HONBRIDGE HOLDINGS LIMITED
洪橋集團有限公司
(Stock Code: 8137)

ANNUAL REPORT 2019

NEW ENERGY AND DIVERSIFIED BUSINESS

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

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This report, for which the directors (the "Directors") of Honbridge Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") 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 report 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 report misleading.

Honbridge Holdings Limited
Annual Report 2019

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-Executive Directors

Mr. Yan Weimin
Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Directors

Mr. Chan Chun Wai, Tony
Mr. Ma Gang
Mr. Ha Chun

COMPLIANCE OFFICER

Mr. Liu Wei, William

COMPANY SECRETARY

Mr. Yeung Ho Ming, *CPA (HK)*

AUTHORISED REPRESENTATIVES

Mr. Liu Wei, William
Mr. Yeung Ho Ming

AUDIT COMMITTEE

Mr. Chan Chun Wai, Tony *(Committee Chairman)*
Mr. Ma Gang
Mr. Ha Chun

REMUNERATION COMMITTEE

Mr. Ha Chun *(Committee Chairman)*
Mr. Ma Gang
Mr. Chan Chun Wai, Tony
Mr. He Xuechu
Mr. Liu Wei, William

NOMINATION COMMITTEE

Mr. Chan Chun Wai, Tony *(Committee Chairman)*
Mr. Liu Wei, William
Mr. Ang Siu Lun, Lawrence
Mr. Ma Gang
Mr. Ha Chun

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Nanyang Commercial Bank, Limited

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SHARE REGISTRAR AND TRANSFER OFFICE

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Hong Kong

STOCK CODE

8137

COMPANY WEBSITE

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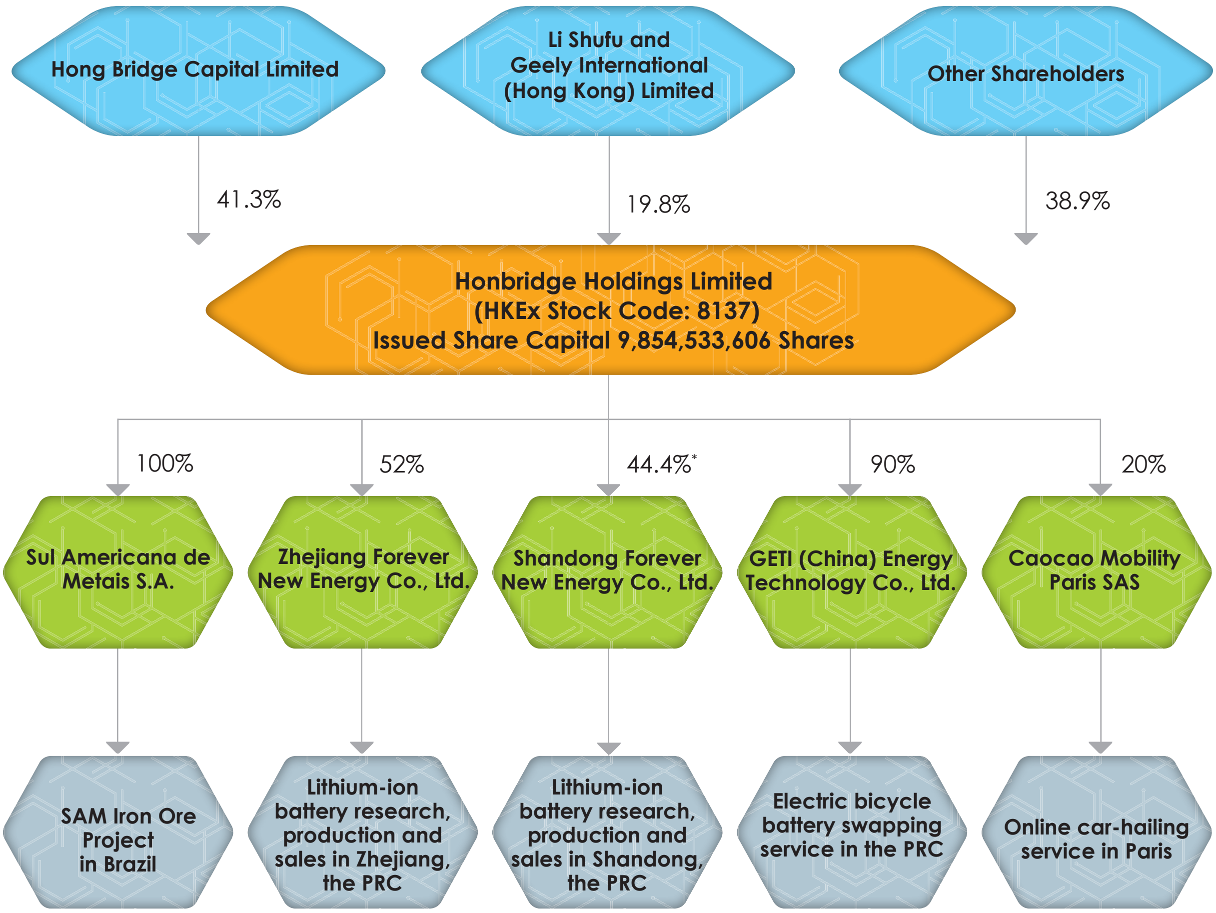
CORPORATE STRUCTURE



* Deemed disposal was completed in March 2020, interests in Shandong Forever New Energy Co. Ltd. was diluted to 22.2% as at the date of this report.

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present the 2019 annual report of Honbridge Holdings Limited to all shareholders.

BUSINESS REVIEW

For the year ended 31 December 2019, the Group recorded a HK$341.3 million revenue, representing a 43% increase when compared to HK$238.6 million revenue recognised in the last year. The profit for the year ended 31 December 2019 attributable to owners of the Company was approximately HK$415.6 million (2018: HK$974.5 million).

Over 98% revenue of the Group were contributed by our Zhejiang lithium-ion battery plant. The revenue of the Group increased because the customers of our Zhejiang factory, Volvo Car and the Lynk & Co increased their demand for lithium-ion battery for the year end 31 December 2019 after new vehicle models were launched.

The Group recorded a gross profit of approximately HK$4.3 million (gross profit ratio: 1.3%) for the year ended 31 December 2019 as compared with the gross loss of approximately HK$47.6 million (gross profit ratio: -19.9%) in the last corresponding year. Gross profit ratio improved because the upgraded product of our Zhejiang battery plant has a better profit margin. On the other hand, 2018 was the first year of operation for our Zhejiang battery plant. After the initial ramp up period, the Group has successfully improved the overall operating efficiency of the plant. For example, the production efficiency for battery cell and battery pack have improved by approximately 38% and 42% respectively. Without compromise of the battery quality, the Group also optimised the human resources structure of the battery plant, the number of staff of Zhejiang battery plant has decreased by more than 40% to approximately 240 staffs during the year ended 31 December 2019. The Group will continue to control and improve the costs structure of lithium-ion battery products by negotiating with key suppliers to obtain more beneficial terms, increasing the energy density and decreasing the failure rate of our products, strengthening the management skill and promoting effective use of materials, etc.

The compulsory "Technical Specifications for Safety of Electric Bicycles"《電動自行車安全技術規範》national standard (the "New National Standard") was effective from 15 April 2019 in the PRC. It regulates electric bicycles' safety performance, speed limit, production quality and pedal riding performance, etc., these policies will accelerate the transition of lead-acid battery in electric bicycles to lithium battery. To seize this opportunity, in mid-2019 the Group has launched the battery sharing business focusing on food delivery electric motorcycle branded "GETI" in the PRC in Jiangsu Province and Zhejiang Province. In March 2020, GETI has approximately 230 battery swapping stations and 1,500 active users. The Group will initially focus on serving the customers in the two Province and expand the service to other region in the PRC based on the future business strategy. Ultimately, it is the vision of the Group to provide safety, convenient and reliable battery swapping service to customers all over China. For the year ended 31 December 2019, GETI has recognised approximately HK$1 million revenue.

For the year ended 31 December 2019, the profit attributable to the owners of the Company was HK$415.6 million (31 December 2018: HK$974.5 million), decreased by 57% compared to the year ended 31 December 2018. The decrease in profit was mainly due to the decrease in non-cash reverse of impairment of exploration and evaluation assets (net of deferred tax charge) in relation to the SAM iron ore project (2019: HK$563.2 million; 2018: HK$1,429.5 million).

PROSPECTS

Despite the central government of China has announced that subsidies for new energy vehicles will be gradually decreased in the coming years, the Group and new energy vehicle industry both believe that the government of China will continue to introduce other measures to promote the development of new energy vehicle industry which is one of the national development strategies. In addition, in the post-subsidy period new energy vehicle manufacturers and customers are going to put more focus on the overall quality of the car models. This could be positive for premium and high-end car models, which are the target customer segment of our Group.

Nevertheless, the global economy continues to be weakened by rising trade barriers and increasing geopolitical tensions. The novel coronavirus (COVID-19) outbreak since the end of 2019 adds another significant challenge to the world, the economic uncertainty is expected to affect the sales of the Group in 2020. According to the latest estimation, more than 50% decrease in revenue of the Group is expected in the first quarter this year compared with the last corresponding period.

The battery packs produced by Zhejiang Forever New Energy were provided to Volvo Car and Zhejiang Geely Components and assembled in premium car models such as Volvo XC60 PHEV, S90 PHEV and Lynk & Co Lynk 01, 02, 03 PHEV. Batteries modules were also provided to Volvo Polestar 01 PHEV and XC90 PHEV. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other world's mainstream automobile manufacturers.

On 16 January 2019, the Company entered into a security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2 million ordinary shares of LKCO shares with a total consideration of USD12 million. During the year ended 31 December 2019, the Company has settled USD12 million and Luokung Technology Corp. has issued 2 million ordinary shares to the Company. Luokung Technology Corp. is one of the world's leading companies in spatial-temporal big data technology, a leading interactive location-based data services ("LBS") company in China, and a pioneer of the railway Wi-Fi market in China. Luokung Technology Corp. has developed business relationship with world famous entities such as Ford Motor Corporation, which has selected Luokung's subsidiary EMG as the provider of HD Map Service for Ford China's autonomous driving project.

During the year ended 31 December 2019, Honbridge Technology Limited ("Honbridge Tech"), a wholly-owned subsidiary of the Company, has set up a Joint Venture with 杭州優行科技有限公司 (Hangzhou UGO Tech Co., Ltd.) ("Hangzhou UGO") and 杭州禾曦嬌科技有限公司 (Hangzhou Hexijiao Technology Co., Ltd.) ("Hangzhou Hexijiao"). The Joint Venture is initially engaged in online car-hailing services in Paris, France and related services and will gradually extend its online car-hailing services to other cities in Europe depending on its business development progress. The service was launched in Paris in January 2020.

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

In late 2019 and early 2020, the Company was in the course of preliminary negotiation in respect of a possible acquisition of the controlling equity interest of a company which is principally engaged in manufacturing industry in mainland China. However, the negotiation was temporarily terminated in March 2020. 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 continue to consider seeking opportunities of merger and acquisition, investment and collaboration in areas such as charging and swapping, electric motor, electric controlling, Internet of Vehicle, autonomous driving, shared mobility, high-definition map and light-weighting of vehicles.

CHAIRMAN'S STATEMENT

For the resource sector, the latest progress of the SAM Project was covered in the Progress of SAM section in this report. Despite the exceptional time and efforts spent for the SAM iron ore project, it is disappointing and helpless that the Company was still unable to obtain the Preliminary License (LP) in relation to the environmental feasibility, however, the Company will continue to push forward the project and review its status and development continuously in order to make the best decision for the shareholders of the Company. While the iron ore project is currently progressing in the direction of self-development, the introduction of strategic investors for joint development or collective sale cannot be ruled out should suitable opportunities arise in a suitable time. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

The overall business strategy of the Group is the dual development of new energy vehicles related business and resources, creating value for our shareholders.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their continued support in 2019 and all staff for their hard work.

He Xuechu
Chairman

Hong Kong
27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Zhejiang Forever New Energy located in Jinhua of Zhejiang Province

NEW ENERGY VEHICLES-RELATED BUSINESS

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

Lynk 01 PHEV battery pack produced by Zhejiang Forever New Energy

Lynk 02 PHEV

Lynk 03 PHEV

MANAGEMENT DISCUSSION AND ANALYSIS

The car models installed with battery packs of the Group listed in the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products《道路機動車輛生產企業及產品公告》and the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles《新能源汽車推廣應用推薦車型目錄》of Ministry of Industry and Information Technology of the PRC include the PHEV model "XC60" and "S90" of Volvo and "Lynk 01 PHEV", "Lynk 02 PHEV" and "Lynk 03 PHEV" model of Lynk & Co. Besides the sale of battery packs, the battery modules produced by the Group are also used in the battery packs of "Polestar 01 PHEV" and "XC90 PHEV" of Volvo. Other than the customers mentioned above, the Group also has customers such as Zhidou Electric Vehicle (知豆電動汽車), Ningbo Haoju (寧波浩聚) and Suzhou Pulaier (蘇州普萊爾).

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

Zhejiang Forever New Energy, a 52% owned subsidiary of the Group, is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion battery and battery system. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to possess a maximum production capacity of approximately 2,000,000 kWh ternary lithium-ion battery annually. The first 500,000 kWh production line has commenced mass production since the second quarter of 2018. The fully automatic production line adopts a state-of-the-art design and technologies for producing pouch type cells. The product testing center was completed in December 2019. It is expected to strengthen the research and development and product testing and matching ability of Zhejiang Forever New Energy and may have a positive impact on future customer development. The time for installation of the new production line will be decided based on the market demand and development strategy.

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 during the year ended 31 December 2019, 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.

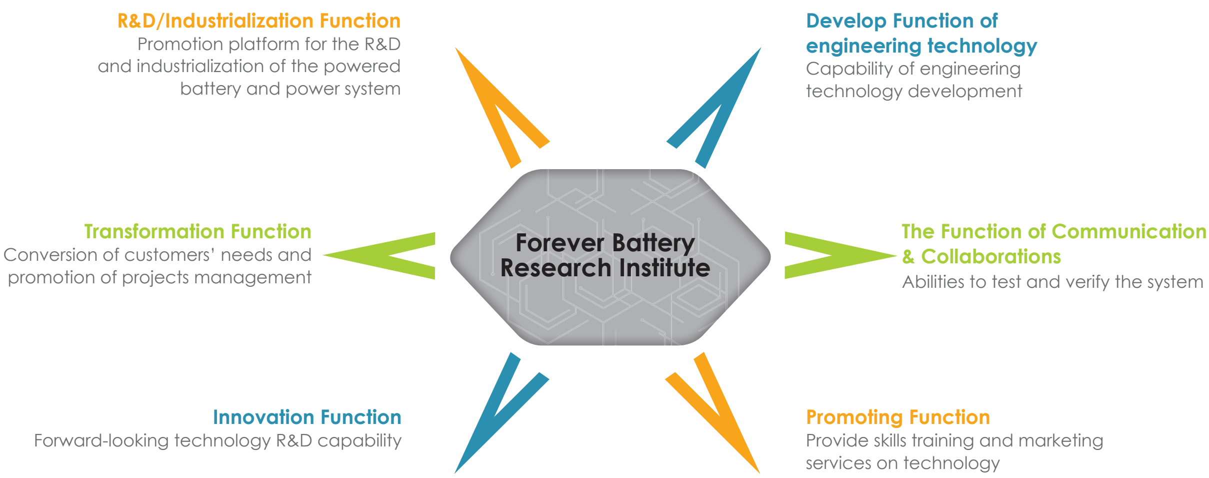
On 20 January 2020, Triumphant Glory, a direct non-wholly owned subsidiary of the Company, entered into a reorganisation agreement with Zhejiang Geely Automobile Co., Ltd. (浙江吉利汽車有限公司) and Jiangsu Tiankai Energy Co., Ltd. (江蘇天開能源技術有限公司) ("Jiangsu Tiankai"), pursuant to which Jiangsu Tiankai agreed to make capital contribution in the amount of US$20,408,100 (or its equivalent in RMB) into Shandong Forever New Energy.

Upon completion of the transaction, Jiangsu Tiankai will own 50% equity interest in Shandong Forever New Energy, whereas Triumphant Glory's equity interest in Shandong Forever New Energy will be diluted from 49% to 24.5%. Shandong Forever New Energy will be accounted for an associate of the Company. More details in relation to the reorganization agreement is set out in the "Subsequent Event" section in the Management Discussion and Analysis of this annual report.

LITHIUM-ION BATTERY BUSINESS

During the year ended 31 December 2019, the lithium-ion battery segment recorded a revenue of approximately HK$340 million (equivalent to approximately RMB299.7 million), which was increased by approximately 42.3% when compared to HK$239 million (equivalent to approximately RMB201.4 million) revenue recognised in last year. The reasons were discussed in the Business Review section in the Management Discussion and Analysis of this annual report.

FE R&D INSTITUTE PROFILE



The lithium-ion battery segment losses before non-cash items including impairment, depreciation, amortisation expenses and release of deferred income were approximately HK$12.6 million (2018: HK$109.5 million). The loss decreased during the year because Zhejiang Forever New Energy has taken several costs control measures and the gross profit of the segment has improved significantly.

LITHIUM-ION BATTERY BUSINESS — CONTINUED

Battery Sharing Business

Under the brand "GETI", the Company has launched a battery sharing business in mid-2019 which target electric motorcycles with business model include self-operation and franchising in the PRC. "GETI" has set up battery swapping stations in the Jiangsu Province and Zhejiang Province. By March 2020, GETI has approximately 230 battery swapping stations and 1,500 active users. The revenue and loss for the segment was approximately HK$1.0 million and HK$2.8 million respectively for the year ended 31 December 2019, GETI's major features are set out below:

Food delivery rider using GETI battery swapping service.

Provide a complete set of power exchange services, giving the rider uninterrupted battery life

Technical low cost solution

+

Leveraging national fire protection policies and regulations to solve the compliance and legal operation of franchisees

Safety is the premise to drive customers

Battery Swapping Station

- Constant temperature control system
- Intelligent charging strategy
- Fireproof and explosionproof
- Intelligent fault management

LITHIUM-ION BATTERY BUSINESS — CONTINUED

Standardised Battery Modules

- Stan unified connector
- 10000+ plug-in number guarantee
- Safer and more worry-free
- multiple charge and discharge protection functions
- Intelligent charge and discharge matrix management
- Battery status real-time monitoring
- Troubleshooting and remote maintenance
- Historical data recording and traceability system
- Battery positioning recovery (Beidou positioning)
- Multi-mode communication component network coverage
- Isolated communication, safety management power channel
- Online OTA upgrade, update hardware features

MANAGEMENT DISCUSSION AND ANALYSIS

PROGRESS OF SAM

As of the date of this report, the Group has provided funding with principal amount of approximately US$74 million to the iron ore project in Brazil ("Block 8 Project" or "SAM Project"), through shareholders' loans and increase of registered capital in Sul Americana de Metais S.A. ("SAM"), an indirect wholly owned subsidiary of the Company in Brazil. Combined with the consideration for the acquisition of the entire equity interests in SAM of US$78 million and other expenses, the aggregate amount invested in the project was approximately US$154 million.

SAM is devoted to develop Block 8 Project as phase I operation with an annual production capacity of 27.5 million tons with an average grading of 66.2% Fe in the first 18 years' operation. The project will have an integrated system comprised an open — pit mine, a beneficiation plant, tailings disposal facilities, a power transmission line, water supply pipelines, and a Vacaria water dam. SAM has started licensing process for the mine and its facilities in the Secretariat of Environment and Sustainable Development ("SEMAD") in the state of Minas Gerais in Brazil since November 2017.

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

On 7 January 2019, SAM submitted the EIA/RIMA of Block 8 Project to Superintendency of Priority Projects ("SUPPRI").

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

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

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

On 11 January 2019, SUPPRI published in the Official Gazette of the State about SAM's request of LP and the legal deadline (within 45 days from the date of this publication) for requesting the public hearing. Despite of the decent progress of the SAM project in 2018, unfortunately, on 25 January 2019, one inactive upstream tailings dam belonging to mining company Vale in Brumadinho collapsed. As this dam-breach happened again only 3 years after Samarco dam-breach disaster in November 2015, it caused a strong reaction of Brazilian society and concerns about the safety of tailings dams, especially about those tailings dams with upstream construction method. After Vale's dam — breach disaster, some laws, regulations, resolutions, bills regarding tailings dams have been published in 2019.

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

PROGRESS OF SAM — CONTINUED

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

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

On 29 April 2019, SAM applied for an extension of 45 days of the suspension of the licensing process in order to wait for the release of new regulation, resolution, policy that were in discussion.

On 13 June 2019, the National Mining Agency (ANM) published a draft resolution about the safety of dams for public opinion on its website. The final version of the Resolution No.13 (RESOLUÇÃO Nº 13, DE 8 DE AGOSTO DE 2019) was published by ANM on 12 August 2019. SAM's project is totally compliance with this resolution.

On 17 June 2019, SAM applied for an extension of another 45 days of the suspension of the licensing process.

On 25 June 2019, the Plenary of the Chamber of Deputies approved the Bill 2791/19, which changes several rules of the National Dams Policy (Law No. 12.334/10) and the Mining Code (Decree 227/67) to make mining projects safer, increase fines, specify obligations of entrepreneurs and prohibit the type of dam "upstream dam" that caused the Brumadinho disaster. This matter will be sent to the Senate for further approval. SAM's project is also compliance with this Bill 2791/19.

SAM studied the abovementioned new State Law No.23.291, Resolution No.13 of ANM and Bill 2781/19 and concluded that it won't affect its environmental licensing process since SAM adopted center line method for tailings dams' construction and very strict technical and environmental criterions for the project, which make the project is in conformity with the new law/resolution/bill.

On 2 August 2019, considering that Block 8 Project complies with the environmental legislation, SAM sent an official letter to SUPPRI and requested resumption of analyzing the environmental licensing process.

