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2017.

AUDIT COMMITTEE

The Company had established an audit committee with written terms of reference in compliance with Rule 5.28 and corporate governance code C.3.3 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting, internal control procedures and risk management system of the Group. Other duties of the audit committee are set out in its specific terms of reference, which are posted on the website of the Company and the Stock Exchange respectively. The audit committee comprises Mr. Chan Chun Wai, Tony (Committee Chairman), Mr. Ma Gang and Mr. Ha Chun, who are Independent Non-Executive Directors of the Company.

During the year, the audit committee held four meetings to review and comment on the Company's 2016 annual results, 2017 half-yearly results and quarterly results as well as the Company's internal control procedures and risk management system. Full attendance was recorded for the four meetings.

The Group's annual report for the year ended 31 December 2017 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

REVIEW OF RESULTS

The financial results for the year ended 31 December 2017 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary results announcement of the Group's results for the year ended 31 December 2017 have been compared by the Company's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by BDO Limited in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by BDO Limited on this results announcement.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and cooperative partners for their continued support during 2017 and all staff for their hard work.

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

Executive Directors:
Mr. HE Xuechu *(Chairman)*
Mr. LIU Wei, William *(Chief Executive Officer)*
Mr. SHI Lixin

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

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

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

Hong Kong, 23 March 2018