Although the Block 8 Project is in conformity with all updated law/resolution/bill, in order to reduce the environmental risk in case of dam-breach and to make the society more comfortable with the Project, at the end of July 2019, SAM hired WALM to design a "Tailings Flood Wave Containment Structure"(a type of "dike") and review the corresponding dam-breach studies. By the middle of September 2019, WALM finished the studies and reached a very positive conclusion that, with the dike, all the tailings could be contained in the area of the project in case of dam-breach under the extreme worst scenario, none of communities will be affected. To be mentioned, the Auto Rescue Zone ("ZAS") is also located in the project area. ZAS is an area defined below a dam that is at least 30 minutes from the arrival of a wave (in the event of a dam-breach), or at 10km. Block 8 Project won't have facilities for administrative, living, health and recreation activities in its ZAS, which already followed the updated legislation. Based on the updated engineering information and the new dam-breach study, Brandt re-analyzed the environmental risk of the tailing dam and reclassified SAM's tailing dam as "low risk".

MANAGEMENT DISCUSSION AND ANALYSIS

PROGRESS OF SAM — CONTINUED

On 12 September 2019, SAM together with the Consulate-general of the People's Republic of China in Rio de Janeiro co-organized "1st China-Brazil Service Trade Innovation Seminar" in Montes Claros, the biggest city in north of Minas Gerais State which is close to Block 8 Project. The Governor of Minas Gerais State Romeu Zema, the Consul-general Li Yang, the Commercial Consul Xu Yuansheng, and around 28 Chinese institutions/companies such as China Development Bank, State Grid, HUAWEI, CITIC Construction, China Power, CTG, CGN, Sinosteel etc. attended this seminar. SAM's CEO made a presentation titled "Block 8 Project, a Platform of Development and Service Trade Promotion".

Right before the seminar, SAM and the Minas Gerais State government signed an investment memorandum of understanding ("MOU"), the State committed to finish analyzing the licensing process as soon as possible and give full support to the project.

1st China Brazil Service Trade Innovation Seminar in Montes Claros

MOU Signing Ceremony

As some communities in the project area received "self-definition certificate" of traditional community in July of 2018, SAM already included some new special environmental programs in its EIA-RIMA aiming to protect and cultivate their traditional culture and characteristics. On 26 November 2019, SAM had a meeting with the State Secretariat for Social Development (SEDESE) to discuss the prior consultation hearings with traditional communities, based on State Law No. 21.147/2014 and its regulatory decree 47.289/2017, inspired by the International Labor Organization Convention No. 169.

On 27 November 2019, SAM made a full presentation of Block 8 Project to SUPPRI's technical team, including the updated result about the new dam-breach study. Preparation of new public hearings was also discussed during this meeting. On 18 December 2019, SAM submitted the updated studies to SUPPRI.

On 2 December 2019, SAM learned from the media that a Minas State Public Prosecutor and a Federal Public Prosecutor jointly initiated a public civil action ("ACP") against the Minas Gerais State Government, Brazilian Institute of Environment and Renewable Resource ("IBAMA"), LOTUS BRASIL, and SAM. The ACP claimed that SAM's Block 8 mine project and the pipeline project of LOTUS BRASIL are dependent, and shall be licensed jointly in IBAMA. In another word, the ACP concerns if the Minas Gerais State Government is the legitimate authority to analyse and approve the LP application and whether Block 8 Project and Lotus Brasil should be licensed jointly in IBAMA, it does not involve environmental feasibility of the Block 8 Project.

PROGRESS OF SAM — CONTINUED

On 14 January 2020, the Federal Judge of the 3rd Federal Court of the Judicial Subsection of Montes Claros made a provisional decision about the ACP (the "Provisional Decision"). The Provisional Decision temporarily suspended SAM's and LOTUS BRASIL's licensing processes until the judge himself can hear the parties' reasons and decide the ACP. Again, this decision does not deal with the environmental feasibility of the project.

On 21 January 2020, SAM appealed in the Fifth Panel of the Federal Regional Court of the 1st Region (TRF1) in Brasília, requested to cancel the Provisional Decision. Beside the aforementioned arguments, we believe this Provisional Decision is unreasonable for this case considering Block 8 Project is still at the status of environmental licensing, which does not offer risk of direct impacts on the environment immediately.

In March 2020, Minas Gerais State Government, IBAMA and LOTUS BRASIL all made interlocutory appeals to the ACP respectively, and their arguments are consistent with SAM's. Additionally, the Minas Gerais State Government and IBAMA emphasised that the Provisional Decision violated the Art 2 of the Law no. 8.437 (i.e. without hearing the opinion from public authorities) and should be withdrawn as soon as possible.

By the date of this report, no decision has yet been rendered by the TRF1's Judge. If the Provisional Decision is withdrawn, SAM could resume the environmental licensing process immediately.

SAM is taking all available measures and legal options to defend the company aiming to resume the licensing process or/and to conclude the ACP as soon as possible. ACP is not unusual for mining industry in Brazil and based on the arguments presented by SAM and other defendants (Minas Gerais State Government, IBAMA and LOTUS BRASIL), legal opinion of the legal advisor of SAM as well as the meeting with the plaintiff, the Company is optimistic that the ACP will not cause significant impact to the Block 8 Project.

After Vale's dam-break disaster, SAM has been communicating and having meetings with government institutions, environmental organs, State and Federal deputies, senators, municipals and associations to present SAM's new tailings disposal technology. The new tailings disposal technology as well as the Block 8 Project is highly appreciated and acknowledged. After learning that SAM's environmental licensing process was affected by the Provisional Decision, lots of institutions and associations are manifesting their support to SAM. SAM has received support letters from 5 Mayors of the municipalities in the area directly influenced by SAM's project and other 15 local institutions/associations.

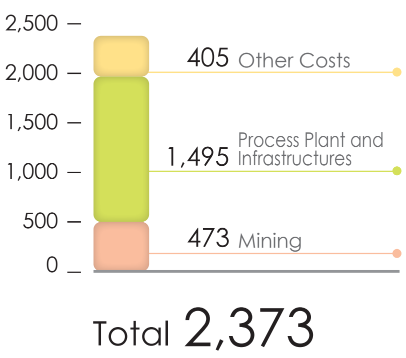
As disclosed previously, SAM will export its mineral products through Porto Sul (the "Port") in Bahia State which has been granted all environmental licenses for construction. In September 2017, a Chinese Consortium led by China Railway Group Limited (中國中鐵股份有限公司) and including China Communications Construction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

MANAGEMENT DISCUSSION AND ANALYSIS

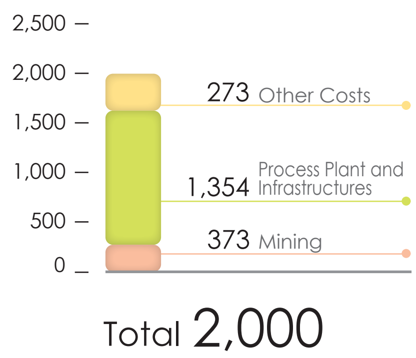
PROGRESS OF SAM — CONTINUED

CAPEX AND OPEX

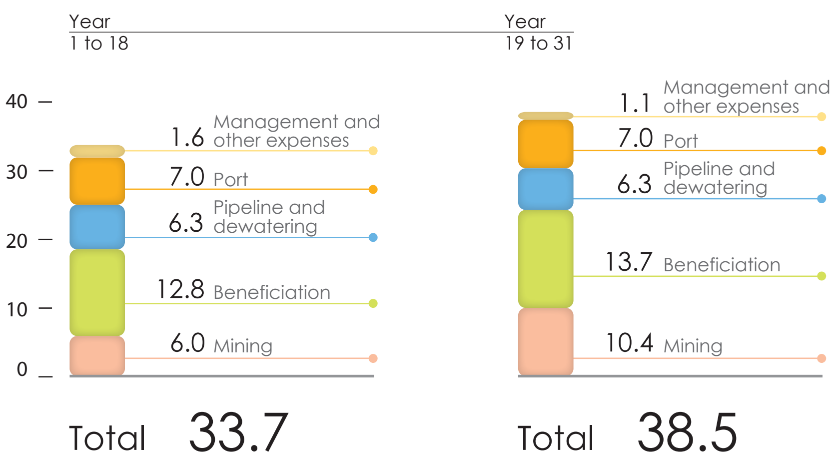
CAPEX (US$'million)
2019



2018

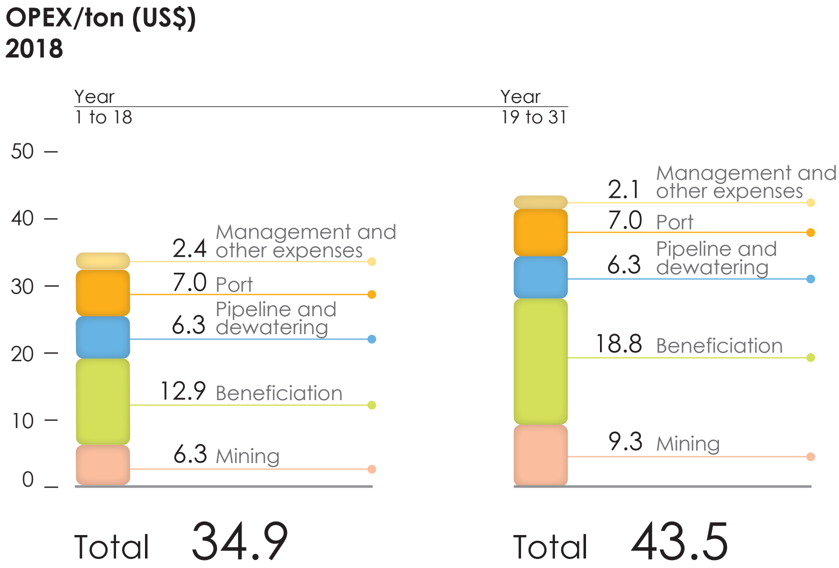


OPEX/ton (US$)
2019



PROGRESS OF SAM — CONTINUED

CAPEX and OPEX — Continued



The Group has analysed the CAPEX of a number of iron ore mines and their respective OPEX (per ton of iron concentrate). Relatively, SAM Project 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 2019 with the latest mining plan, US$2.37 billion CAPEX (2018: US$2.00 billion) and US$33.7 (2018: US$34.9) (year 1 to 18) and US$38.5 (year 19 to 31) (2018: US$43.5, year 19 to 31) per ton of OPEX applied.

Regarding the project timeline, the new operation commencement year is expected to be 2026 (2018: year 2025) because due to the public civil action (ACP), SAM licensing process is temporarily suspended. Other major assumptions used have been set out in the note 15 of the financial statements.

After the revaluation, the exploration rights, revaluated by an independent professional valuer, Roma Appraisal Limited, were valued at approximately US$811 million (equivalent to approximately HK$6,317 million) (2018: US$726 million, equivalent to approximately HK$5,685 million). A reverse of impairment of US$109 million (equivalent to approximately HK$853 million) on exploration and evaluation assets has been recognised in current year accordingly. The increase in fair value of the exploration and evaluation assets was mainly due to the decrease in discount rate adopted in the valuation model and the increase in forecast iron ore price, especially for higher grade iron ore that SAM Project planned to produce (iron ore price ranged between US$85 to US$138 per ton during the forecast period in 2019 valuation (2018: US$84 to US$113 per ton)).

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT CONSIDERATION AND LIABILITIES

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

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

Conditional additional payment

If, however:

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

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

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

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

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

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

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

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

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

(5) the total sum of any additional loans and capital invested (and not repaid, reduced or returned) by the Company, Infinite Sky and/or New Trinity in SAM or the Project, in each case which is related to the development of the Project, between the date of the Settlement Agreement and the date of any Disposal Event ("Honbridge's Investment"), with the aggregate of items (1) to (5) above in no event exceeding US$250,000,000, then the net proceeds from the Disposal Event that exceed 120% of Honbridge's Investment shall be shared equally by the Company and Votorantim, with payment to Votorantim in no event to exceed US$60,000,000 (the "Additional Payment"). As at the date of this report, the additional loans and capital invested was approximately US$9,800,000.

CONTINGENT CONSIDERATION AND LIABILITIES — CONTINUED

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 2019, the contingent consideration payable was approximately HK$161 million (equivalent to approximately US$20.7 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

CONTINUING CONNECTED TRANSACTIONS

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

Volvo Car Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Volvo Car (as the purchaser)
Date	:	23 October 2017
Term	:	From 23 October 2017 to 22 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Volvo Car Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Volvo Car Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2019 annual cap	:	RMB278 million
2020 cap for the period from 1 January 2020 to 22 October 2020	:	RMB251 million
Sales for the year ended 31 December 2019	:	approximately RMB157 million (HK$178.4 million)

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

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.
2019 annual cap	:	RMB739 million
2020 cap for the period from 1 January 2020 to 24 October 2020	:	RMB951 million
Sales for the year ended 31 December 2019	:	approximately RMB138 million (HK$156.9 million)

The two continuing connected transactions mentioned above were 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.

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Zhejiang Geely Components Sales Agreement — Continued

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

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.

LOAN AGREEMENT WITH CLOUDRIDER LIMITED

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

Despite numerous communication between the Company and the Borrower, the Company did not receive any repayment since 6 November 2018 and the Borrower also failed to propose a proper repayment plan. On 15 July 2019, the Company issued a notice letter to notify the Borrower that the Company decided to exercise its right under the Loan Agreement and would start the procedures for the enforcement of the Security, including the enforcement of 450,357,200 shares of Yuxing InfoTech Investment Holdings Limited (stock code: 8005) ("Yuxing InfoTech"). On 16 December 2019, the Company has exercised its right under the Loan Agreement and completed the procedures for the enforcement of a Security, the transfer procedures of 450,357,200 shares of Yuxing InfoTech have been fully completed. According to the latest number of issued shares, 450,357,200 shares represents approximately 21.72% of the issued shares of Yuxing InfoTech with a market value of approximately HK$139.6 million as at 31 December 2019.

Although the Company has completed the enforcement procedures, the Company will continue to reserve all its rights under the Loan Agreement. The Company is trying to dispose of the 450,357,200 shares of Yuxing InfoTech held by it and has communicated with a few potential buyers, however, no agreement has been reached. In light of the share price performance of Yuxing InfoTech and various factors, even with the completion of the disposal, it is estimated that the Company will not be able to recover the principal amount of Tranche A Loan and Tranche B Loan in full and the Company will update the Shareholders on any material development as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2019, the Group recorded a HK$341.3 million revenue, representing a 43% increase when compared to HK$238.6 million revenue recognised in the last year. The profit for the year ended 31 December 2019 attributable to owners of the Company was approximately HK$415.6 million (2018: HK$974.5 million).

Over 98% revenue of the Group were contributed by our Zhejiang lithium-ion battery plant. The revenue of the Group increased because the customers of our Zhejiang factory, Volvo Car and the Lynk & Co increased their demand for lithium-ion battery for the year end 31 December 2019 after new vehicle models were launched.

The Group recorded a gross profit of approximately HK$4.3 million (gross profit ratio: 1.3%) for the year ended 31 December 2019 as compared with the gross loss of approximately HK$47.6 million (gross profit ratio: -19.9%) in the last corresponding year. Gross profit ratio improved because the upgraded product of our Zhejiang battery plant has a better profit margin. On the other hand, 2018 was the first year of operation for our Zhejiang battery plant. After the initial ramp up period, the Group has successfully improved the overall operating efficiency of the plant. For example, the production efficiency for battery cell and battery pack have improved by approximately 38% and 42% respectively. Without compromise of the battery quality, the Group also optimised the human resources structure of the battery plant, the number of staff of Zhejiang battery plant has decreased by more than 40% to approximately 240 staffs during the year ended 31 December 2019. The Group will continue to control and improve the costs structure of lithium-ion battery products by negotiating with key suppliers to obtain more beneficial terms, increasing the energy density and decreasing the failure rate of our products, strengthening the management skill and promoting effective use of materials, etc.

The compulsory "Technical Specifications for Safety of Electric Bicycles"《電動自行車安全技術規範》national standard (the "New National Standard") was effective from 15 April 2019 in the PRC. It regulates electric bicycles' safety performance, speed limit, production quality and pedal riding performance, etc., these policies will accelerate the transition of lead-acid battery in electric bicycles to lithium battery. To seize this opportunity, in mid-2019 the Group has launched the battery sharing business focusing on food delivery electric motorcycle branded "GETI" in the PRC in Jiangsu Province and Zhejiang Province. In March 2020, GETI has approximately 230 battery swapping stations and 1,500 active users. The Group will initially focus on serving the customers in the two Province and expand the service to other region in the PRC based on the future business strategy. Ultimately, it is the vision of the Group to provide safety, convenient and reliable battery swapping service to customers all over China. For the year ended 31 December 2019, GETI has recognised approximately HK$1 million revenue.

Other operating income of approximately HK$196.6 million (2018: HK$38.3 million) was recognised during the current year. It consists of government grants income of HK$163.0 million (2018: HK$0.2 million), interest income from loan receivable of HK$7.7 million (2018: HK$14.2 million), imputed interest income of amounts due from non-controlling interests of HK$13.1 million (2018: HK$13.1 million) and bank interest income of HK$5.4 million (2018: $5.5 million). The increase in other operating income was mainly due to increase in government grants income in relation to Zhejiang Forever New Energy.

BUSINESS REVIEW — CONTINUED

The administrative expenses for the year ended 31 December 2019 mainly consists of research and development expenses of approximately HK$13.5 million (2018: HK$59.0 million), staff costs of approximately HK$30.2 million (2018: HK$31.0 million) and depreciation and amortisation expenses of HK$11.3 million (2018: HK$3.5 million). The research and development expenses decreased because an upgraded lithium-ion battery was launched in 2019 and Shandong Forever New Energy has substantially decreased its operation in the current year.

Impairment loss on trade receivables of HK$38.7 million were provided in the current year ended 31 December 2018 because certain customers have encountered financial difficulties amid decrease in sales. However, the Company has successfully recovered some bad debt in the current year and HK$13.3 million reversal of expected credit loss on trade receivables are recognised.

Impairment loss of HK$331.9 million has been provided on property, plant and equipment during the year ended 31 December 2019 because of the downward adjustment in forecast sales amount for Zhejiang Forever New Energy after it failed to meet the sales target in 2019.

The actual sales of Zhejiang Forever New Energy during the year ended 31 December 2019 did not meet the sales forecast target to the reasons as follow: A revised subsidy policy for new energy vehicles was introduced in late March 2019 with a transition period ended in late June. Generally, under the new policy, the total government subsidies enjoyed by a new energy vehicle will be decreased by more than 50%; In addition, due to the implementation of "China VI" vehicle emission standards in the PRC in the second half of 2019, major customers of the Group proactively reduce the aggregate inventories of its dealers in the second quarter of 2019, resulting in a slower production of new energy vehicle models, the launched of new vehicle models was also delayed; Finally, the arising trade barriers and increasing geopolitical tensions caused economic uncertainty and the total annual sales of new energy vehicles in the PRC decreased first time since 2013. More information was set out in note 14 of the financial statements.

The finance costs of HK$19.4 million (2018: HK$9.8 million) recognised during the year ended 31 December 2019 were mainly related to the interests bearing loans from Zhejiang Geely, a substantial shareholder of the Company and loans from a commercial bank in the PRC. The amount of interest bearing loans were increased from HK$227.7 million last year to HK$532.9 million as at 31 December 2019.

For the year ended 31 December 2019, the profit attributable to the owners of the Company was HK$415.6 million (31 December 2018: HK$974.5 million), decreased by 57% compared with the year ended 31 December 2018. The decrease in profit was mainly due to the decrease in non-cash reverse of impairment of exploration and evaluation assets (net of deferred tax charge) in relation to the SAM iron ore project (2019: HK$563.2 million; 2018: HK$1,429.5 million).

As at 31 December 2019, the cash and cash equivalent balance of the Group was approximately HK$351.7 million with a net current assets of HK$259.3 million. The current ratio of the Group which is measured by current assets to current liabilities was 1.38 (31 December 2018: 1.19). Despite the increase in current ratio, the cash and cash equivalents of the Group was decreased by HK$225.5 million. The Company will prudently control its costs and monitor its expenditure in the year 2020.

During the year ended 31 December 2019, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015.

THE USE OF PROCEEDS FROM PLACING AND SHARE SUBSCRIPTION

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

The below table sets out the proposed applications of the net proceeds from Placing and Share Subscription as at 31 December 2019:

Intended use of proceeds	Total net proceeds *HK$' million*	Actual use of net proceeds up to 31 December 2019 *HK$' million*	Remaining balance of net proceeds up to 31 December 2019 *HK$' million*
Lent to the Borrower	540.0	540.0	Nil
New energy vehicle related business	410.0	410.0	Nil
Brazilian iron ore project	200.0	112.3	87.7
Repayment of loans from the ultimate holding company	109.1	109.1	Nil
General working capital of the Company	76.9	42.8	34.1
Total	1,336.0	1,214.2	121.8

As at 31 December 2019, the unutilised portion of approximately HK$121.8 million were expected to be utilised in the following specific uses:

Brazilian iron ore project

The Group will continue to provide funding to the SAM Project to maintain a team and carry out necessary research and work in order to obtain the environmental license (LP) in Brazil. After LP is obtained, the utilised proceeds will be utilised to prepare a detailed engineering plan. The Group will control the usage of proceed based on the progress of LP application.

General working capital

The unutilised proceeds of HK$34.1 million are expected to be utilised to maintain the headquarter in Hong Kong. Major expenditures include director and staff costs, rental expenses and various professional fees. Subject to the change based on the future development of the operations of the Group, the amount is expected to be utilised on or before 30 June 2021.

THE PRINCIPAL RISKS AND UNCERTAINTIES FOR LITHIUM-ION BATTERIES SEGMENT

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

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

Customer Concentration Risk

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

The Group expects the sales to companies under Zhejiang Geely will count a significant portion of revenue generated from the first production line of Zhejiang Forever New Energy. 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. 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. However, the high cost was also attributable to the small production capacity of the project, and hence it would be relatively difficult to reduce the cost.

Others

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

THE PRINCIPAL RISKS AND UNCERTAININITIES FOR THE SAM PROJECT

Iron ore price risk

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

Risk of SAM project will not be materialized

The risk is largely driven by various factors such as commodity prices, government regulations, legal litigation challenges, political factors, policies and approval of the relevant permits and licenses to conduct the mining activities in the Brazil. All these factors may affect the schedule of the project, or even result in the failure of the SAM project.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group has contracted but not provided for capital commitments in relation to property, plant and equipment amounted to approximately HK$56.1 million.

EMPLOYEES

As at 31 December 2019, the total number of employees of the Group was 481 (2018: 701). Employee benefit expenses (including directors' emoluments) amounted to HK$61.6 million for the year (2018: HK$78.7 million).

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

PROSPECTS

Despite the central government of China has announced that subsidies for new energy vehicles will be gradually decreased in the coming years, the Group and new energy vehicle industry both believe that the government of China will continue to introduce other measures to promote the development of new energy vehicle industry which is one of the national development strategies. In addition, in the post-subsidy period new energy vehicle manufacturers and customers are going to put more focus on the overall quality of the car models. This could be positive for premium and high-end car models, which are the target customer segment of our Group.

Nevertheless, the global economy continues to be weakened by rising trade barriers and increasing geopolitical tensions. The novel coronavirus (COVID-19) outbreak since the end of 2019 adds another significant challenge to the world, the economic uncertainty is expected to affect the sales of the Group in 2020. According to the latest estimation, more than 50% decrease in revenue of the Group is expected in the first quarter this year compared with the last corresponding period.

The battery packs produced by Zhejiang Forever New Energy were provided to Volvo Car and Zhejiang Geely Components and assembled in premium car models such as Volvo XC60 PHEV, S90 PHEV and Lynk & Co Lynk 01, 02, 03 PHEV. Batteries modules were also provided to Volvo Polestar 01 PHEV and XC90 PHEV. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other world's mainstream automobile manufacturers.

PROSPECTS — CONTINUED

On 16 January 2019, the Company entered into a security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2 million ordinary shares of LKCO shares with a total consideration of USD12 million. During the year ended 31 December 2019, the Company has settled USD12 million and Luokung Technology Corp. has issued 2 million ordinary shares to the Company. Luokung Technology Corp. is one of the world's leading companies in spatial-temporal big data technology, a leading interactive location-based data services ("LBS") company in China, and a pioneer of the railway Wi-Fi market in China. Luokung Technology Corp. has developed business relationship with world famous entities such as Ford Motor Corporation, which has selected Luokung's subsidiary EMG as the provider of HD Map Service for Ford China's autonomous driving project.

During the year ended 31 December 2019, Honbridge Technology Limited ("Honbridge Tech"), a wholly-owned subsidiary of the Company, has set up a Joint Venture with 杭州優行科技有限公司 (Hangzhou UGO Tech Co., Ltd.) ("Hangzhou UGO") and 杭州禾曦嬌科技有限公司 (Hangzhou Hexijiao Technology Co., Ltd.) ("Hangzhou Hexijiao"). The Joint Venture is initially engaged in online car-hailing services in Paris, France and related services and will gradually extend its online car-hailing services to other cities in Europe depending on its business development progress. The service was launched in Paris in January 2020.

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

In late 2019 and early 2020, the Company was in the course of preliminary negotiation in respect of a possible acquisition of the controlling equity interest of a company which is principally engaged in manufacturing industry in mainland China. However, the negotiation was temporarily terminated in March 2020. 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 continue to consider seeking opportunities of merger and acquisition, investment and collaboration in areas such as charging and swapping, electric motor, electric controlling, Internet of Vehicle, autonomous driving, shared mobility, high-definition map and light-weighting of vehicles.

For the resource sector, the latest progress of the SAM Project was covered in the Progress of SAM section in this report. Despite the exceptional time and efforts spent for the SAM iron ore project, it is disappointing and helpless that the Company was still unable to obtain the Preliminary License (LP) in relation to the environmental feasibility, however, the Company will continue to push forward the project and review its status and development continuously in order to make the best decision for the shareholders of the Company. While the iron ore project is currently progressing in the direction of self-development, the introduction of strategic investors for joint development or collective sale cannot be ruled out should suitable opportunities arise in a suitable time. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

The overall business strategy of the Group is the dual development of new energy vehicles related business and resources, creating value for our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

SUBSEQUENT EVENT

Negotiation of material acquisition

On 12 February 2020, the Company issued an announcement that it is in the process of evaluation and negotiation of an acquisition which may constitute a material acquisition. After taking into account various factors, the negotiation has been terminated temporarily.

Deemed disposal of equity interest in shandong forever new energy

On 20 January 2020, Triumphant Glory, a direct non-wholly owned subsidiary of the Company, entered into a reorganisation agreement with Zhejiang Geely Automobile Co., Ltd. (浙江吉利汽車有限公司) ("Geely Auto") and Jiangsu Tiankai Energy Co., Ltd. (江蘇天開能源技術有限公司) ("Jiangsu Tiankai"), pursuant to which Jiangsu Tiankai agreed to make capital contribution in the amount of US$20,408,100 (or its equivalent in RMB) into Shandong Forever New Energy.

Upon completion of the Capital Increase in accordance with the Reorganisation Agreement, the registered capital of Shandong Forever New Energy will be increased from US$20,408,100 to US$40,816,200. Jiangsu Tiankai, Geely Auto and Triumphant Glory will hold 50%, 25.5% and 24.5% equity interest in Shandong Forever New Energy, respectively. As a result of the Capital Increase and the termination of the Company's right to appoint a majority of the board of directors of Shandong Forever New Energy, Shandong Forever New Energy will cease to be a subsidiary of the Company and its financial results will no longer be consolidated into the consolidated financial statements of the Company. Shandong Forever will be accounted for an associate of the Company.

Technical co-operation

To promote the use of advanced technology and improve the product line of Shandong Forever New Energy, pursuant to the Reorganisation Agreement, Jiangsu Tiankai agreed to introduce its own NCM 622 and NCM 811 battery formula and technology to Shandong Forever New Energy for nil consideration which Shandong Forever New Energy is allowed to use for free indefinitely.

Basis of the Capital Contribution Sum

The Capital Contribution Sum was determined among the parties to the Reorganisation Agreement after arm's length negotiations with reference to the appraised value of Shandong Forever New Energy based upon its registered capital amount.

REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Directors consider that the Capital Increase contemplated under the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement would not only strengthen the financial resources but also improve the lithium-ion battery technological level of Shandong Forever New Energy. The Capital Contribution Sum will be mainly utilised to install new production line which can enhance business growth and competitiveness of Shandong Forever New Energy while technical co-operation with Jiangsu Tiankai can improve its products.

Except the Capital Contribution Sum, more importantly, the Directors consider Jiangsu Tiankai can also bring new battery technology, management skills as well as new customers to Shandong Forever New Energy, which are very important to solve the problems faced by Shandong Forever New Energy.

An extraordinary general meeting was held on 11 March 2020 and the Reorganisation Agreement, the Amended and Restated Joint Investment Agreement and the transactions contemplated were approved by independent shareholders. More details on the transaction has been set out in the circular of the Company dated 24 February 2020.

On 19 March 2020, all of the conditions precedent under the Reorganisation Agreement and the Amended and Restated Joint Investment Agreement have been fulfilled and the transaction was completed.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. He Xuechu, aged 57, is the Chairman of the Company. Mr. He has extensive experience in financial management and in the investment field, is principally responsible for the Group's strategic planning and positioning. Mr. He graduated from 安徽財貿學院 (Anhui Finance and Trade College), the PRC in 1983. Since then, he has worked in 中華人民共和國商業部 (the Domestic Trade Ministry of the PRC), and China Resources (Holdings) Co. Ltd. During the period from 2001 to 2005, Mr. He was a director and shareholder of a number of companies, the shares of which are listed on the Stock Exchange, including Shanghai Zendai Property Limited (stock code: 0755) and Geely Automobile Holdings Limited (stock code: 0175). Mr. He is also director of Infinite Sky Investments Limited, New Trinity Holdings Limited, Honbridge Technology Limited, and Triumphant Glory Investments Limited, all being subsidiaries of the Company.

Mr. Liu Jian, aged 46, is the Vice-Chairman and Co-Chief Executive Officer of the Company. He is director of GETI (China) Energy Technology Company Limited (吉遞(中國)能源科技有限公司). He was appointed a vice president of Geely Group Co. Ltd. in April 2018. Mr. Liu has also accumulated over 15 years of experience in the fields of high-end medical equipment manufacturing, comprehensive health industry, automotive battery systems and control technologies, and advanced driving assistance products. He was previously employed by Neusoft Group Co., Ltd. (東軟集團股份有限公司), and was also the senior management of Philips and Neusoft Medical Systems Co., Ltd. (東軟飛利浦醫療系統有限公司), Xikang (Cayman) (熙康開曼), and Neusoft Reach Automotive Technology Co., Ltd. (東軟睿馳汽車技術有限公司), as well as the director of Neusoft Medical Systems Co., Ltd. (東軟醫療系統有限公司), Beijing Fuzhao Technology Co. Ltd. (北京福兆科技有限公司), Israel's Aerotel Medical Systems Co. Ltd. and many other companies. Mr. Liu holds a Master of Business Administration degree from HEC Business School, University of Montreal, Canada.

Mr. Liu Wei, William, aged 55, is the Co-Chief Executive Officer of the Company. Mr. Liu has over 10 years of experience in corporate banking and corporate finance, including his previous employment with The Hongkong Chinese Bank Ltd. and Lippo Group. During the period from 2004 to 2006, Mr. Liu was a director of Hans Energy Company Limited (stock code: 0554), the shares of which are listed on the Stock Exchange. Mr. Liu was also a director of China Metal and Technologies (H.K.) Limited, a private company engaged in the trading of non-ferrous metal. Mr. Liu holds a master degree in business administration from the University of San Francisco. Mr. Liu is also director of Infinite Sky Investments Limited, New Trinity Holdings Limited, Sul Americana de Metais S.A, Honbridge Power Limited, Honbridge Technology Limited, Triumphant Glory Investments Limited, Zhejiang Forever New Energy Co., Ltd. and GETI Energy Sharing Technology Company Limited, all being subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Mr. Ang Siu Lun, Lawrence, aged 59, holds a Bachelor of Science degree in physics and computer science and a Master Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Ang worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business. Mr. Ang is an executive director of Geely Automobile Holdings Limited (Stock Code: 175). Mr. Ang assists the Group's capital market activities and investor relations.

Mr. Yan Weimin, aged 53, graduated from Central South University in 1989 majoring in automation. He also holds an EMBA degree of United Business Institutes (UBI) in Belgium. Mr. Yan has 20 years experience in the trading of mineral products. He has served in Shanghai Guohong Trading Co. Ltd. as the general manager and Shanghai Yingyue International Group Co. Ltd as the chairman. Mr. Yan is now a non-executive director of Xi'an Haitiantian Holdings Co., Ltd., the shares of which are listed on the Hong Kong Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chun Wai, Tony, aged 48, is a Certified Public Accountant and owns a CPA practice. He has extensive experience in audit assurance and business advisory services in both Hong Kong and the PRC. Moreover, Mr. Chan has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisitions as well as corporate finance. He holds a Master degree in Business Administration from the Manchester Business School. Mr. Chan is now the independent non-executive director of Hans Energy Company Limited, Wai Chun Mining Industry Group Company Limited, Wai Chun Group Holdings Limited and the joint company secretary of Zhejiang Cangnan Instrument Group Company Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. Ma Gang, aged 63, graduated from Anhui Finance and Trade College, the PRC in 1983 with a Bachelor degree in Economics. Between 2004 and 2006, Mr. Ma was employed as the vice managing director of Shanghai HongYe Real Estate Development Co. Ltd. which is principally engaged in properties development business.

Mr. Ha Chun, aged 50, graduated from the University of Hong Kong in 1994 with a bachelor degree in law and was admitted as the solicitor of the High Court of the Hong Kong Special Administrative Region and the Supreme Court of England and Wales. He has extensive experience in corporate finance, cross-border merger and acquisitions as well as general commercial transactions. Mr. Ha is one of the founding partners of Messrs. Ha and Ho Solicitors and also the China-Appointed Attesting Officer.

SENIOR MANAGEMENT

Mr. Yeung Ho Ming, aged 36, is a Certified Public Accountant in Hong Kong and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Yeung has extensive listed companies assurance and advisory experience in an international accounting firm. Before joining the Company in March 2013 as chief financial officer and company secretary, he also worked in a managerial position in an initial public offering project.

Mr. Yang Xuankun, aged 67, graduated from Harbin Shipbuilding Engineering Institute (the former Military Engineering Institute in Harbin). He once worked at the head office of China State Shipbuilding Corporation. He worked at Xianyang Pianzhuan Co., Ltd since 1988. Starting from 1999, became the deputy general manager and chief engineer of Xianyang Pianzhuan Group, which he began the research of lithium powered battery. From 2006 to 2009, he had worked with more than 20 companies such as GAC China, Zhengzhou Nissan, Great Wall, Chery, Geely and Haima together to develop power systems for electric vehicles. The battery, jointly developed by Mr. Yang Xuankun was awarded the Provincial Progress prize in scientific and collective technology in 2007. Mr. Yang also has a number of personal patents related to powered battery.

Joining Zhejiang Geely Holding Group Company Limited in September 2009, he was responsible for the setting up and manage Shandong Forever New Energy Co., Ltd.'s powered battery project, and worked as the general manager of Shandong Forever from the period 2010 to 2013. Mr. Yang Xuankun was a director and research and development department's chief engineer of Zhejiang Forever New Energy Co., Ltd.. Mr. Yang Xuankun has resigned from his position in Zhejiang Forever New Energy Co., Ltd. in March 2020. The Company would like to thank Mr. Yang for his service and contribution to the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT — CONTINUED

Mr. Jin Jigang, aged 40, obtained a degree in I.C. engine engineering from Xi'an Jiaotong University in 2002 and a master degree in vehicle engineering from Tongji University in 2012. From 2006 to 2009, Mr. Jin Jigang served as the calibration section manager in Powertrain Department of Continental Automotive Electronics (Siemens VDO) Co., Ltd. Later, Mr. Jin Jigang has worked as the chef engineer in Powertrain System of Geely Automobile Research Institute respectively, and was responsible for the business of powertrain. He had years of experience in powertrain system, vehicle development and auto parts industry. He is currently the director and general manager of Shandong Forever New Energy Co., Ltd. and Zhejiang Forever New Energy Co., Ltd..

Dr. Eder de Silvio, aged 57, graduated from The Polytechnic School of the University of Sao Paulo with an Engineering degree in 1984 and awarded a Doctorate degree on Mineral Engineering in 2001, based on a process research and engineering for a heavy mineral project (tin, tantalum, niobium, and rare earth).

Dr. Eder de Silvio is experienced in process research, mineral project engineering design, equipment selection and acquisition, plant and infrastructure construction. He has worked several years in two mine in the Amazon region, involved on engineering, construction and operation. He also worked as process engineering leader in a major Brazilian engineering company, served some of the world largest companies in the mining industry such as Vale, BHP Billiton, RTZ Mining and Exploration Limited, Anglo American plc, Manabi and others, being involved in some of the large projects such as Brucutu, Mirabela, Anglo's Minas Rio, Ferro Amapá, Itabiritos de Conceição and Samarco P4P which some had commenced production recently while some will start production soon.

Dr. Eder de Silvio also worked in Ferrous Resources Limited as an chief operating officer focusing on engineering, construction and production increase.

Dr. Eder de Silvio has been SAM's Director of Engineering since 2012, worked on process research and engineering concepts design.

Mr. Jin Yongshi, aged 40, holds a Bachelor's degree in Mineral Processing Engineering and a Master's degree in Ferrous Metallurgy Engineering from the School of Mineral Processing and Bioengineering of Central South University in China. Mr. Jin has over ten years experience in participating varieties of mine projects in China and abroad. Prior to joining the Group, he worked in China ENFI Engineering Corporation (formerly China Nonferrous Engineering and Research Institute) as a design manager of mine projects and also a senior engineer in Mineral Processing, he once provided consulting and engineering design service for lots of large-scale mine projects. Moreover, Mr. Jin also has extensive experience in purchasing worldwide mine properties, he once worked as a technical adviser for a Chinese listed company which was involved in international mine business. He has been assistant to the Chief Executive Officer and project manager of SAM since joining the Company in March 2014. Since March 2015, Mr. Jin also became an executive director of SAM.

DIRECTORS' REPORT

The Directors of the Company present their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 37 to the consolidated financial statements.

BUSINESS REVIEW

The business review of the Group for the year is set out in the "Chairman's Statement" and "Management Discussion and Analysis" of this annual report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 71 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years is set out on page 145 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34 to the consolidated financial statements.

DIRECTORS

The Directors of the Company during the year and up to the date of this annual report were:

Executive Director:

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

Non-Executive Director:

Mr. Yan Weimin
Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Director:

Mr. Chan Chun Wai, Tony
Mr. Ma Gang
Mr. Ha Chun

In accordance with Article 116 of the Articles of Association of the Company, Mr. He Xuechu, Mr. Liu Wei, William and Mr. Ma Gang will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company. All other remaining Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors entered into a service contract with the Company which shall continue thereafter unless and until terminated by either party serving to the other not less than three months' notice in writing.

None of the Directors has entered into any service contract or has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the ordinary shares of HK$0.001 each of the Company

	Number of shares in the Company				
Name of director	Beneficial owner	Interest of spouse	Interest of controlled corporation	Total	Approximate percentage of shareholding *(%)*
HE Xuechu	57,939,189	22,460,000	4,065,000,000 *(Note 1)*	4,145,399,189	42.07
LIU Wei, William	9,002,000	–	–	9,002,000	0.09
YAN Weimin	30,000,000	–	–	30,000,000	0.30
CHAN Chun Wai, Tony	1,000,000	–	–	1,000,000	0.01

Note:

1. The 4,065,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"), Mr. HE Xuechu is the controlling shareholder and director holding 51% equity interest of Hong Bridge.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company received from each of the Independent Non-Executive Directors, Mr. Chan Chun Wai, Tony, Mr. Ma Gang and Mr. Ha Chun, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers all of the Independent Non-Executive Directors to be independent.

SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted on 21 May 2012 and became effective on the same date. Particulars of the Scheme as required under the GEM Listing Rules are set out below:

(i) Summary of the Scheme

1. Purpose of the Scheme

The purpose of the Scheme is to recognise and motivate the contribution of the Employees (as defined in subsection headed "Participants of the Scheme" below) and other person(s) who may make a contribution to the Group and to provide incentives and help the Company in retaining its existing Employees and recruiting additional Employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

2. Participants of the Scheme

The Board of Directors of the Company or a duly authorised committee thereof (the "Board"), may, at its discretion, makes offers to any full time or part time employee (including any executive and non-executive director or proposed executive and non-executive director) of the Group (the "Employees"), adviser, consultant, contractor, client or supplier who have contributed to the Group (collectively the "Participants"), to take up options to subscribe for shares of HK$0.001 each in the share capital of the Company ("Shares") in accordance with the provisions of the Scheme.

3. Total number of Shares available for issue under the Scheme

Pursuant to the letter issued by the Stock Exchange on 21 May 2012, the total number of Shares available for issue under options which may be granted under the Scheme is 621,567,971 Shares, being 10% of the issued share capital immediately following adoption of the Scheme on 21 May 2012.

As at 31 December 2019, an aggregate of 13,750,000 Shares were issuable pursuant to share options granted.

As at 31 December 2019, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 591,567,971, representing approximately 6.0% of the issued share capital of the Company as at 31 December 2019.

SHARE OPTION SCHEME — CONTINUED

(i) Summary of the Scheme — Continued

4. **Maximum entitlement of each participant**

No Participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12 month period up to the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the GEM Listing Rules) abstaining from voting.

5. **Period within which the Shares must be taken up under an option**

An option may be exercised in accordance with the terms of the Scheme at any time during a period as the Board may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised.

6. **Minimum period, if any, for which an option must be held before it can be exercised**

At the time of granting an option, the Board may, at its discretion, specify the minimum period(s), if any, for which an option must be held before it can be exercised.

7. **Amount payable upon acceptance of the option and the period within which the payment must be made**

HK$1.00 shall be paid within 5 business days from the date of offer of the option.

8. **Basis of determining the exercise price of the option**

The exercise price for Shares under the Scheme shall be a price determined by the Board, but in any case will not be less than the higher of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer, which must be a trading day;

(b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer; or

(c) the nominal value of a Share.

9. **Remaining life of the Scheme**

Subject to early termination of the Scheme pursuant to the terms thereof, the Scheme shall be valid and effective for a period of 10 years commencing from the date on which the Scheme becomes effective, i.e. 21 May 2012 and ending on 20 May 2022.

Details of the principal terms of the Scheme are summarised under the sub-section headed "SUMMARY OF THE PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME" in Appendix III to the Circular of the Company dated 16 April 2012.

SHARE OPTION SCHEME — CONTINUED

(ii) Details of options granted

Particulars of the outstanding share options granted under the share option scheme adopted by the Company on 21 May 2012 were as follows:

Category of participant	Number of share options Outstanding as at 01/01/2019 and 31/12/2019	Date of grant of share options	Exercise period of share option	Exercise price per share option *HK$*	Price immediately preceding the grant date of share options *(Note a)* *HK$*
Employee	5,000,000	28/05/2012	28/05/2012 – 27/05/2020	0.95	0.91
	8,750,000	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55
Total	13,750,000				

Note:

(a) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

	Number of Shares in the Company				
Name of Shareholder	Beneficial owner	Interest of spouse	Interests of controlled corporation	Total number of shares held	Approximate percentage of shareholding *(%)*
Hong Bridge	4,065,000,000 *(Note 1)*	–	–	4,065,000,000	41.25
HE Xuechu *(Note 2)*	57,939,189	22,460,000	4,065,000,000 *(Note 1)*	4,145,399,189	42.07
FOO Yatyan *(Note 2)*	22,460,000	4,122,939,189	–	4,145,399,189	42.07
LI Xing Xing	–	–	4,065,000,000 *(Note 3)*	4,065,000,000	41.25
Geely International (Hong Kong) Limited	1,850,675,675	–	–	1,850,675,675	18.78
Zhejiang Geely Holding Group Co., Ltd. *(Note 4)*	–	–	1,850,675,675	1,850,675,675	18.78
LI Shufu *(Note 5)*	103,064,000	–	1,850,675,675	1,953,739,675	19.83
Shagang International (Hong Kong) Co., Ltd.	446,000,000	–	–	446,000,000	4.53
Jiangsu Shagang Group Co., Ltd. *(Note 6)*	–	–	446,000,000	446,000,000	4.53
Shen Wenrong *(Note 7)*	–	–	446,000,000	446,000,000	4.53

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge. Mr. HE Xuechu is the controlling shareholder and director holding 51% equity interest of Hong Bridge.

2. Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.

3. Mr. LI Xing Xing holds 30.8% equity interest of Hong Bridge.

4. Zhejiang Geely Holding Group Co., Ltd. holds 100% equity interest of Geely International (Hong Kong) Limited.

5. Mr. LI Shufu is the controlling shareholder holding 90% equity interest of Zhejiang Geely Holding Group Co., Ltd.

6. Jiangsu Shagang Group Co., Ltd. holds 100% equity interest of Shagang International (Hong Kong) Co., Ltd.

7. Mr. Shen Wenrong is the controlling shareholder holding 46.99% equity interest of Jiangsu Shagang Group Co., Ltd.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES — CONTINUED

Save as disclosed above, as at 31 December 2019, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

On 20 November 2017, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely"), one of the substantial shareholders of the Company, provided a loan with the principal amount of RMB100 million (approximately HK$114 million) to Zhejiang Forever New Energy. The loan was not secured by the assets of the Company and had a fixed interest rate of 4.35% per annum. The loan was fully repaid during the year ended 31 December 2019.

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

On 27 March 2019 and 16 May 2019, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely and its subsidiary provided loans with the principal amount of RMB52.8 million (approximately HK$60.1 million) and RMB100 million (approximately HK$114 million) to Zhejiang Forever New Energy respectively. The loans are not secured by the assets of the Company, repayable 12 months after the drawdown date and have a fixed interest rate of 4.35% per annum.

During the period ended 31 December 2019, a finance costs of HK$13.0 million was recognised by the Company in relation to the loans above. The Board considers the above loan arrangements were conducted on normal commercial terms or better.

For the year ended 31 December 2019, the Group has sold approximately HK$178.4 million and HK$156.9 million lithium-ion batteries to Volvo Car and Zhejiang Geely Components respectively.

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

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

CONNECTED TRANSACTIONS — CONTINUED

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

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

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

(2) on normal commercial terms or better;

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

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

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

There was no other connected transaction entered into by the Company during the year ended 31 December 2019.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 38 to the consolidated financial statements and the consolidated statement of changes in equity in page 76 respectively.

DISTRIBUTABLE RESERVE OF THE COMPANY

The share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend payment the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Memorandum and Articles of Association, dividends can be distributed out of the profits and share premium of the Company. The Company's reserve available for distribution to shareholders as at 31 December 2019 amounted to approximately HK$1,267,189,000 (2018: HK$1,397,755,000).

INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the year ended 31 December 2019.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to which the Company, its holding company or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year under review.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 3.20 to the consolidated financial statements.

CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2019, the five largest customers of the Group accounted for 88% of the Group's total revenue and the five largest suppliers of the Group accounted for 99% of the Group's total purchases.

Except as disclosed in the Connected Transactions section under the Directors' Report, none of the Directors, their associates, or shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest suppliers and customers as at 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the GEM Listing Rules for the year ended 31 December 2019 and up to the date hereof.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board
He Xuechu
Chairman

Hong Kong
27 March 2020

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasises accountability and transparency and are adopted in the best interests of the Company and its shareholders.

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 2019 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 to understand if there is any material control deficiency. Nevertheless, the Company will review the need for one on an annual basis.

BOARD COMPOSITION

The Board of Directors (the "Board") of the Company composed of eight Directors, including the Chairman, the Vice Chairman and Co-Chief Executive Officer and the Co-Chief Executive Officer who are Executive Directors, two Non-Executive Directors and three Independent Non-Executive Directors. Over one third of the Board are Independent Non-Executive Directors who have appropriate professional qualifications in accounting or related financial management expertise. Their biographies are set out in the Biographical Details of Directors and Senior Management Section of this annual report.

DIRECTORS' RESPONSIBILITIES

The Board takes the responsibility to oversee all major matters of the Company, including but not limited to formulating and approving the overall strategies of the Company, monitoring the financial performance and internal control as well as overseeing the risk management system of the Company and monitoring the performance of senior executives.

There is in place a directors liabilities insurance cover in respect of legal action against directors.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors play a significant role in the Board as they bring an impartial view on the Company's strategies, performance and control, as well as ensure that the interests of all shareholders are taken into account. All Independent Non-Executive Directors possess appropriate academic, professional qualifications or related financial management experience.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-Executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officers are exercised by separate individuals with a view to reinforce their independence and accountability.

DELEGATION BY THE BOARD

Daily operation and managing of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Directors along with other senior executives. They report periodically to the Board their work and business decisions.

BOARD MEETINGS AND ANNUAL GENERAL MEETING ("AGM")

Four Board meetings and an AGM were held during the financial year ended 31 December 2019 and the attendance records of the Directors are as follows:

	AGM	Board Meeting
Executive Director		
He Xuechu *(Chairman)*	1/1	4/4
Liu Jian *(Vice Chairman and Co-chief Executive Officer)*	0/1	2/4
Liu Wei, William *(Co-Chief Executive Officer)*	1/1	4/4
Non-Executive Director		
Yan Weimin	0/1	3/4
Ang Siu Lun, Lawrence	0/1	4/4
Independent Non-Executive Director		
Chan Chun Wai, Tony	1/1	4/4
Ma Gang	0/1	4/4
Ha Chun	1/1	4/4

Formal notice of at least 14 days are given to the Directors for board meetings. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles of Association of the Company. The Company Secretary ensures that the procedure and all applicable rules and regulations are strictly and fully complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any reasonable time on reasonable notice by any Directors.

Director shall have full access to information of the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

A formal written procedure and policy has been adopted by the Board for the appointment of new directors. According to the Articles of Association of the Company, one-third, and not exceeding one-third of Directors are subject to re-election. The corporate governance code states that all Directors must rotate at least once every three years. Despite the non-provision of the clause in the Articles of Association of the Company, every director of the Company, including those appointed for a specific term, voluntarily retires from his office by rotation at least once every three years notwithstanding that he is not required to do so by the Articles of Association of the Company.

The Company may by ordinary resolution at any time remove a Director before the expiration of his period of office notwithstanding anything in the Articles or in any agreement between the Company and such Director and may by ordinary resolution elect another person in his stead.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of the Board, the Company has adopted a board diversity policy (the "Policy") which sets out the approach to achieve diversity on the Board. The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, professional experience, skills and knowledge.

The Board will review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. The Nomination Committee will review the Policy from time to time to ensure its continued effectiveness. The existing Board members are coming from a variety of business and professional background, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business.

TRAINING

During the year ended 31 December 2019, the Company provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance practices.

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 2019.

RISK MANAGEMENT AND INTERNAL CONTROL

Recognising that a well-designed and effective system of internal control is crucial to safeguard the assets of the Company and the shareholders' investment and maintaining proper accounts to ensure the reliability of financial reporting as well as compliance with the relevant requirement of GEM Listing Rules, the Directors acknowledge that they have overall responsibility for overseeing the Company's internal control, financial control and risk management system and shall monitor its effectiveness on an ongoing basis. A review of the effectiveness of the risk management and internal control systems has been conducted by the Board at least annually.

Aimed at providing reasonable assurance against material errors, losses or fraud, the Company has established a risk management procedures which comprised the following steps:

- Identify risks: Identify major and significant risks that could affect the achievement of goals of the Group;
- Risk assessment: Assess and evaluate the identified risk according to its likely impact and the likelihood of occurrence;
- Risk mitigation: Develop effective control activities to mitigate the risks.

Risk identification and assessment is performed or updated annually, and the results of risk assessment, evaluation and mitigation of each functions or operation are documented in the Risk Registry to communicate to the Board and Management for reviews.

The Company has in place an internal control system which is compatible with The Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The COSO framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

The five key components of the COSO framework are shown as follows:

- Control Environment: Serves as an umbrella for the other 4 components which is the set of standards, processes, and structures that provide the basis for carrying out internal control across the Company.
- Risk Assessment: Identify what the relevant risks are that could form potential barriers to the completion of the company's objectives. Using this information, the Board and management should form basic plans on how these obstacles can be managed or avoided.
- Control Activities: Help ensure that necessary actions are taken to address risks to the achievement of the Company's objectives.
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ensure all component of internal control is present and implemented.

The Group's risk management and internal control systems are, however, designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

A review on the internal control systems of the Company, including financial, operational and compliance controls and risk management functions has been carried out in 2019 by an independent consultancy company with staff in possession of relevant expertise to conduct an independent review.

CORPORATE GOVERNANCE REPORT

The Company's audit committee reviewed the internal control review report issued by the independent consultancy company and the Company's risk management and internal control systems in respect of the year ended 31 December 2019 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the audit committee and concurred the same.

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 to understand if there is any material control deficiency. Nevertheless, the Company will review the need for one on an annual basis.

DISCLOSURE OF INSIDE INFORMATION

The Group has in place a Policy on Disclosure of Inside Information which sets out the procedures and internal controls for handling and dissemination of inside information.

The policy provides guidelines to the Directors, officers and all relevant employees of the Group to ensure proper safeguards exist to prevent the Company from breaching the statutory disclosure requirements. It also includes appropriate internal control and reporting systems to identify and assess potential inside information.

Key procedures in place include:

- Define the requirements of periodic financial and operational reporting to the Board and Company Secretary to enable them to assess inside information and make timely disclosures, if necessary;

- controls the access to inside information by employees on a need-to-know basis, and safeguarding the confidentiality of the inside information before it is properly disclosed to public,

- procedures of communicating with the Group's stakeholders, including shareholders, investors, analysts, etc. in ways which are in compliance with the GEM Listing Rules.

The Group has also established and implemented procedures to handle enquiries from external parties related to the market rumours and other Group's affairs.

To avoid uneven dissemination of inside information, the dissemination of inside information of the Company shall be conducted by publishing the relevant information on the Hong Kong Exchanges and Clearing Limited's website and the Company's website.

COMPANY SECRETARY

The company secretary of the Company assists the Board by ensuring the Board policy and procedures are followed. The company secretary is also responsible for advising the Board on corporate governance matters. As an employee of the Company, the company secretary has confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditor of the Company about its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 66 to 70 of this annual report.

DIVIDEND POLICY

In deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia: (i) the general operational and financial condition of the Group; (ii) the latest capital and debt level of the Group; (iii) future cash requirements, business strategies and future development needs; (iv) any restrictions on payment of dividends that may be imposed by the Group's creditors (if any); (v) the general market conditions; and (vi) any other factors that the Board deems appropriate.

The payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands and the articles of association of the Company. The Dividend Policy will continue to be reviewed by the Board from time to time.

AUDITORS' REMUNERATION

For the year ended 31 December 2019, the Auditors of the Company received approximately HK$2,482,000 for audit services.

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 2018 annual results, 2019 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 2019 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.

REMUNERATION COMMITTEE

The Committee members comprise Mr. Ha Chun (Chairman of the Committee), Mr. Ma Gang, Mr. Chan Chun Wai, Tony, Mr. He Xuechu and Mr. Liu Wei, William. The Committee met once in 2019 and was attended by all Committee members. The policy for the remuneration of Executive Directors and the Senior Management was reviewed by the Committee. Remuneration, including basic salary, performance bonus, grant of share options, if any, of the Executive Directors and Senior Management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability, as well as industry practice. Granting share options is considered as one of the means for giving long term benefits to and retaining staff.

Remuneration, comprising directors' fees, of Independent Non-Executive Directors is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings. The details of remuneration payable to directors of the Company is set out in Note 13 to the financial statements.

NOMINATION COMMITTEE

Current Committee members are Mr. CHAN Chun Wai, Tony (Chairman of the Committee), Mr. LIU Wei, William, Mr. ANG Siu Lun, Lawrence, Mr. MA Gang and Mr. HA Chun. The Committee meets at least once every year and additional meetings shall be held as the work of the Committee demands. The Committee met once in 2019 and was attended by all Committee members.

The primary duties of nomination committee is to (i) review the structure, size and composition (including the skills, knowledge, experience, age, gender and length of service) of the Board at least annually; and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy; (ii) consider the selection of Directors; (iii) identify and nominate candidates to the Board for it to recommend to Shareholders for election as Directors. Sufficient biographical details of nominated candidates shall be provided to the Board and Shareholders to enable them to make an informed decision; (iv) consider the skill mix needed in respect of the Directors, and make recommendations to the Board; (v) identify and nominate candidates to fill casual vacancies of Directors for the Board's approval; (vi) assess the independence of Independent Non-executive Directors and review the Independent Non-executive Directors' annual confirmations on their independence; and make disclosure of its review results in the Corporate Governance Report; (vii) to review annually the time commitment required of directors and to evaluate whether directors have committed adequate time to discharge their responsibilities; (viii) make recommendations to the Board on relevant matters relating to the succession planning for the Chairman, the Chief Executive as well as the senior management; (ix) do any such things to enable the Committee to discharge its powers and functions conferred on it by the Board; and (x) conform to any requirement, direction, and regulation that may from time to time be prescribed by the Board or contained in the Company's constitution or imposed by legislation. (xi) to review the board diversity policy, as appropriate, to ensure its effectiveness; and review the measurable objectives that the board has set for implementing the board diversity policy and the progress on achieving these objectives.

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence with reference to the Board's corporate goals and objectives. The emoluments of the Directors are determined by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

REMUNERATION OF THE SENIOR MANAGEMENT

The remuneration of the senior management of our Group for the year ended 31 December 2019 and 2018 falls within the following band:

	Number of individuals	
	2019	2018
HK$1,500,001 to HK$2,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**3**	2
Below HK$1,000,001	**2**	2

SHAREHOLDERS AND INVESTORS RELATIONS

The Group continues to promote and strengthen its relationship with shareholders of the Company and potential investors. The Group meets regularly with analysts and participates in investor conferences. As a channel to further enhance communications, the Company will disseminate announcements, corporate notice, and other financial and non-financial information through the Company's website in a timely manner. Since the year ended 31 December 2016, an environmental, social and governance report has been incorporated in the annual report of the Company which further facilitates the communications between shareholders and the Company.

SHAREHOLDERS' RIGHTS

Annual report, interim report and quarterly reports offer comprehensive information to the Shareholders whereas annual general meetings provide a forum for the Shareholders to exchange views directly with the Board.

Pursuant to Articles 72 of the Company's Articles of Association, an extraordinary general meetings shall be convened on the written requisition of any two or more members of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the shareholders, provided that such shareholders held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within twenty one days from the date of deposit of the requisition proceed duly to convene the meeting, the shareholders themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the shareholders as a result of the failure of the Board shall be reimbursed to them by the Company.

Shareholders may at any time send their enquiries to the Board by sending the same to the Company at the principal office of the Company in Hong Kong and for the attention of the Company Secretary.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents during the year under review.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report (the "ESG Report") is primarily prepared in accordance with Appendix 20 of GEM Listing Rules and summarises the performance in sustainable development of the Group in aspects such as environment, employment and labour affairs practices, operation practices and community engagement for the year ended 31 December 2019.

STAKEHOLDER ENGAGEMENT

The Group believes that regular communication with stakeholders can help to drive its growth. The Group is committed to maintaining the sustainable development of its businesses and providing support to environmental protection and the community in which it operates. The Group maintains a close tie with its stakeholders, including government, investors, management, customers, employees, business partners, community and the public, and strives to balance their opinions and interests through constructive communications in order to determine the direction of its sustainable development. The Board of Directors of the Company is responsible for assessing and determining its environmental, social and governance risks, and ensuring that the relevant risk management and internal control systems are operating properly and effectively.

Stakeholder Group Engaged	Units	Engagement Channels
Internal stakeholders	Management	— Regular meetings
	Employees	— Regular meetings — Notice boards — Annual appraisal meetings — Intranet and emails
External stakeholders	Investors and shareholders	— Annual general meetings — Annual, interim and quarterly reports — Press releases and announcements
	Customers and business partners	— Company website and social media — Email and customer service hotline — Visits and meetings
	Public and Communities	— Website information disclosure on HKEX and the Company

EMPLOYMENT AND LABOUR PRACTICES

The Group believes that talent is one of the most important assets, as well as the basis of sustainable development of an enterprise. While employees contribute time and wisdom to the Company, we also endeavour to build a fair and proper workplace for employees to demonstrate their talent. The Group is committed to upholding the principle of fair and impartial competition to offer equal promotion opportunities to every employee in the Company.

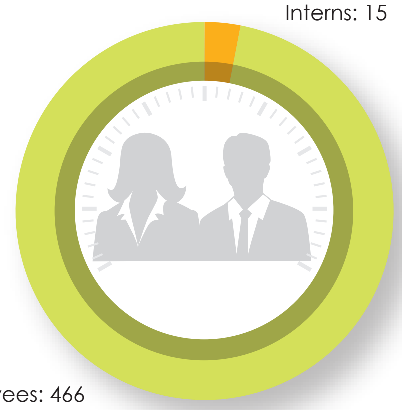
Besides the efforts on creating a good and harmonious workplace for employees, the Group also offers competitive remuneration, training and development opportunities to employees and puts an emphasis on workplace and occupational safety.

LABOUR STRUCTURE

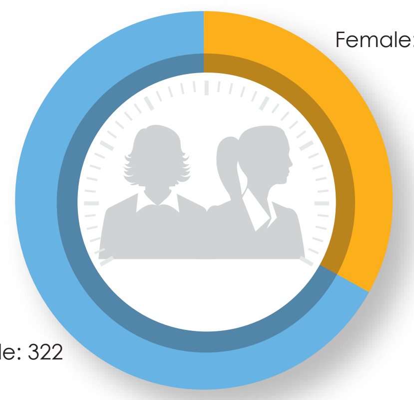
Business units of the Group are geographically located in Zhejiang Jiangsu and Shandong provinces of the PRC and in Belo Horizonte of Brazil, while its headquarters is in Hong Kong. As at 31 December 2018 and 2019, the total number of employees of the Group was 701 and 481 respectively with labour structures set out below:

2019

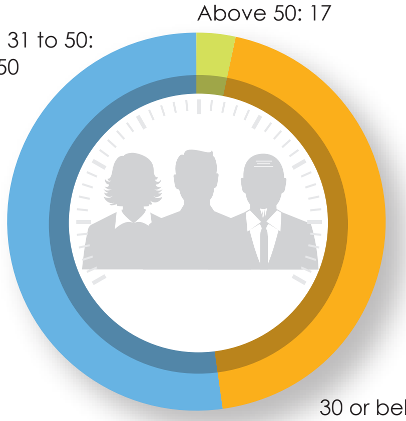
EMPLOYMENT CATEGORY



EMPLOYEES BY GENDER

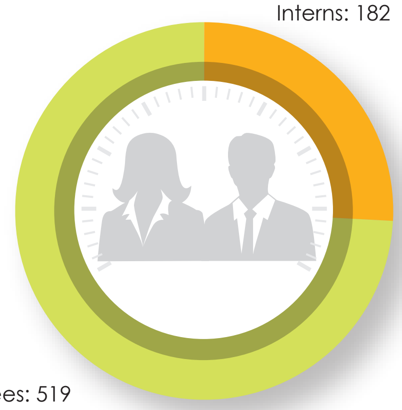


EMPLOYEES AGE GROUP

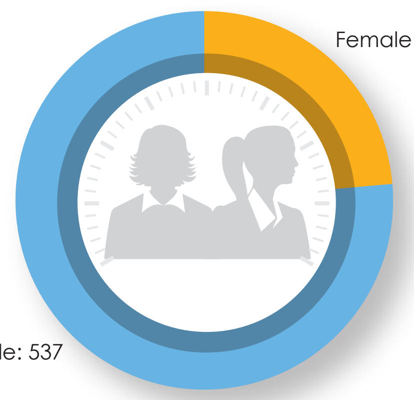


2018

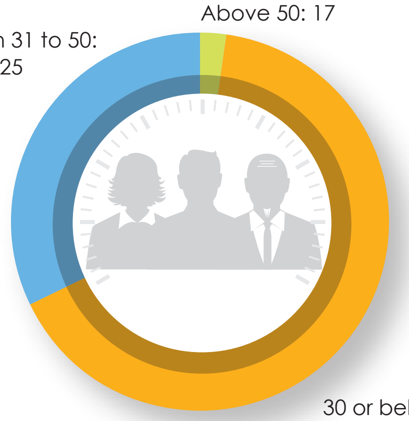
EMPLOYMENT CATEGORY



EMPLOYEES BY GENDER



EMPLOYEES AGE GROUP



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The number of employees of the Group decrease significantly mainly because of the costs control measures adopted in the Zhejiang lithium-ion battery plant during the year ended 31 December 2019 which saw its staff number decrease by more than 40% to approximately 240 staffs. For the battery swapping business, GETI was newly established in Suzhou at the beginning of 2019 and has recruited certain staffs during the year. On the other hand, in view of the poor sales performance of Shandong Forever, no extra efforts have been made for recruitment of new staff after staff turnover.

The Group strictly complies with relevant labour laws and regulations in the PRC, Hong Kong and Brazil. These rules and regulations specify the requirements relating to employment, labour relations, employees' remuneration, promotion, welfare and retirement to protect the rights of employees.

The Group also strictly complied with the laws, regulations and policies regarding the social security in the PRC and Brazil as well as Hong Kong's Mandatory Provident Fund Schemes Ordinance and paid social insurances, housing fund and mandatory provident fund in a timely manner for all the staff.

RECRUITMENT PROCESS

Fair and impartial recruitment policies are crucial to talent recruitment. In the recruitment process of the Group, there is no discrimination against interviewees or any form of bias on the grounds of race, nationality, religion, disability, age, gender, etc. The Group prohibits employment of child labour under 18 and forced labour. Based on the above principles, the Company and its subsidiaries work together on recruitment and induction in accordance with the recruitment policies or rules and review recruitment practices according to the latest regulations, if necessary. The Group is strictly in compliance with employment laws including Employment Ordinance (Hong Kong), Employment of Children Regulations (Hong Kong), the PRC Labour Law (「中華人民共和國勞動法」) and Provisions on the Prohibition of Using Child Labour (PRC), etc. During the reporting period, the Group has not identified any non-compliance cases involving child labour and forced labour.

Apart from recruitment advertisements targeting fresh graduates of 2019, the Group initiated "campus recruitment" in the PRC. Zhejiang Forever New Energy has received application from network and onsite universities recruitment, including Shandong University, University of Jinan, Ocean University of China, Lanzhou University of Technology, etc.

The external recruitment of GETI was conducted by adopting a combination of various effective recruitment channels based on different positions and rankings. These channels mainly include the followings:

1.) Referral by employees: The Company encourages its employees to refer outstanding talents. The administrative department will evaluate their competence by adhering to the principle of fair competition. The employee that referred a suitable candidate to the Company successfully will receive the corresponding bonus according to the internal talent referral system.

2.) Public recruitment: The Company disseminates information on recruitment through public media, advertisements in professional publications, relevant websites and professional institutions regularly or occasionally. The recruitment period of each position shall not be longer than 12 weeks.

3.) Campus recruitment: Targeting fresh graduates, the Company timely disseminates information on recruitment to the career guidance centers of the relevant schools in autumn every year. It also participates in inter-school talent exchange activities selectively in a well-planned manner. The recruitment of fresh graduates shall be completed at the end of September every year.

REMUNERATION AND BENEFITS

Annual salary and benefit adjustments would be made in accordance with employees' performance to demonstrate employee care and boost employee loyalty and harmony for building up a highly motivated team. The Group also strictly complies with regional regulations such as minimum wage and compensation for over-time work.

The Group has put in place "Benefit Management System" for employees in the PRC, which sets out benefits such as statutory benefits stipulated in the laws and regulations of the PRC, traditional holiday benefits, labour insurance, ex gratia payment for important personal matters and subsidies for academic qualification enhancement. In order to boost employee loyalty and harmony, the Company purchases traffic accident insurance and employer liability insurance particularly for its employees. The Company also organized body checkup for its staff to demonstrate its care for the employees.

Employees in other regions would also enjoy medical insurance, work-related injury insurance and retirement coverage (such as mandatory provident fund in Hong Kong) of statutory standards or higher. In 2019, Shandong Forever cooperated with the local social security bureau and timely completed its annual audit in relation to social security funds, ensuring the payment of social security contributions for its staff.

During festivals as Lunar New Year and Mid-Autumn Festival, the Group would distribute festive food or gifts to employees in specific regions.

WORKING HOURS

The working hours of all employees of the Group based in the PRC complies with relevant requirements of the PRC Labour Law (中華人民共和國勞動法). For over-time work, the Group gives over-time work compensation to employees in accordance with relevant requirements of the Labour Law such as「最低工資規定」in the PRC. While employees enjoy day off and public holidays as stipulated in the Labour Law as well.

In respect to our Hong Kong company, it follows the Employment Ordinance including the Minimum Wage Ordinance in Hong Kong and its employees work five days a week and eight hours a day. Employees enjoy day off, statutory public holidays, paid annual leaves, maternity leaves and paternity leaves, etc. during the employment term.

Our Brazil company strictly follows the terms in the Collective Bargaining Agreements. For aspects not covered by the Agreements, they will be based on Consolidation of Labour Laws (C.L.T.) of Brazil. Employees of the company work five days a week and eight hours a day. Employees enjoy day off, statutory public holidays, paid annual leaves, maternal leaves, etc. during the employment term which they are entitled to as stipulated in the Labour Law of Brazil.

TERMINATION OF EMPLOYMENT

In the event of staff resignation or dismissal, the Group will ensure that the quitting employees receive the entitled rewards and compensation according to the employment contract and by reference to the applicable labour law. The Group has also established procedures for employment termination management, where leaving employees would receive required instruction for their understanding and acknowledgment of respective responsibility and authority between themselves and relevant departments, thereby provide a strong support for asset safety and work hand over of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYEE DEVELOPMENT AND TRAINING

The Group attaches great importance to staff training on our belief that employees not only contribute knowledge and skills in performing their duties, but should be given opportunity for self-actualization during the process. Therefore, the Company has implemented means and opportunities of self-improvement into its mechanisms and practices.

Our company in PRC provides internal and external training and promotion opportunities for employees, providing a good development channel for all employees' career, motivates employees to voluntarily and willingly participate in trainings to improve their overall quality and practical ability and motivates them to actively participate in the Company's initiatives, so as to improve product quality.

Shandong Forever provided training and promotion opportunities for all its staff. In 2019, Shandong Forever organized both corporate-level training and external training programmes with a view to offering promising career paths for staff development. At the beginning of the year, the Company organized safety training programmes for all staff on topics such as safety, fire-fighting and the environment.

In order to strengthen the cooperation and communication between the staff working at the product department in Jiaxing and the operation centre in Suzhou, on 25 December 2019, the operation centre in Suzhou and the product department in Jiaxing jointly organized a tea party under the theme of "Joining Hands to Overcome Challenges in Product Operation and Build a Brighter Future for GETI (產品運營一起攻堅，共築吉遞未來)". The tea party mainly focused on discussing the function and responsibility of each department, and the differences between the battery swapping business of GETI and that of its peers.

In order to gain a better understanding of the thoughts of and problems encountered by its staff at work, on 24 October 2019, the general manager office and talent management office of Zhejiang Forever jointly organized a tea party under the theme of "Listen to the Staff and Join Hands to Build a Brighter Future for Zhejiang Forever (傾聽員工心聲，共築衡遠未來)". The tea party mainly focused on discussing the most serious problems encountered by the staff in their daily operation. The tea party has set up a sound foundation for problem solving in the future.

Our PRC Company also designed a series of training programmes for the talents from campus recruitment, also known as "Rising Stars". This series of Rising Stars Programmes aims at developing a young, energetic and advocating reserved power with an ambitious, determined, amiable and complementary spirit.

The Hong Kong headquarter and the subsidiary in Brazil both encourage and subsidise employees to enrol in work-related external programmes, including conferences, seminars and foreign language courses, enabling them to engage in continuous education and self-improvement and keep abreast with the latest development of the society and regulations.

HEALTH AND SAFETY

To protect our employees, the Group strictly adheres to the "safety first" slogan and continues to improve health, safety and environment management system and constantly upgrades occupational health and safety management.

To prevent the spreading of COVID-19 and keep the workplace safe, the Company encourages its employees to follow below guidelines.

Practice good hygiene

- Stop handshaking — use other non-contact methods of greeting
- Clean hands at the door-step and schedule regular hand washing reminders
- Create habits and reminders to avoid touching their faces and cover coughs and sneezes
- Sanitize surfaces like doorknobs, tables, desks and handrails regularly
- Increase ventilation by opening windows or adjusting air conditioning

Be careful in meetings and travel

- Use videoconferencing for meetings when possible
- Under unavoidable circumstances, hold meetings in open, well-ventilated spaces
- Consider adjusting or postponing large meetings or gatherings
- Assess the risks of business travel

Handle food carefully in canteen

- Avoid food sharing
- Strengthen health screening for canteen staff and their close contacts
- Ensure canteen staff and their close contacts practice strict hygiene

Stay home if...

- They are feeling sick
- They have a sick family member in their home

Apart from regular assessment of work environment of factories in the PRC, the Group has also put in place objectives of occupational health management; established safety and occupational health management system; set up occupational health management scheme (occupational health training scheme, occupational health inspection scheme, occupational health management scheme, occupational health labour protection equipment scheme, inspection and maintenance scheme of occupational health safety facility, etc.) to eliminate occupational hazards from construction facilities to achieve fundamental safety. The PRC subsidiary has assessed and designed safety measures based on the PRC Production Safety Law (中華人民共和國安全生產法), the PRC Fire Protection Law (中華人民共和國消防法) and Regulation on Work-Related Injury Insurances (工傷保險條例) to ensure its compliance with local relevant laws. In PRC, our subsidiaries organise fire safety lesson and training each year. Fire emergency evacuation drills and fire extinguishers operations drills make staff understand the importance of safety and improve their awareness of safety precautions.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Major safety measures implemented in plants in the PRC:

(1) Operational measures: a) install dust control for positions that generate dust; b) adopt a closed model in production operation to minimise the damage of dust to employees.

(2) Training measures: regular occupational health lesson and training for workers; regular training at workshops in the form of meetings before and after work.

(3) Management measures: establish an occupational health directing group responsible for effective management of occupational health and conducting examination for potential occupational health hazards.

(4) Labour protection equipment measures: distribute labour protection equipment for workers, such as anti-virus and anti-dust masks, ear plugs, safety goggles, safety helmets, protection boots, insulating equipment, etc.

To improve the fire safety awareness of the Company's all employees, comprehensively prepare for fire prevention and prevent the occurrence of various accidents, Zhejiang Forever New Energy has organized a comprehensive emergency fire drill on 25 December 2019.

In order to further implement the fire-safety approach of "focusing on prevention and combining prevention with elimination measures" and enhance its staff's awareness of self-rescue and escaping, the Company has reviewed the rescue skills of the volunteer fire services team, and invited the fire services team of Jiangnan District, Jinhua City for guidance and on-site observation. The fire drill is considered a success as more than 200 staff of Zhejiang Forever were evacuated to a safe location safely and orderly in around 2 minutes only.

The Hong Kong office is primarily required to comply with the Occupational Safety and Health Ordinance to improve indoor environment of the Company to create a safe and healthy workplace for employees. It has also maintained labour insurance for employees.

The Brazil company has strictly adhered to the local regulations of work safety and health standard and prepares an annual Environmental Risk Prevention Program ("PPRA") and an Occupational Health Examination Program ("PCMSO"). PPRA is a protective measure for employees' health and body integrity which anticipates, identifies, assesses and controls the environmental risks at a workplace and preserves the environment and natural resources. On induction of an employee, Brazil Company will provide personal protective equipment to the employee and thereafter will replace it regularly. The equipment provided is based on each position and function set out in PPRA. Meanwhile, PCMSO requires every employer to prepare and implement a solution aim at promoting and protecting the health of its employees. In accordance with the requirements of PCMSO, the Company has arranged physical examination when an employee joins, changes positions and quits, with a view to preventing, detecting and controlling potential damage and assuring the safety of the employee's body. In addition, it may also identify health risks in advance, especially work-related diseases.

INDUSTRIAL ACCIDENT

The Group did not experience major industrial incident or hazard in 2018 and 2019.

COMMUNITY INVESTMENT

The Group has concentrated on environmental protection in community welfare work, the principle of which was to achieve social harmony, encourage employees' participation and explore a sustainable welfare model. It maximised the contribution of the Group's worker volunteers in community building.

In order to give back to the society and understand the needs of local residents actively, the public relation department of SAM gives away Christmas presents in the community every year.

ANTI-CORRUPTION

To ensure and promote business integrity at each level of the Company, facilitate sustainable and healthy development, and build an honourable and upright culture, the Group has published integrity and self-discipline requirements. It enthusiastically spreads the corporate culture of "compliance" and continues to strengthen supervision and inspection to strive for healthy and rapid development. It prevents corruption at source and expressly sets out the regulations on "gifts and entertainment". Furthermore, it requires employees to comply with relevant regulatory requirements on anti-money laundering and ensures the Company or individual employees to strictly follow the reporting requirements in the event of participation in activities and transactions with potential receipt of illicit funds or involving illicit funds. In order to promote integrity and honesty in the Group, the Company sent materials and information regarding anti-corruption and anti-money laundering provided by the Hong Kong ICAC to its directors and senior management via E-mail. In September 2019, the staff of Zhejiang Forever visited the compliance and integrity base in Jinhua city.

No legal case regarding corrupt practices was brought against the Group or its employees during the reporting period.

SUPPLY CHAIN MANAGEMENT

As of 31 December 2019, with regards to the lithium-ion battery business, there are a total of 107 qualified suppliers, among which 106 were companies located in China and 1 was company located overseas.

For the battery swapping business, there are 18 suppliers on the list of qualified suppliers, all of which were located in China.

Based on the specific product requirements from the quality department, research and development department and production department of the subsidiary, the procurement department has prepared supplier management and regulation documents to ensure the consistency, reliability and passing rate of the products.

Firstly, to enhance the supplier selection process by the procurement department and the reasonable allocation of monthly procurement volume, a Procurement Control Process has been established to further standardise and tighten the procurement processes. Meanwhile, we have entered into Agreements on Credibility, Integrity and Self-discipline with partnering supplier to maintain interaction and mutual trust with them.

Secondly, for reasonable selection, supervision of and incentivising suppliers, the procurement department has produced a series of relevant documents which regulate supplier admission and grading individual supplier.

It takes a comprehensive management system of supplier quality to achieve sound quality assurance. Shandong Forever passed the certification for ISO/TS-16949 in 2015 and clarified the process of supplier admission. Shandong Forever has been strengthening its efforts on the inspection of suppliers of major raw materials and visited leading material manufacturers and processing plants to develop all-round knowledge on the production techniques of its suppliers and the quality control of processing. At the same time, physical examination project was conducted at the processing plant of individual major suppliers to assess the quality control capability of suppliers on its production process. Thus, the quality of raw materials and major components procured was further enhanced.

PRODUCT LIABILITY

The Company embraces an enterprise culture of "integrity, practicality, meritocracy, creativity" and its after-sales services adhere to the principle of "quality comes first and commitment of outstanding service".

The battery products of Shandong Forever New Energy passed the national standards of GB/T31484-2015 "Cycle Life Requirements and Test Methods for Automobile powered Battery of Electric Vehicle", GB/T31485-2015 "Safety Requirements and Test Methods for Automobile powered Battery of Electric Vehicle" and GB/T31486-2015 "Electrical Performance Requirements and Test Methods for Automobile powered Battery of Electric Vehicle" in the PRC and Shandong Forever New Energy were admitted to the fourth enterprise list of the "Standardised Conditions for the Automobile powered Battery Industry" published by Ministry of Industry and Information Technology of the PRC in July 2016.

Shandong Forever New Energy has passed the ISO/IATF 16949 certification of quality system and applies the core tools of ISO/IATF 16949 in the quality control of production and manufacture process.

The battery products of Zhejiang Forever has passed the requirements of various standards, including GB/T31467.3-2015 "Lithium-ion Battery Packs and Systems for Electric Vehicles – Part 3: Safety Requirements and Test Methods (GB/T31467.3-2015《電動汽車用鋰離子動力蓄電池包和系統第3部分；安全性要求與測試方法》) and Revision Notice No. 1, the 1610 "Test Methods for the Relevant Technologies and Indicators of Powered Battery and Fuel Cells (Trial) (1610《動力電池、燃料電池相關技術指標測試方法(試行)》), GB/T31484-2015 "Cycle Life Requirements and Test Methods for Powered Battery of Electric Vehicles (GB/T31484-2015《電動汽車用動力蓄電池循環壽命要求及試驗方法》)", GB/T31485-2015 "Safety Requirements and Test Methods for Powered Battery of Electric Vehicles (GB/T31485-2015《電動汽車用動力蓄電池安全要求及試驗方法》)" and GB/T31486-2015 "Electrical Performance Requirements and Test Methods for Powered Battery of Electric Vehicle (GB/T31486-2015《電動汽車用動力蓄電池電性能要求及試驗方法》)".

SELF-OWNED INTELLECTUAL PROPERTY RIGHT

Intellectual property right is the core competitiveness of enterprises, especially for the lithium-ion powered battery industry which relies on independent research and investment and brand building. Its "quality" and "quantity" are directly related to the innovation capacity and product safety of an enterprise. In recent years, Shandong Forever New Energy has been committed to independent innovations based on market demands and future industry trend.

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 2019, the Group was granted 228 patents, among which 220 are utility model patents, 5 appearance design patents and 1 innovation patents. At present, 70 patents are under application.

AFTER-SALES SERVICE COMMITMENT

To constantly improve and optimise the after-sales system and ensure the timely and efficient resolution of battery set failure, the Company adopts various forms of after-sales services to maintain customer satisfaction, including technical support hotlines to provide 24-hour technical support services to the customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

The Group understands the importance of environmental protection for promoting sustainable development. The Group's business premises are mainly offices and manufacturing factory plant, of which the main environmental impacts may potentially include greenhouse gases and air pollutant emissions from the electricity, discharge into water during the operations of manufacturing factory plant, solid waste generation as well as electricity and fuel consumption. The Group has formulated targeted environmental management policies for different businesses with reference to national and local environmental laws and regulations, and proactively implemented different environmental measures, endeavoring to reduce the environmental impacts during its operations.

Compared with conventional batteries, lithium-ion batteries feature an array of advantages including high energy density, light weight, tiny size, long life cycle and quick charging. They are also known as "green and new energy products" since they are free of heavy metals such as lead, cadmium and do not contain toxic substances. Therefore, there are no significant environmental risks of pollution in the lithium-ion battery business of the Group. As for the iron ore project in Brazil, it is still in its stage of applying for the environmental and construction and operation has not commenced. In respect of the battery swapping business, as the products were procured from suppliers, no direct industrial discharge has been involved.

The Group has strictly observed all relevant laws and regulations regarding protection of environment during the course of its business. Our slogan on environmental regulation is "To protect the natural environment, to build green factories and to provide green energy". Controlling measures have been imposed on activities that are likely to have impact on the environment.

Our plants in China have strictly complied with the following major laws and regulations:

- Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)
- Cleaner Production Promotion Law of the PRC (《中華人民共和國清潔生產促進法》)
- The Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》)
- The Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪音污染防治法》)
- The Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》)
- The Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》)
- Emission Standard of Pollutants for Battery Industry (《電池工業企業污染物排放標準》) (GB30484–2013)

EMISSIONS

Major emissions from our plants in China included wastewater, solid wastes, gases and noise. We have engaged qualified entities to inspect onsite and handle the emission processes of our plants in China. Emission-related data are being closely monitored and under strict control to ensure that the emission readings are in line with the requirements of national and regional laws and regulations and are within the stipulated levels of industry. The headquarter in Hong Kong and office in Brazil are for administrative purpose, while GETI has just commenced operation, their emissions data are not material to the Group and only Zhejiang's and Shandong Forever's data were included in this "Emissions" section.

Control on wastewater discharge

On 4 March 2019, Shandong Forever had engaged Zibo Yuantong Environmental Examination Company Limited (淄博圓通環境檢測有限公司) to conduct an examination on its wastewater discharge and issue a report thereafter, which stated that effluents being discharged by the Company was in compliance with the Emission Standard of Pollutants for Battery Industry (GB30484-2013).

In compliance with the latest requirements of environmental licensing, Zhejiang Forever has completed the construction of sewage station, which has officially been put into operation together with the online equipment for monitoring sewage discharge. The environmental emergency plan was completed with the environmental inspection still ongoing. The Company has completed all works in relation to environmental licensing in November 2019 and obtained the National Pollutant Discharge Permit in accordance with the Emission Standard of Pollutants for Battery Industry (GB30484-2013).

Solid wastes control

Packaging material for different raw materials and chemicals, scrap electrodes and general domestic waste are the major solid wastes. Most of the packaging materials were returned to the suppliers or sold to recycling companies. Other wastes would be packed properly before disposing to the waste centre.

Gas emission control

The main exhaust gas for lithium-ion batteries production is the NMP generated during the positive electrode coating process and the dust generated during the charging process. On 11 September 2019, Shandong Forever entrusted Zibo Yuantong Environmental Inspection Company Limited (淄博圓通環境檢測有限公司) to conduct an inspection on NMP exhaust gas emission and issue an inspection report. Pursuant to GB30484-2013 Standards for Pollutants Emission of the Battery Industry (GB30484-2013 電池工業污染物排放標準), the exhaust gas emission of the Company has met the emission standards. Such emission was partly absorbed by activated carbon while partly was emitted into the atmosphere. The activated carbon would be returned to manufacturers with qualification for disposal for recycling and reuse.

For Zhejiang Forever New Energy, gases being generated will go through "water spraying + UV photolysis + activated carbon" treatment to meet the emission standards. Some of such gases were adsorbed by activated carbon while some were emitted into the atmosphere. The activated carbon would be returned to the manufacturer for recycle and reuse.

Noise emission control

In compliance with the requirements of Emission Standard for Industrial Enterprises Noise at Boundary, Shandong Forever had engaged Zibo Yuantong Environmental Examination Company Limited (淄博圓通環境檢測有限公司) to conduct an examination on its boundary noise level on 4 March 2019.

Zhejiang Forever has conducted noise inspections in four specific locations in the plant area during the production process and the inspection results have met the Environmental Quality Standard for Noise (GB3096–2008).

Measures to mitigate emissions

Some measures were implemented by our lithium battery plants to mitigate emissions, examples including:

- Reduce water wastage, overflow, dropping, and leakage of different facilities;
- Regularly repair equipment to achieve the best status and reduce energy consumption;
- Make full use of wastewater (e.g. filtered drinking water) for greening purpose, reducing the discharge of waste water;

Handling of Hazardous and Non-hazardous Wastes and Reduction Initiatives:

The pollution in the natural environment and the acceleration of climate warming have become a worldwide problem affecting all the human beings. New energy resources applications and promotion can reduce energy consumption and carbon dioxide emissions. Our lithium battery plants play an active role in energy conservation and environmental protection, taking energy conservation and emission reduction as its key responsibility. They focus on energy saving and emission reduction throughout the process of planning, design, R&D and manufacturing, initiatives include:

- Reduce energy consumption and emission of the equipment to the maximum extent through technological innovation.
- Improve the quality and performance of the products, reduce the energy consumption ratio of the products to a maximum level, and optimise the utilisation of resources.
- Build an expert team for energy conservation and environmental protection to enhance energy efficiency.

Greenhouse Gas Emissions:

Key Performance Indicator	Unit	2019	2018
Total Greenhouse gas emissions from indirect emission sources *(Note 1)*	tonne of CO_2e	**10,498**	15,800
Density of total greenhouse gas emissions from indirect emission sources	tonne of CO_2e/kWh (batteries produced)	**0.1168**	0.1471

Note:

1. The calculation method of the greenhouse gas emissions was conducted according to "2017 China regional power grid baseline emission factor(中國區域電網基準線排放因數) of emission reduction project" published by the Department of Climate Change of Ministry of Ecology and Environment of the People's Republic of China

Total Volume of Hazardous Wastes Generated:

(In 2018, only data of Shandong Forever New Energy was shown as data from the new Zhejiang Forever New Energy lithium battery plant was not yet available at that time.) Shandong Forever New Energy nearly ceased production in 2019.

Key Performance Indicator	Unit	2019	2018
NMHC	kg	**759.80**	68.88
Density of NMHC	kg/KWH (batteries produced)	**0.0084**	0.0052
Suspended Particulate	kg	**236.77**	97.25
Density of suspended particulate	kg/KWH (batteries produced)	**0.0026**	0.0073

Total Volume of Non-Hazardous Wastes Generated:

(In 2018, only data of Shandong Forever New Energy was shown as data from the new lithium battery plant of Zhejiang Forever New Energy was not yet available at that time.) Shandong Forever New Energy nearly ceased production in 2019.

Key Performance Indicator	Unit	2019	2018
Wastewater Discharge Volume	m^3	**3,537**	26,710
Scrap Electrode	tonne	**38.22**	7.15
Packaging Material of Bonding Agent PVDF	tonne	**0.03**	0.32
Packaging Pails of NMP	tonne	**0.16**	1.84
Packaging Pails of Electrolyte	tonne	**0.49**	7.09
Domestic Refuse	tonne	**739.3**	40.5

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Water and Energy Consumptions:

Key Performance Indicator	Unit	2019	2018
Electricity Consumption	KWH	**12,872,640**	18,539,070
Density of electricity consumption:	KWH/KWH (batteries produced)		
— Shandong Forever New Energy		**876**	412
— Zhejiang Forever New Energy		**135**	139
Total Volume of Water Usage	m^3	**59,845**	131,463
Density of total volume of water usage:	m^3/KWH (batteries produced)		
— Shandong Forever New Energy		**7.82**	2.58
— Zhejiang Forever New Energy		**0.59**	1.03

USE OF RESOURCES

The Group actively promotes effective consumption of resources (include fuel, water and other raw materials) and encourages our workers and staff to give proposals on and participate in various energy saving and consumption reduction programmes so as to raise their awareness in environmental protection and reduce waste in resources.

EFFECTIVE ENERGY CONSUMPTION PLAN

The Group has built a photovoltaic solar energy power station at our Shandong facilities, where our electric vehicles in the plant will be charged with the green electric energy.

WATER EFFICIENCY PLAN

Pumps in the water pumping station adopt variable frequency automatic water supply to enhance water flow control and prevent leaking and dripping taps.

ENVIRONMENTAL PROTECTION AND NATURAL RESOURCES CONSERVATION

The premises of our Shandong facilities and Zhejiang sites are located within the planned area of Zoucheng Industrial Zone in Shandong and Jinhua New Energy Automobile Industrial Park respectively, which are at significant distances from any nature reserve areas. Feasibility analysis and environmental impact assessment were conducted for both sites. The Group has established the environmental protection facility and conducted major construction work in compliance with requirements of laws and regulations. By adhering to the principle of "Focusing on proactive prevention and combining with controlling and correcting measures to form a comprehensive solution", we strive to reduce the facilities' impact on environment to a minimal level and ensure that it will not affect the important local water sources in whatever way. In addition, our Shandong facilities carried out centralized and regionalized greening around the facilities and alongside the roads of facilities so as to solidify the water and soil, beautify environment, prevent dust and reduce the impact of waste gases and noise on the office areas and surrounding areas, with the greening areas of 5,328m^2. The Company obtained the ISO14001 System certification in 2015 and passed the review on the ISO14001 in 2018. The storage management and safety warning signs of hazardous chemicals in warehouses was also standardized; the fire sand was added and explosion-proof axial flow fan was installed; chemicals were stored separately and protective barriers were installed, therefore reducing the accumulation of chemical gases in the warehouses and the identification of environmental factors and hazard sources being elaborated.

METHODOLOGY OF ENVIRONMENTAL INSPECTION OR RESEARCH IN BRAZIL

Prior to the inspection or research in relation to the iron ore project in Brazil, Brazil SAM Company and professional firm or advisor involved shall participate in an intensive training before conducting outdoor works to minimise the impact on the environment and the surrounding residents or animals. During the training, staffs from different departments elaborate the requirements and standardised processes of SAM, which include:

- Activity is carried out in a confined area to avoid, minimise or mitigate potential impact;
- No interference in any unauthorized area (path or entrance of a drill area) is allowed;
- Do not bury any plant in the area;
- Do not destroy any plant in the area;
- Do not dispose of any excess chemical materials, cleansing waste and/or other waste in unauthorized area;
- Do not cause choked drainage system and/or permanent storage area due to environmental inspection or research;
- Dispose of and store at appropriate location, such as recycle material bins;
- Waste combustion is prohibited;
- Drive carefully and avoid internal or third-party vehicles running over wild animals;
- Wild animal hunting and catching are prohibited;

In order to enhance efficiency and minimise the time for outdoor work, information including maps of relevant areas, areas of work, terms of work and duties of participants is prepared prior to the inspection or research.

When there is any negative environmental issue that would have material environmental impact or not comply with relevant legal requirements, or if no rectification measure is adopted for related environmental incident, the environmental supervisors shall immediately give environmental warning to the coordinator of environmental management project of SAM and advise the manager of SAM to evaluate and decide whether further measures shall be taken.

In 2018 and 2019, there was no occurrence of material negative environmental issues in the course of other environmental inspection or research.

FEEDBACKS

Thank you for reading this ESG report. The Group's continuous improvements rely on your valuable opinions. If you are in doubt or have any recommendations in regards to this report, you are welcome to email us at info@8137.hk and we would very much appreciate your comments and suggestions.

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF HONBRIDGE HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Honbridge Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 71 to 144, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with HKICPA's Code of Ethics for Professional Accountants (the "Codes"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

(Refer to notes 3, 4 and 15 to the consolidated financial statements)

As at 31 December 2019, before current year's impairment assessment, the Group had exploration and evaluation assets with carrying amount of HK$5,464 million operated by Sul Americana de Metais S.A. ("SAM"), a subsidiary of the Group, and for the year then ended.

Following a review of the business, the outlook of the industry in Brazil and SAM's operating plans, management reversed impairment loss of HK$853 million to increase the exploration and evaluation assets to their estimated recoverable values estimated by the independent external valuer as the management's expert.

These conclusions are dependent upon significant management judgement and significant to the financial statements. Significant assumptions and parameters were set out in note 15 to the consolidated financial statements.

OUR RESPONSE

Our key procedures in relation to management's impairment assessment included:

— Assessing the appropriateness of valuation methodologies;

— Assessing the reasonableness of underlying key assumptions;

— Involving auditor's expert to assist our assessment on the valuation assessed by management's expert; and

— Evaluating the competence, capabilities and objectivity of auditor's expert and management's expert.

LITHIUM BATTERY PRODUCTION BUSINESS IMPAIRMENT ASSESSMENT

(Refer to notes 3 and 4 to the consolidated financial statements)

As at 31 December 2019, before current year's impairment assessment, the Group had property, plant and equipment with an aggregate carrying value of HK$539 million and right-of-use assets of HK$36 million which are relating to the lithium battery production business operated by Zhejiang Forever New Energy Company Limited. This business incurred loss for the year and this has increased the risk that the carrying values of the relevant assets within that business may be impaired.

Following a review of the business and the Group's operating plans of the lithium battery production business, management assessed that impairment loss of HK$332 million on property, plant and equipment was recognised to reduce the carrying values of the relevant assets of the lithium battery business to their estimated recovered values.

Estimation of recoverable amount is dependent upon significant management judgement and significant to the financial statements.

OUR RESPONSE

Our key procedures in relation to management's impairment assessment included:

— Assessing the appropriateness of valuation methodologies;

— Assessing the reasonableness of underlying key assumptions;

— Involving auditor's expert to assist our assessment on the valuation assessed by management's expert; and

— Evaluating the competence, capabilities and objectivity of auditor's expert and management's expert.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO Limited
Certified Public Accountants
Lo Ngai Hang
Practising Certificate Number P04743

Hong Kong, 27 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Revenue	5	341,270	238,610
Cost of sales		(336,947)	(286,161)
Gross profit/(loss)		4,323	(47,551)
Other operating income	7	196,640	38,267
Selling and distribution costs		(13,402)	(3,108)
Administrative expenses		(92,715)	(132,762)
Other operating expenses	9	(5,131)	(25,414)
Reverse of impairment of exploration and evaluation assets	15	853,360	2,165,938
Reversal/(Recognition) of expected credit loss on trade receivables	24	13,344	(38,656)
Expected credit loss on prepayments, deposits and other receivables	25	(2,322)	(357,401)
Impairment of property, plant and equipment	14	(331,909)	(1,047)
(Loss)/Gain on changes in fair value of contingent consideration payables	40	(4,598)	2,584
Share of results of associate	18	(1,096)	–
Finance costs	8	(19,395)	(9,778)
Profit before income tax	9	597,099	1,591,072
Income tax expense	10	(290,142)	(736,419)
Profit for the year		306,957	854,653
Other comprehensive income			
Items that will not reclassified subsequently to profit or loss:			
Changes in fair value of equity instruments at fair value through other comprehensive income		(68,535)	–
Items that may be reclassified subsequently to profit or loss:			
Exchange loss on translation of financial statements of foreign operations		(157,014)	(400,213)
Other comprehensive income for the year, net of tax		(225,549)	(400,213)
Total comprehensive income for the year		81,408	454,440
Profit for the year attributable to:			
Owners of the Company		415,609	974,477
Non-controlling interests		(108,652)	(119,824)
		306,957	854,653
Total comprehensive income attributable to:			
Owners of the Company		192,652	574,756
Non-controlling interests		(111,244)	(120,316)
		81,408	454,440
Earnings per share	11		
— Basic		4.27 cents	10.1 cents
— Diluted		4.27 cents	10.1 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	215,260	546,999
Exploration and evaluation assets	15	6,316,882	5,684,855
Prepaid land lease payments	16	–	82,630
Right-of-use assets	17	85,741	–
Interests in associate	18	17,063	–
Financial assets at fair value through other comprehensive income	19	25,591	–
Other intangible assets	20	–	–
Goodwill	21	–	–
Amount due from non-controlling interest of a subsidiary	22	311,807	298,720
		6,972,344	6,613,204
Current assets			
Inventories	23	235,237	154,136
Trade and bill receivables	24	133,945	116,586
Prepayments, deposits and other receivables	25	83,953	206,967
Financial assets at fair value through profit or loss	26	139,611	–
Tax recoverable		278	185
Restricted bank deposits	27	660	26,019
Cash and cash equivalents	27	351,714	577,259
Total current assets		945,398	1,081,152
Current liabilities			
Trade and bill payables	28	87,116	306,420
Other payables, accruals and deposit received	29	143,615	146,169
Borrowings	30	452,593	455,366
Lease liabilities	31	2,812	–
Total current liabilities		686,136	907,955
Net current assets		259,262	173,197
Total assets less current liabilities		7,231,606	6,786,401
Non-current liabilities			
Borrowings	30	192,179	113,842
Lease liabilities	31	3,724	–
Deferred income	32	75,191	1,253
Deferred tax liabilities	33	2,032,823	1,819,051
Contingent consideration payables	40	161,094	156,496
		2,465,011	2,090,642
Net assets		4,766,595	4,695,759

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*34*	9,855	9,855
Reserves	*38*	4,690,975	4,505,575
		4,700,830	4,515,430
Non-controlling interests		65,765	180,329
Total equity		4,766,595	4,695,759

On behalf of directors

He Xuechu
Chairman

Liu Wei, William
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from operating activities			
Profit before income tax		597,099	1,591,072
Adjustments for:			
Depreciation of property, plant and equipment	14	41,628	24,892
Amortisation of prepaid land lease payments	16	–	1,884
Amortisation of right-of-use assets	17	4,600	–
Reverse of impairment of exploration and evaluation assets	15	(853,360)	(2,165,938)
(Reverse of impairment)/Impairment of trade and bill receivable	24	(13,344)	38,656
Impairment of property, plant and equipment	14	331,909	1,047
Impairment of prepayments, deposits and other receivables	25	2,322	357,401
Write-down of inventories	9	5,131	25,894
Interest expense on bank and other borrowings	8	18,950	9,778
Interest expense on lease liabilities	8	445	–
Share of results of associate	18	1,096	–
Loss/(Gain) on changes in fair value of contingent consideration payables	40	4,598	(2,584)
Bank interest income	7	(5,367)	(5,454)
Interest income from loan receivable	7	(7,717)	(14,176)
Imputed interest income of amounts due from non-controlling interests of a subsidiary	7	(13,087)	(13,088)
Gain on disposal of property, plant and equipment	7	(20)	(20)
Loss on written off of property, plant and equipment		–	7
Government grant	32	(151,872)	(217)
Gain on financial assets at fair value through profit or loss		–	(480)
Operating loss before working capital changes		(36,989)	(151,326)
Increase in inventories		(90,091)	(158,096)
Increase in trade and bill receivables		(6,314)	(131,973)
(Increase)/Decrease in prepayments, deposits and other receivables		(12,668)	5,452
(Decrease)/Increase in trade and bill payables		(216,985)	290,781
(Decrease)/Increase in other payables, accrued expenses and deposits received		(2,664)	75,849
Change in financial assets at fair value through profit or loss		–	2,465
Cash used in operations		(365,711)	(66,848)
Income tax paid		–	(96)
Net cash used in operating activities		(365,711)	(66,944)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Cash flows from investing activities			
Interest received	7	5,367	5,454
Principal and interest of loan receivable received	25	–	41,278
Purchases of property, plant and equipment	14	(53,980)	(189,275)
Additions of exploration and evaluation assets	15	(3,286)	(8,323)
Proceeds from disposals of property, plant and equipment		2,558	20
Investment in associate		(18,159)	–
Investment in financial assets at fair value through other comprehensive income		(94,126)	–
Decrease/(Increase) in restricted bank deposits		25,257	(11,316)
Net cash used in investing activities		(136,369)	(162,162)
Cash flows from financing activities			
Interest paid on bank and other borrowings	45	(18,950)	(9,778)
Drawdown of borrowings	45	426,973	237,026
Repayments of borrowings	45	(113,436)	–
Acquisition of non-controlling Interests of a subsidiary		(10,572)	–
Capital contribution from non-controlling interests		–	3,161
Interest paid on lease liabilities		(445)	–
Repayment of principal portion of lease liabilities		(2,556)	–
Net cash generated from financing activities		281,014	230,409
(Decrease)/Increase in cash and cash equivalents		(221,066)	1,303
Cash and cash equivalents at 1 January		577,259	583,492
Effect of foreign exchange rate changes		(4,479)	(7,536)
Cash and cash equivalents at 31 December		351,714	577,259
Analysis of cash and cash equivalents			
Cash at banks and in hand		351,714	577,259

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		Attributable to the owners of the Company								Non-controlling interests	Total equity
	Notes	Share capital HK$'000	Share premium* HK$'000	Treasury shares reserve* HK$'000	Share-based payment reserve* HK$'000	Translation reserve* HK$'000	FVOCI reserve* HK$'000	Retained earnings* HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 January 2018		9,855	3,563,686	(142,864)	136,741	(4,511,262)	–	4,884,518	3,940,674	297,484	4,238,158
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	3,161	3,161
Share options expired	35	–	–	–	(124,571)	–	–	124,571	–	–	–
Transactions with owners		–	–	–	(124,571)	–	–	124,571	–	3,161	3,161
Profit for the year		–	–	–	–	–	–	974,477	974,477	(119,824)	854,653
Other comprehensive income											
Currency translation		–	–	–	–	(399,721)	–	–	(399,721)	(492)	(400,213)
Total comprehensive income		–	–	–	–	(399,721)	–	974,477	574,756	(120,316)	454,440
At 31 December 2018		9,855	3,563,686	(142,864)	12,170	(4,910,983)	–	5,983,566	4,515,430	180,329	4,695,759
At 1 January 2019		9,855	3,563,686	(142,864)	12,170	(4,910,983)	–	5,983,566	4,515,430	180,329	4,695,759
Acquisition of non-controlling interests of a subsidiary		–	–	–	–	145	–	(7,397)	(7,252)	(3,320)	(10,572)
Transactions with owners		–	–	–	–	145	–	(7,397)	(7,252)	(3,320)	(10,572)
Profit for the year		–	–	–	–	–	–	415,609	415,609	(108,652)	306,957
Other comprehensive income											
Changes of fair value of financial assets at fair value through other comprehensive income		–	–	–	–	–	(68,535)	–	(68,535)	–	(68,535)
Currency translation		–	–	–	–	(154,422)	–	–	(154,422)	(2,592)	(157,014)
Total comprehensive income		–	–	–	–	(154,422)	(68,535)	415,609	192,652	(111,244)	81,408
At 31 December 2019		9,855	3,563,686	(142,864)	12,170	(5,065,260)	(68,535)	6,391,778	4,700,830	65,765	4,766,595

* The aggregate amount of these balances of approximately HK$4,690,975,000 (2018: HK$4,505,575,000) is included as reserves in the consolidated statement of financial position.

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 set out in Note 37. 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.

The financial statements on pages 71 to 144 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") as described in Note 3. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on 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.

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 Adoption of new or amended HKFRSs

The HKICPA has issued a number of new or amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9, Prepayment Features and Negative Compensation
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

2.1 Adoption of new or amended HKFRSs — Continued

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("HKAS 17"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied HKFRS 16 using the modified retrospective approach. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following tables summarised the impact of transition to HKFRS 16 on statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000
Statement of financial position as at 1 January 2019	
Prepaid land lease payments	(82,630)
Right-of-use assets	91,722
Lease liabilities (current)	2,556
Lease liabilities (non-current)	6,536

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 January 2019:

	HK$'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	10,815
Less: short term leases for which lease terms end within 31 December 2019	(765)
Less: future interest expenses	(958)
Total lease liabilities as of 1 January 2019	9,092

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position as at 1 January 2019 is 4.9%.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

2.1 Adoption of new or amended HKFRSs — Continued

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

2.1 Adoption of new or amended HKFRSs — Continued

(iii) Accounting as a lessee — Continued

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has sub-leased out its offices to a number of tenants. The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on these financial statements upon the adoption of HKFRS 16.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

2.1 Adoption of new or amended HKFRSs — Continued

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the modified retrospective approach. The comparative information presented in 2018 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under HKAS 17 an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

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

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

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
HKFRS 17	Insurance Contracts[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 2020

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

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.

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 3 — Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 — Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

2.2 New or amended HKFRSs that have been issued but are not yet effective — Continued

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 — Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

HKFRS 17 — Insurance Contracts

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.2 Business combination and basis of consolidation — Continued

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in those non-controlling interest having a deficit balance.

3.3 Subsidiaries

A subsidiary is an investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

3.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.5 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

When a foreign operation is disposed of, such exchange differences are reclassified from equity to profit or loss as part of the disposal gain or loss.

3.6 Revenue recognition

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.6 Revenue recognition — Continued

Sale of goods is recognised at a point in time when the goods are transferred and the customer has received the goods, since only by the time the Group has a present right to payment for the goods delivered. There is generally only one performance obligation. Invoices are usually payable within 180 days. In determining the transaction price, the Group measured at the fair value of the consideration received or receivable, net of value added tax ("VAT"), rebates and discounts. Some of the Group's contracts with customers from the sale of lithium batteries product provides customers a right of return (a right to exchange another product). These rights of return allow the returned goods to be refund in cash. Under HKFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. Besides, a refund liability and a right to recover returned goods assets are recognised. However, it does not have material impact on recognition of contract assets and contract liabilities.

Revenue is recognised over time as battery swapping services are provided. Invoices for such services are issued on a monthly basis and are usually payable immediately.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Contract assets and liabilities:

A contract asset represents the Group's right to consideration in exchange for goods that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the considerations (including advances received from customers) exceeds the revenue recognised to date under the then the Group recognises a contract liability for the difference.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.7 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGU") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, impairment loss is allocated to reduce the carrying amount of goodwill allocated to the unit first, and then to other assets of the unit on the pro-rata basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

3.8 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.

Land is not subject to depreciation. Depreciation on other property, plant and equipment is provided to write off the cost less their estimated residual values over their estimated useful lives, using straight-line method, at the following rates per annum:

Leasehold buildings	3.33% or over the lease term, whichever is shorter
Leasehold improvements	20% or over the lease term, whichever is shorter
Plant and machinery	10% to 20%
Furniture and office equipment	10% to 20%
Computer software	20%
Motor vehicles	10% to 20%
Right of use assets	Over the lease team

The assets' estimated residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Construction in progress represents leasehold buildings, plant and machinery under construction and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.8 Property, plant and equipment — Continued

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

3.9 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on straight-line method as an expense.

3.10 Other intangible assets (other than goodwill) and research and development activities

Acquired intangible assets are recognised initially at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line method over their estimated useful lives. Amortisation commences when the intangible assets are available for use. Patents and customers relationship are fully impaired during the year ended 31 December 2017.

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs, including technical know-how are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is recognised in profit or loss and included in direct operating expenses, if any.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.11 Exploration and evaluation assets

Exploration and evaluation assets acquired in business combination are initially recognised at fair value and subsequently stated at cost less any impairment losses.

Exploration and evaluation assets include topographical and geological surveys, exploratory drillings, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ores and to expand the capacity of a mine. Expenditure incurred prior to obtaining the legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible and intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets thereon will be written off to profit or loss.

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment in accordance with HKFRS 6 "Exploration for and Evaluation of Mineral Resources" and HKAS 36 "Impairment of Assets" whenever one of the following events or changes in facts and circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

(i) the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

(iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; and

(iv) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount is the higher of the exploration and evaluation asset's fair value less costs of disposal and their value in use. For the purpose of assessing impairment, the exploration and evaluation assets subject to testing are grouped into each area of interest for which exploration activities are undertaken.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.12 Impairment of non-financial assets (other than goodwill)

Property, plant and equipment, prepaid land lease payments, other intangible assets, right-of-use assets and investments in subsidiaries and associates are subject to impairment testing. These are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Financial instruments

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.13 Financial instruments — Continued

(i) Financial assets — Continued

Debt instruments — Continued

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Fair value through other comprehensive income ("FVOCI"): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through OCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Fair value through profit or loss ("FVTPL"): Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.13 Financial instruments — Continued

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables, contract assets, financial assets measured at amortised cost and debt investments measured at FVOCI. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables and contract assets using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 365 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.13 Financial instruments — Continued

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade and other payables, bank borrowings and finance lease liabilities are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount of the loss allowance, being the ECL provision measured in accordance with principles of the accounting policy set out in Note 3.13(ii); and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the principles of HKFRS 15.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.13 Financial instruments — Continued

(vii) Derecognition — Continued

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

3.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in case of work-in-progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.15 Cash and cash equivalents

For the purpose of the statement of financial position and the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand and at banks, which are not restricted as to use.

3.16 Leasing (accounting policies applied from 1 January 2019)

All leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but accounting policy choices exist for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The Group has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.16 Leasing (accounting policies applied from 1 January 2019) — Continued

Lease liability

The lease liability is recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, the Group measures the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Accounting as a lessor

The Group has sub-leased out its offices to a number of tenants. Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

3.17 Leasing (accounting policies applied until 31 December 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on the straight-line basis over the lease term.

The Group as lessee

Total rentals payable under the operating leases are recognised in profit or loss on straight-line method over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.18 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are recognised in profit or loss on straight line method over the expected lives of the related assets.

3.19 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if, the Group has the legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.19 Accounting for income taxes — Continued

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if, the entity has a legally enforceable right to set off current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.20 Retirement benefit costs and short-term employee benefits

Retirement benefits to employees are provided through several defined contribution plans.

Defined contribution plan

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contribution recognised in respect to defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

The Group contributes to defined contribution retirement benefit schemes registered under the Mandatory Provident Fund Scheme Ordinance (the "MPF Scheme"), which are available to its employees in Hong Kong. Contributions to the MPF Scheme by the Group and employees are calculated as percentages of employees' basic salaries. Retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to MPF Scheme. Assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the governments in the PRC and Brazil, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the Group is required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme. Contributions under the Scheme are charged to profit or loss as incurred. There were no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.20 Retirement benefit costs and short-term employee benefits — Continued

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.21 Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the options at the date of grant is recognised in profit or loss over the vesting period with a corresponding increase in share-based payment reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

All employee services received in exchange for the grant of any share-based compensation are measured at fair values. These are indirectly determined by reference to the equity instruments awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in profit or loss with a corresponding credit to share-based payment reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Where the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees and others providing similar services, the fair value of goods or services received is recognised in profit or loss unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share based payments, a liability is recognised at the fair value of the goods or services received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.21 Share-based payments — Continued

At the time when the share options are exercised, the amount previously recognised in share-based payment reserve will be transferred to share premium. When the vested share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in share-based payment reserve will be transferred to retained earnings/accumulated losses.

3.22 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.23 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in business combination. These are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to executive directors are determined following the Group's major product and service lines. Each of operating segments is managed separately as each of the product and service lines requires different resources.

The Group has identified the following reportable segments:

(i) "Mineral resources exploration and trading" segment involves research and exploration of mineral resources and trading of copper and steel; and

(ii) "Lithium battery production" segment involves production and sale of lithium battery.

(iii) "Battery swapping service" segment involves provision of a set of power exchange services.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that corporate income and expenses which are not included in arriving at the operating results of the operating segment, which primarily applies to the Group's headquarter.

Segment assets and liabilities exclude corporate assets and liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to deferred tax assets/liabilities and the Group's headquarter.

3.25 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.25 Related parties — Continued

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of exploration and evaluation assets

The carrying value of exploration and evaluation assets is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The directors consider all facts and circumstances occurred to judge whether these facts and circumstances would suggest that the carrying amount of the exploration and evaluation assets may exceed its recoverable amount (i.e. impaired). Management reassesses the impairment of exploration and evaluation assets at the reporting dates (Note 15).

(ii) Impairment of receivables

The impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the risk of default and expected credit loss rates. The Group adopts judgement in making these assumptions and selecting inputs for computing such impairment loss, broadly based on the available customers' historical data, existing market conditions including forward looking estimates at end of reporting period.

(iii) Impairment of non-financial assets (other than exploration and evaluation assets)

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of non-financial assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market conditions existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(iv) Depreciation and amortisation

The Group depreciates/amortises its property, plant and equipment, right-of-use assets and prepaid land lease payments in accordance with the accounting policies stated in Notes 3.8, 3.16 and 3.9 respectively. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the assets.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS — CONTINUED

(v) Fair value of contingent consideration payables

Where the fair value of contingent consideration payables recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as probability of occurrence of certain events as stated in the agreements for contingent consideration. Changes in assumptions about these factors could affect the reported fair value of contingent consideration payables.

(vi) Power to exercise significant influence

Where the Group holds over 20% of voting rights (but not over 50%) and the Group does not exercise significant influence, the investment is treated as financial assets at fair value through profit or loss. Details are given in Note 26.

5. REVENUE

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

	2019 ***HK$'000***	2018 *HK$'000*
Sale of lithium batteries	**340,297**	238,610
Battery swapping service income	**973**	–
	341,270	238,610

6. 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.

6. SEGMENT REPORTING — CONTINUED

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	Battery swapping services HK$'000	Total HK$'000
Year ended 31 December 2019				
Reportable segment revenue (external customers)	–	340,297	973	341,270
Reportable segment profit/(losses)	845,099	(227,370)	(2,833)	614,896
Reportable segment assets	6,324,700	1,279,591	68,371	7,672,662
Reportable segment liabilities	167,405	936,442	4,465	1,108,312
Capital expenditure	3,286	46,368	7,612	57,266
Reverse of impairment of exploration and evaluation assets	(853,360)	–	–	(853,360)
Impairment of property, plant and equipment	–	331,909	–	331,909
Reverse of impairment of trade receivables	–	(13,344)	–	(13,344)
Interest income	(1,642)	(1,899)	(528)	(4,069)
Interest expense	–	18,950	–	18,950
Depreciation	108	41,108	163	41,379
Amortisation charge	–	1,803	–	1,803
Write-down of inventories	–	5,131	–	5,131
Year ended 31 December 2018				
Reportable segment revenue (external customers)	–	238,610	–	238,610
Reportable segment profit/(losses)	2,148,171	(201,415)	–	1,946,756
Reportable segment assets	5,693,687	1,479,125	–	7,172,812
Reportable segment liabilities	165,536	1,010,514	–	1,176,050
Capital expenditure	8,353	189,233	–	197,586
Reverse of impairment of exploration and evaluation assets	(2,165,938)	–	–	(2,165,938)
Impairment of property, plant and equipment	–	1,047	–	1,047
Impairment of trade receivable	–	38,656	–	38,656
Interest income	(758)	(1,781)	–	(2,539)
Interest expense	–	9,778	–	9,778
Depreciation	170	24,472	–	24,642
Amortisation charge	–	1,884	–	1,884
Write-down of inventories	–	25,894	–	25,894

6. SEGMENT REPORTING — CONTINUED

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:

	2019 HK$'000	2018 HK$'000
Reportable segment revenue	341,270	238,610
Reportable segment profit	614,896	1,946,756
Other operating income	9,627	17,839
Administrative expenses	(18,963)	(19,186)
Impairment on prepayments, deposits and other receivables	(2,322)	(357,401)
Share of results of associate	(1,096)	–
Fair value (loss)/gain on contingent consideration payables	(4,598)	2,584
Gain on financial assets at fair value through profit or loss	–	480
Finance cost	(445)	–
Profit before income tax	597,099	1,591,072
Reportable segment assets	7,672,662	7,172,812
Property, plant and equipment	141	389
Right-of-use assets	6,295	–
Interest in associate	17,063	–
Financial assets at fair value through other comprehensive income	25,591	–
Prepayments, deposits and other receivables	700	135,232
Financial assets at fair value through profit or loss	139,611	–
Cash and cash equivalents	55,679	385,923
	7,917,742	7,694,356
Reportable segment liabilities	1,108,312	1,176,050
Other payables and accrued expenses	3,476	3,496
Lease liabilities	6,536	–
Deferred tax liabilities	2,032,823	1,819,051
	3,151,147	2,998,597

6. SEGMENT REPORTING — CONTINUED

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

	2019 HK$'000	2018 HK$'000
Revenue from external customers		
PRC	285,945	233,752
Belgium	7,520	3,920
Sweden	47,805	938
Reportable segment revenue	341,270	238,610
Non-current assets (excluding interests in associate and other financial assets)		
Hong Kong	6,435	389
PRC	294,264	628,816
Brazil	6,317,184	5,685,279
Reportable segment non-current assets	6,617,883	6,314,484

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 2019, over 87% (2018: 92%) of the Group's revenue was derived from 2 major customers (2018: 2) in lithium battery production segment and revenue generated from these customers are HK$156,916,000 and HK$178,438,000 respectively (2018: HK$131,761,000 and HK$88,661,000 respectively).

7. OTHER OPERATING INCOME

	2019 HK$'000	2018 HK$'000
Bank Interest income	5,367	5,454
Government grants *(Note)*	163,037	217
Rental income	744	744
Sundry income	6,668	4,568
Interest income from loan receivable	7,717	14,176
Gain on disposal of property, plant and equipment	20	20
Imputed interest income of amounts due from non-controlling interests *(Note 22)*	13,087	13,088
	196,640	38,267

Note:

The balance represented government grant related to income of HK$11.1 million (2018: Nil) and government grant related to assets of HK$151.9 million (2018: HK$0.2 million) (Note 32). These government grants were received and complied with all attached conditions and therefore recognised in profit or loss during the year.

8. FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest charges on other borrowings wholly repayable within five years	12,965	9,778
Interest charges on bank borrowings not wholly repayable within five years	5,985	–
Interest on lease liabilities	445	–
	19,395	9,778

9. PROFIT BEFORE INCOME TAX

Profit before income tax are arrived at after charging/(crediting):

	2019 HK$'000	2018 HK$'000
Auditor's remuneration	2,482	2,142
Cost of inventories recognised as expenses	336,947	286,161
Depreciation *(Note (i))*	41,628	24,892
Amortisation of right-of-use assets (2018: prepaid land lease payments) *(Note (ii))*	4,600	1,884
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	4,070
Short-term leases expenses	874	–
Net foreign exchange loss	119	337
Research and development costs *(Note (ii))*	13,531	59,000
Gain on disposal of property, plant and equipment	(20)	(20)
Property, plant and equipment written off	–	7
Other operating expenses:		
— Write-down of inventories	5,131	25,894
— Gain on financial assets at fair value through profit or loss	–	(480)
	5,131	25,414

Notes:

(i) Depreciation of HK$32,134,000 (2018: HK$22,744,000), HK$8,000 (2018: HK$2,000) and HK$9,486,000 (2018: HK$2,146,000) have been included in cost of sales, selling and distribution costs and administrative expenses respectively.

(ii) Included in administrative expenses.

10. INCOME TAX EXPENSE

	2019 **HK$'000**	2018 *HK$'000*
Deferred tax — current year *(Note 33)*	**290,142**	736,419
Income tax expense	**290,142**	736,419

During the years ended 31 December 2019 and 2018, 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% (2018: 25%) is applicable to the Group's PRC subsidiaries.

During the year, corporate income tax rates in Brazil of 34% (2018: 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:

	2019 **HK$'000**	2018 *HK$'000*
Profit before income tax	**597,099**	1,591,072
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**226,063**	621,323
Tax effect of non-deductible expenses	**99,568**	76,698
Tax effect of non-taxable revenue	**(52,595)**	(6,539)
Tax effect of tax losses not recognised	**17,079**	44,911
Tax effect on temporary difference not recognised	**27**	26
Income tax expense	**290,142**	736,419

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of HK$415,609,000 (2018: HK$974,477,000) and weighted average of 9,737,434,000 (2018: 9,737,434,000) ordinary shares in issue (after adjusting the effect of treasury shares held by the Company) during the year.

For the year ended 31 December 2019, the calculation of diluted earnings per share attributable to the owners of the Company was based on the following data:

	2019	2018
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**415,609**	974,477

	2019	2018
	'000	*'000*
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**9,737,434**	9,737,434
Effect of dilutive potential ordinary shares:		
— share option	**–**	1,195
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**9,737,434**	9,738,629

Diluted earnings per share for the year ended 31 December 2019 is the same as basic earnings per share because the impact of the exercise of share options was anti-dilutive.

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2019	2018
	HK$'000	*HK$'000*
Wages and salaries	**56,978**	73,014
Contribution to defined contribution plans	**4,639**	5,651
	61,617	78,665

Included in staff costs are key management personnel compensation and comprises the following categories:

	2019	2018
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**7,059**	7,105
Contribution to defined contribution plans	**72**	72
	7,131	7,177

13. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' emoluments disclosed pursuant to Section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap.622G) is as follows:

(a) Directors' emoluments

	Fees HK$'000	Salaries and allowances HK$'000	Contribution to defined contribution plans HK$'000	Total HK$'000
Year ended 31 December 2019				
Executive directors				
HE Xuechu	**2,011**	**–**	**18**	**2,029**
LIU Wei, William	**1,868**	**–**	**18**	**1,886**
LIU Jian	**–**	**–**	**–**	**–**
Non-executive directors				
YAN Weimin	**–**	**–**	**–**	**–**
ANG Siu Lun, Lawrence	**–**	**–**	**–**	**–**
Independent non-executive directors				
CHAN Chun Wai, Tony	**251**	**–**	**–**	**251**
MA Gang	**251**	**–**	**–**	**251**
HA Chun	**251**	**–**	**–**	**251**
	4,632	**–**	**36**	**4,668**
Year ended 31 December 2018				
Executive directors				
HE Xuechu	1,902	–	18	1,920
LIU Wei, William	1,766	–	18	1,784
LIU Jian (appointed on 4 June 2018)	–	–	–	–
SHI Lixin (resigned on 17 April 2018)	–	456	–	456
Non-executive directors				
YAN Weimin	–	–	–	–
ANG Siu Lun, Lawrence	–	–	–	–
Independent non-executive directors				
CHAN Chun Wai, Tony	251	–	–	251
MA Gang	251	–	–	251
HA Chun	251	–	–	251
	4,421	456	36	4,913

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

Fee, salaries and allowance paid to or for the executive directors are generally emoluments paid in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

13. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — CONTINUED

(b) Five highest paid individuals

The five individuals whose total emoluments including share-based payment expenses were the highest in the Group for the year included two (2018: two) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining three (2018: three) individual during the year are as follows:

	2019	2018
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**3,794**	3,733
Contribution to defined contribution plans	**36**	36
	3,830	3,769

The emoluments fell within the following bands:

	Number of individual	
	2019	2018
Emolument bands		
HK$1,500,001 – HK$2,000,000	**–**	1
Nil – HK$1,500,000	**3**	2
	3	3

During the year, no emoluments were paid by the Group to the directors or the three (2018: three) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. PROPERTY, PLANT AND EQUIPMENT

	Land HK$'000	Leasehold buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and office equipment HK$'000	Motor vehicles HK$'000	Computer software HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 January 2018									
Cost	127	47,483	3,168	100,740	4,892	1,800	1,351	407,288	566,849
Accumulated depreciation and impairment	–	(47,483)	(3,168)	(98,880)	(3,538)	(1,005)	(1,282)	–	(155,356)
Net book amount	127	–	–	1,860	1,354	795	69	407,288	411,493
Year ended 31 December 2018									
Opening net book amount	127	–	–	1,860	1,354	795	69	407,288	411,493
Additions	–	18,387	–	55,969	4,703	565	109	109,542	189,275
Transfers	–	97,009	–	306,621	–	–	–	(403,630)	–
Written off	–	–	–	–	(7)	–	–	–	(7)
Disposals	–	–	–	–	–	–	–	–	–
Depreciation	–	(1,843)	–	(22,003)	(706)	(299)	(41)	–	(24,892)
Impairment	–	(348)	–	(525)	(22)	(152)	–	–	(1,047)
Exchange realignment	(18)	(4,463)	–	(13,535)	(260)	(29)	23	(9,541)	(27,823)
Closing net book amount	109	108,742	–	328,387	5,062	880	160	103,659	546,999
At 31 December 2018									
Cost	109	154,334	2,896	439,374	8,962	2,172	1,292	103,659	712,798
Accumulated depreciation and impairment	–	(45,592)	(2,896)	(110,987)	(3,900)	(1,292)	(1,132)	–	(165,799)
Net book amount	109	108,742	–	328,387	5,062	880	160	103,659	546,999
Year ended 31 December 2019									
Opening net book amount	109	108,742	–	328,387	5,062	880	160	103,659	546,999
Additions	–	8,321	–	4,059	1,376	217	2,138	37,869	53,980
Transfers	–	88,698	–	36,311	293	–	–	(125,302)	–
Disposals	–	–	–	(2,346)	(35)	(157)	–	–	(2,538)
Depreciation	–	(4,925)	–	(35,006)	(1,249)	(283)	(165)	–	(41,628)
Impairment	–	(121,550)	–	(198,198)	(3,019)	(324)	(1,275)	(7,543)	(331,909)
Exchange realignment	(4)	(3,169)	–	(5,745)	(98)	(9)	(30)	(589)	(9,644)
Closing net book amount	105	76,117	–	127,462	2,330	324	828	8,094	215,260
At 31 December 2019									
Cost	105	247,323	2,832	468,805	10,372	2,120	3,363	15,637	750,557
Accumulated depreciation and impairment	–	(171,206)	(2,832)	(341,343)	(8,042)	(1,796)	(2,535)	(7,543)	(535,297)
Net book amount	105	76,117	–	127,462	2,330	324	828	8,094	215,260

Note:

The Group's land held as at 31 December 2019 and 2018, was a freehold land situated in the Brazil whilst the Group's leasehold buildings as at 31 December 2019 and 2018 are situated in the PRC and held under medium term leases.

14. PROPERTY, PLANT AND EQUIPMENT — CONTINUED

As at 31 December 2019, leasehold buildings of HK$63,225,000 were pledged to secure the Group's bank borrowings (2018: Nil) (Note 30(b)).

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

As at 31 December 2019, the Group's property, plant and equipment and land use rights are mainly related to CGU of lithium battery production segment, operated by Zhejiang Forever New Energy Company Limited ("Zhejiang CGU"). Property, plant and equipment and intangible assets related to CGU of lithium battery production segment, operated by Shandong Forever New Energy Company Limited ("Shandong Forever"), were fully impaired as at 31 December 2018.

As at 31 December 2019, the directors of the Company carried out a review of the recoverable amounts of relevant assets of Zhejiang CGU, which is amounted to HK$243,390,000. As a result, impairment loss of HK$331,909,000 had been recognised in the consolidated statement of profit or loss and other comprehensive income. The significant impairment loss recognised was mainly due to downward adjustment in forecast sales amount in view of the unexpected economic downturn in the PRC for the year ended 31 December 2019.

The recoverable amount had been determined based on value in use calculation using discounted cash flow technique, covering detailed five-year budget plans, followed by an extrapolation of expected cash flows without growth rate. The pre-tax discount rate used for value in use calculation is 19.84% per annum, which reflects specific risks relating to the relevant CGU.

The key assumptions for the value in use calculation were 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 recoverable amount 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 by an independent professional valuer, Valtech Valuation Advisory Limited with the discount cash flow approach. The recoverable amount is classified as level 3 measurement.

15. EXPLORATION AND EVALUATION ASSETS

	2019 HK$'000	2018 HK$'000
At 1 January		
Cost	9,348,922	10,918,374
Accumulated impairment	(3,664,067)	(6,814,498)
Net book amount	5,684,855	4,103,876
For the year ended 31 December		
Opening net book amount	5,684,855	4,103,876
Additions	3,286	8,323
Exchange realignments	(224,619)	(593,282)
Reverse of impairment	853,360	2,165,938
Net book amount	6,316,882	5,684,855
At 31 December		
Cost	8,982,866	9,348,922
Accumulated impairment	(2,665,984)	(3,664,067)
Net book amount	6,316,882	5,684,855

As at 31 December 2019 and 2018, 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$853,360,000 (2018: HK$2,165,938,000) 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 increase in the iron ore price during the year and decrease in discount rate.

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.

15. EXPLORATION AND EVALUATION ASSETS — CONTINUED

Assumptions and parameters of the valuation as at 31 December 2019 are as follows:

Approval of all required licenses	The end of 2022 (2018: The end of 2021)
Commencement of production	2026 (2018: 2025)
Annual production capacity	27.5 million tonnes (2018: 27.5 million tonnes) of iron concentrate
Resource estimates	Measured resources of 3,583 million tonnes (2018: 3,583 million tonnes) (16.63%) Indicated resources of 1,556 million tonnes (2018: 1,556 million tonnes)(16.05%)
Price of iron concentrate	US$85–US$138 per tonnes (2018: US$84–US$113 per tonnes)
Operating costs:	
— First 18 years of mining	US$33.7 per tonnes (2018: US$34.9 per tonnes)
— Remaining period of mining	US$38.5 per tonnes (2018: US$43.5 per tonnes)
Income tax rate	11-15% for the first ten years of operation 34% afterwards (2018: same term)
Capital expenditures:	
— Construction of infrastructure	US$2,373 million (2018: US$2,000 million)
Discount rate	18.48% (2018: 20.46%)

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.

On 2 December 2019, SAM learned from the media that a Minas State Public Prosecutor and a Federal Public Prosecutor jointly initiated a public civil action ("ACP") against the Minas Gerais State Government, Brazilian Institute of Environment and Renewable Natural Resources ("IBAMA"), Lotus Brasil comercio e Logistica Ltda ("Lotus Brasil") and SAM. The ACP claimed that SAM Project and the pipeline project of Lotus Brasil are dependent, and shall be licensed jointly in IBAMA. In another word, the ACP concerns if the Minas Gerais State Government is the legitimate authority to review and approve the environmental license application and whether SAM Project and Lotus Brasil should be licensed jointly in IBAMA, it does not involve environmental feasibility of the SAM Project. On 14 January 2020, the Federal Judge of the 3rd Federal Court of the Judicial Subsection of Montes Claros made a provisional decision about the ACP (the "Provisional Decision"). The Provisional Decision temporarily suspended SAM's and Lotus Brasil's licensing processes until the judge himself can hear the parties' reasons and decide the ACP.

SAM is taking all available measures and legal options to defend and aiming to resume the licensing process or/and to conclude the ACP as soon as possible. After the consultation with the Group's legal adviser, based on the arguments presented by SAM and other defendants (Minas Gerais State Government, IBAMA and Lotus Brasil) as well as the meeting with the plaintiff, the Company is optimistic that the ACP will not cause significant impact to the SAM Project.

16. PREPAID LAND LEASE PAYMENTS

	2019 HK$'000	2018 HK$'000
At 1 January		
Cost	–	93,555
Accumulated amortisation	–	(4,590)
Net book amount	–	88,965
For the year ended 31 December		
Opening net book amount	–	88,965
Amortisation	–	(1,884)
Exchange realignment	–	(4,451)
Net book amount	–	82,630
At 31 December		
Cost	–	92,248
Accumulated amortisation	–	(9,618)
Net book amount	–	82,630

As at 31 December 2018, prepaid land lease payments represented up-front payments to acquire long-term interest in the usage of land situated in the PRC. Upon the initial adoption of HKFRS 16, prepaid land lease payments were reclassified as right-of-use assets on 1 January 2019.

17. RIGHT-OF-USE ASSETS

HKFRS 16 was adopted 1 January 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at 1 January 2019, see Note 2.1. The accounting policies applied subsequent to the date of initial application, 1 January 2019, as disclosed in Note 3.16.

	Prepaid land lease payments HK$'000	Offices HK$'000	Total HK$'000
At 1 January 2019	82,630	9,092	91,722
Amortisation	(1,803)	(2,797)	(4,600)
Foreign exchange movement	(1,381)	–	(1,381)
At 31 December 2019	79,446	6,295	85,741

	2019 HK$'000
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	874
Total cash outflow for leases	3,001

17. RIGHT-OF-USE ASSETS — CONTINUED

In 2019 and 2018, the Group leases a number of properties and offices for its operations. The leases run for an initial period ranged from one to three years (2018: one to three years). Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Details of the lease maturity analysis of lease liabilities are set out in Note 31.

As at 31 December 2019, right-of-use assets of HK$35,904,000 were pledged to secure the Group's bank borrowings (2018: Nil) (Note 30(b)).

18. INTEREST IN ASSOCIATE

	2019 ***HK$'000***	2018 *HK$'000*
Interest in associate:		
Share of net assets	**17,063**	–

Details of the Group's associate as at 31 December 2019 are as follows:

Name	**Place of incorporation/ operation and principal activity**	**Percentage of ownership interests/voting rights/profit share**
吉行國際科技有限公司	People Republic of China/Investment holding company	20% (directly)
Caocao Mobility Paris SAS	France/online-car-hailing business in Europe	20% (indirectly)

Summarised financial information of the Group's associate and its subsidiaries is as follows:

	As at 31 December 2019 ***HK$'000***
Current assets	**92,071**
Non-current assets	**203,080**
Current liabilities	**(209,837)**
Net assets	**85,314**
Group's share of the net assets of the associate	**17,063**

18. INTEREST IN ASSOCIATE — CONTINUED

	Period from 26 April 2019 (date of incorporation) to 31 December 2019 HK$'000
Revenue	–
Loss for the period	**(5,487)**
Total comprehensive income	**(5,487)**
Dividends received from associate	–
Share of results of associate	**(1,096)**

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 **HK$'000**	2018 HK$'000
Equity instruments measured at FVOCI	**25,591**	–

The balance represented the Group's strategic investments is a 1% interest in LuoKung Technology Corp. The equity investment was irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

20. OTHER INTANGIBLE ASSETS

	Patents HK$'000	Customers relationship HK$'000	Total HK$'000
At 1 January 2018			
Cost	348,927	11,138	360,065
Accumulated amortisation and impairment	(348,927)	(11,138)	(360,065)
Net book amount	–	–	–
At 31 December 2018			
Cost	330,823	10,560	341,383
Accumulated amortisation and impairment	(330,823)	(10,560)	(341,383)
Net book amount	–	–	–
At 31 December 2019			
Cost	**325,070**	**10,377**	**335,447**
Accumulated amortisation and impairment	**(325,070)**	**(10,377)**	**(335,447)**
Net book amount	–	–	–

As at 31 December 2019 and 2018, patent and customers relationship, related to CGU of lithium battery production segment, operated by Shandong Forever, were fully impaired.

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21. GOODWILL

As at 31 December 2019 and 2018, the balance represented goodwill which arose from the acquisition of Triumphant Glory Investment Limited ("Triumphant Glory") and its subsidiary Shandong Forever, which are engaged in the production and sales of lithium batteries. The net carrying amount of goodwill can be analysed as follows:

	2019 HK$'000	2018 HK$'000
At 1 January		
Gross carrying amount	168,202	177,404
Accumulated impairment	(168,202)	(177,404)
Net carrying amount	–	–
At 31 December		
Gross carrying amount	165,277	168,202
Accumulated impairment	(165,277)	(168,202)
Net carrying amount	–	–

As at 31 December 2019 and 2018, goodwill allocated to the CGU of lithium battery production segment by Shandong Forever was fully impaired.

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

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

As at 31 December 2019 and 2018, in the opinion of directors, the unpaid capital contribution will not be repaid within one year from the reporting date. Accordingly, such balance is classified as non-current assets. The non-controlling interests undertake that, pending full payment of their respective capital contribution, they shall use all dividend, distribution and payment received from Shandong Forever to satisfy their capital contribution obligation.

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

	2019 HK$'000	2018 HK$'000
At 1 January	298,720	285,632
Imputed interest income	13,087	13,088
At 31 December	311,807	298,720

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

23. INVENTORIES

	2019 HK$'000	2018 HK$'000
Raw materials	87,553	94,511
Work-in-progress	55,119	1,094
Finished goods	131,722	93,230
	274,394	188,835
Less: Write-down of inventories	(39,157)	(34,699)
	235,237	154,136

The Directors have assessed the net realisable values and condition of the Group's inventories as at 31 December 2019 and considered a write-down of inventories of HK$5,131,000(2018: HK$25,894,000) be made in the consolidated statement of profit or loss and other comprehensive income.

24. TRADE AND BILL RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables — Gross	158,965	154,858
Less: Impairment losses	(25,020)	(38,841)
Trade receivables — Net	133,945	116,017
Bill receivables	–	569
Trade and bill receivables	133,945	116,586

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

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

	2019 HK$'000	2018 HK$'000
0–30 days	88,033	88,557
31–90 days	44,035	19,379
91 to 180 days	2,431	3,802
Over 180 days	24,466	43,689
	158,965	155,427

24. TRADE AND BILL RECEIVABLES — CONTINUED

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

	2019 HK$'000	2018 HK$'000
At 1 January	**38,841**	1,714
Impairment losses recognised during the year	**–**	38,656
Reversal of impairment recognised	**(13,344)**	–
Exchange alignment	**(477)**	(1,529)
At 31 December	**25,020**	38,841

The Group recognised provision for impairment of trade and bill receivables based on the accounting policy stated in Note 3.13.

A reversal of provision of HK$13,344,000 (2018: a provision of HK$38,656,000) was made against the gross amounts of trade receivables during the year. Further details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 42.

As at 31 December 2019 and 2018, the Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK$'000	2018 HK$'000
Deposits	**2,588**	2,668
Loan and interest receivable *(Note)*	**–**	134,216
VAT receivables	**74,242**	64,372
Other receivables	**6,448**	2,069
Advances to suppliers	**675**	3,642
	83,953	206,967

Note:

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

During the year ended 31 December 2019, the borrower had defaulted in repaying the full amount of the loan receivables and the outstanding accrued interests. A default interest rate of 6% per annum was applied. The directors of the Company considered the possibility of realising the loan receivables and the fair values of the underlying securities of the loan receivables, which mainly comprising 450,357,200 shares of Yuxing Infotech Investment Holdings Limited, a company listed on the GEM, impairment loss of HK$2,322,000 was recognised in profit or loss during the year ended 31 December 2019.

During the year, the Company exercised its right under the loan agreement and completed the procedures for the enforcement of the security, 450,357,200 shares of Yuxing Infotech Investment Holdings Limited on 16 December 2019. The Company classified these shares as financial assets at fair value through profit or loss (Note 26).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — CONTINUED

The movement of loan and interest receivable is as follows:

	Gross carrying amount *HK$'000*	Loss allowance *HK$'000*	Amortised cost *HK$'000*
Balance at 1 January 2018	542,804	(24,085)	518,719
Interest income *(Note 7)*	14,176	–	14,176
Impairment loss	–	(357,401)	(357,401)
Unwinding of discount on present value of expected credit losses	12,917	(12,917)	–
Repayments	(41,278)	–	(41,278)
Balance at 1 January 2019	**528,619**	**(394,403)**	**134,216**
Interest income *(Note 7)*	**7,717**	**–**	**7,717**
Impairment loss	**–**	**(2,322)**	**(2,322)**
Unwinding of discount on present value of expected credit losses	**23,955**	**(23,955)**	**–**
Enforcement of the security	**(139,611)**	**–**	**(139,611)**
Written off	**(420,680)**	**420,680**	**–**
Balance at 31 December 2019	**–**	**–**	**–**

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 ***HK$'000***	2018 *HK$'000*
Listed equity investments, at market value, in Hong Kong — held for trading	**139,611**	–

As at 31 December 2019, the balance represented the fair value of 21.72% equity interests in Yuxing InfoTech Investment Holdings Limited, a company listed in the GEM of Hong Kong Stock Exchange Limited. The Company is not accounted for an equity method as the Group does not have the power to participate in its operating and financial policies, evidenced by the lack of any direct or indirect involvement at board level.

The fair value of the Group's investment in listed securities has been determined by reference to their quoted bid prices on the reporting date.

27. RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

All restricted bank deposits as at 31 December 2019 and 2018 represented guaranteed deposits placed in the banks in the PRC as securities for the Group's bill payables and bank facilities. As at 31 December 2019, the Group had restricted bank deposits amounting to approximately HK$660,000 (2018: HK$26,019,000).

Restricted bank deposits and cash at bank earn interest at floating rates based on the daily bank deposit rates.

27. RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS — CONTINUED

As at 31 December 2019, the Group had cash and bank balances denominated in Renminbi ("RMB") amounting to approximately HK$286,938,000 (2018: HK$209,565,000), which were deposited with the banks in the PRC and held in hand. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

28. TRADE AND BILL PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**86,456**	280,401
Bill payables	**660**	26,019
	87,116	306,420

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

	2019	2018
	HK$'000	*HK$'000*
0–30 days	**68,149**	245,642
31–60 days	**13,160**	20,198
61–90 days	**36**	6,331
91–180 days	**106**	25,252
Over 180 days	**5,665**	8,997
	87,116	306,420

29. OTHER PAYABLES, ACCRUED EXPENSES, DEPOSITS RECEIVED AND RECEIPTS IN ADVANCE

	2019	2018
	HK$'000	*HK$'000*
Other payables	**134,487**	134,187
Accrued expenses	**8,622**	11,372
Contract liabilities *(Note)*	**104**	576
Deposits received	**402**	34
	143,615	146,169

Included in other payables, there are amount due to non-controlling interests of a subsidiary of HK$53,694,000 (2018: HK$54,644,000), which is unsecured, interest-free and repayable on demand.

Note: The Group received certain percentage of deposit on sales of goods as a contract liability until such time as the sales were completed.

30. BORROWINGS

	2019 HK$'000	2018 HK$'000
Government loans *(Note (a))*	**111,861**	341,525
Bank loans *(Note (b))*	**212,538**	–
Other loans *(Note (c))*	**320,373**	227,683
	644,772	569,208
Represented by:		
Current liabilities	**452,593**	455,366
Non-current liabilities	**192,179**	113,842
	644,772	569,208

Note:

(a) The balance represented the unsecured and interest free loans granted by the local government in the PRC in relation to the establishment of the manufacturing factory of new energy motor vehicle battery in Zhejiang, the PRC. The loans were repayable within two years after the drawdown.

As at 31 December 2018, there were outstanding government loans of RMB300 million in which government loans of RMB100 million, RMB100 million and RMB100 million were repayable on 18 January 2018, 21 May 2019 and 26 July 2020 respectively. Accordingly, government loan of RMB200 million and RMB100 million was classified as current liabilities and non-current liabilities as at 31 December 2018 respectively as it was repayable within twelve months from the reporting period and over one year from the reporting period.

According to the agreement with the local government in the PRC, the local government will provide government grant of RMB300 million to the Group after the commencement of production of the manufacturing factory and these grant is solely used for the repayment of government loan. If there is any delay in the distribution of government grant, the Group can repay overdue government loan once the related government grant is received.

During the year, the local government confirmed that the conditions for the government grant of RMB200 million were fulfilled and such amounts were offset the related government loans of RMB200 million. Accordingly, such balances were reclassified as deferred income (note 32). The outstanding government loan of RMB100 million was classified as current liabilities as at 31 December 2019 as it was repayable within twelve months from the reporting period.

(b) As at 31 December 2019, bank loans of RMB190 million are secured by the Group's right-of-use assets and property, plant and equipment of HK$35,904,000 and HK$63,225,000 respectively and the corporate guarantee from Zhejiang Geely Holding Group Co., Ltd. Bank loans were repayable by instalments up to 3 June 2029 and were interest bearing at 4.9% per annum. Based on the repayment date, the Group's bank loans are due for repayments as at 31 December 2019 as follows:

	2019 HK$'000	2018 HK$'000
Within one year	**20,359**	–
In the second year	**20,359**	–
In the third to fifth year	**61,077**	–
Over five years	**110,743**	–
	212,538	–

(c) As at 31 December 2019, these loans are from Zhejiang Geely Holding Group Co., Ltd. and its subsidiary (2018: Zhejiang Geely Holding Group Co., Ltd.) and all these loans are interest bearing at 4.35% to 4.75% per annum, unsecured and repayable within twelve months from the reporting period and classified as current liabilities accordingly.

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31. LEASE LIABILITIES

	2019 *HK$'000*
Lease liabilities:	
Current	2,812
Non-current	3,724
	6,536

Future lease payments are due as follows:

	Minimum lease payments *HK$'000*	Interest *HK$'000*	Present value *HK$'000*
As at 31 December 2019			
Due within one year	3,132	320	2,812
Due in the second to fifth years	3,917	193	3,724
	7,049	513	6,536
As at 1 January 2019			
Due within one year	3,002	446	2,556
Due in the second to fifth years	7,048	512	6,536
	10,050	958	9,092

Note: The Group has initially applied HKFRS 16 using the cumulative effect approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. See Note 2.1 for further details about transition.

Operating leases — lessor

The Group subleased its leased properties during the year. The sub-lease rental income during the year ended 31 December 2019 was HK$744,000 (2018: HK$744,000). At 31 December 2019, total future minimum lease receivables under non-cancellable operating leases are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Within one year	62	108

32. DEFERRED INCOME

	2019 HK$'000	2018 HK$'000
At 1 January	1,253	1,542
Additions *(Note 30(a))*	226,872	–
Exchange realignment	(1,062)	(72)
Government grant income recognised for the year	(151,872)	(217)
At 31 December	75,191	1,253

Deferred income represents 1) government grants received by Shandong Forever in relation to its construction of the factory building and purchases of production facilities of lithium batteries in Shandong Province, the PRC and 2) government grants received by Zhejiang Forever in relation to its purchases of production facilities of lithium batteries in Zhejiang Province, the PRC. The production facilities regarding Shandong Forever could not be pledged or disposed without the consent from the government authority. Such government grants are treated as deferred income and are recognised in profit or loss in accordance with the Group's accounting policies shown in Note 3.18.

In view of the depreciation and impairment of property, plant and equipment of Zhejiang Forever was recognised (Note 14), the relevant amount of deferred income of HK$151,872,000 was released to profit or loss during the year.

33. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under liability method using the tax rates applicable in the tax jurisdiction concerned. The followings are the major deferred tax liabilities recognised by the Group and movements thereon during the current and prior reporting years.

	Fair value adjustments arising from exploration and evaluation assets	
	2019 HK$'000	2018 HK$'000
At 1 January	1,819,051	1,284,348
Credited to profit or loss	290,142	736,419
Exchange realignment	(76,370)	(201,716)
At 31 December	2,032,823	1,819,051

As at 31 December 2019, the Group has unused tax losses of HK$389,691,000 (2018: HK$357,510,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams and there was no taxable temporary difference related to accelerated tax depreciation as at year ended 31 December 2019. All tax losses of the Group have no expiry dates under the current tax legislation except for the tax losses amounting to HK$226,793,000 (2018: HK$193,043,000) incurred by four (2018: two) subsidiaries in the PRC which will expire after 5 years from the year in which the tax losses were incurred.

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34. SHARE CAPITAL

	Number of shares '000	Total HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 31 December 2018 and 2019	1,000,000,000	1,000,000
Issued and fully paid:		
Ordinary shares of HK$0.001 each at 31 December 2018 and 2019	9,854,534	9,855

Pursuant to the strategic cooperation agreement in relation to the provision of technical support (the "Strategic Cooperation Agreement") by Xinwen Mining Group Co. Ltd ("Xinwen"), an aggregate of 30,000,000 ordinary shares of the Company were to be issued to Xinwen in three tranches since 2010. Each tranche represented 10,000,000 ordinary shares, being consideration for the services provided by Xinwen to the Company. The first and second tranches of 10,000,000 ordinary shares of the Company each were issued to Xinwen in 2010 and 2012. The remaining 10,000,000 ordinary shares will be unconditionally issued to Xinwen in accordance with terms of the Strategic Cooperation Agreement.

35. SHARE OPTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 20 December 2001 and became effective on 8 January 2002 for the primary purpose of providing incentives to directors and eligible employees. This share option scheme was expired on 7 January 2012. However, the outstanding share options granted under this share option scheme continues to be exercisable under the terms of issue.

The Company's new share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 21 May 2012. The Share Option Scheme shall be effective for a period of ten years commencing on 21 May 2012. The purpose of the Share Option Scheme is to provide the Company with a flexible and effective means of incentivising, rewarding, remunerating, compensating and providing benefits to any director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Company, or any of its subsidiaries.

Total number of shares in respect of which options may be granted under the Share Option Scheme does not exceed 10% of the total number of shares in issue of the Company from 21 May 2012 onwards or at the renewal of such limit. Under the Share Option Scheme, the Company may obtain a fresh approval from its shareholders to refresh the above mentioned 10% limit.

Exercise price of the share options shall be determined by the Directors at its absolute discretion and notified to a participant and shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the offer date; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of the shares of the Company on the offer date.

At 31 December 2019, an aggregate of 13,750,000 (2018: 13,750,000) shares of the Company were issuable pursuant to share options granted under the Share Option Scheme, representing 0.1% (2018: 0.1%) of the shares of the Company in issue at that date.

35. SHARE OPTIONS — CONTINUED

As at 31 December 2019, total number of shares available for issue pursuant to the grant of further options under the Share Option Scheme was 591,567,971 (2018: 591,567,971), representing 6% (2018: 6%) of the issued share capital of the Company as at 31 December 2019.

The consideration payable on the grant of an option is HK$1 for each grant transaction. Options may be exercised at any time within the exercisable period.

The following tables set out the movement in share options:

Name or category of participant	Share option type	Outstanding at 1 January 2018	Transferred during the year	Expired during the year	Outstanding at 31 December 2018 and 2019
Share Option Schemes					
Share option for directors and employees					
Directors					
Executive directors					
LIU Wei, William	2010	30,000,000	–	(30,000,000)	–
SHI Lixin	2010	20,000,000	(20,000,000)	–	–
(resigned on 17 April 2018)	2012	5,000,000	(5,000,000)	–	–
Non-executive directors					
Mr. Yan Wei Min	2010	30,000,000	–	(30,000,000)	–
Mr. Ang Siu Lun, Lawrence	2010	15,000,000	–	(15,000,000)	–
Independent non-executive directors					
Mr. Chan Chun Wai, Tony	2010	2,000,000	–	(2,000,000)	–
Mr. Ma Gang	2010	3,000,000	–	(3,000,000)	–
Sub-total		105,000,000	(25,000,000)	(80,000,000)	–
Employees					
In aggregate	2010	5,000,000	20,000,000	(25,000,000)	–
In aggregate	2012	–	5,000,000	–	**5,000,000**
In aggregate	2015	8,750,000	–	–	**8,750,000**
Sub-total		13,750,000	25,000,000	(25,000,000)	**13,750,000**
Total — Share Option Scheme		118,750,000	–	(105,000,000)	**13,750,000**

During the year ended 31 December 2018, share option granted to Mr. Shi Lixin had been transferred as he was resigned as director of the Company but continued to be employed by the Company.

Details of the share options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
2010 (a) *(note i & ii)*	6 May 2010	6 May 2011 to 5 May 2018	HK$2.60
2010 (b) *(note i & ii)*	6 May 2010	6 May 2012 to 5 May 2018	HK$2.60
2012 *(note iii)*	28 May 2012	28 May 2012 to 27 May 2020	HK$0.95
2015 *(note iv)*	14 May 2015	15 May 2015 to 14 May 2023	HK$2.61

35. SHARE OPTIONS — CONTINUED

Notes:

(i) On 6 May 2010, the Directors granted 127,700,000 share options to the Company's directors and employees at exercise price of HK$2.60 per share upon approvals from the independent non-executive directors on that date. Consideration of HK$13 in respect of these granted share options was received.

(ii) Share options granted on 6 May 2010 are subject to a vesting period and became exercisable in whole or in part in the following manner:

From the date of grant of share options	Exercisable percentage
In the first year	Nil
In the second year (31,925,000 share option "Lot A")	25%
After the second year (95,775,000 share option "Lot B")	75%

(iii) On 28 May 2012, the Directors granted 21,000,000 share options to the Company's directors and employees at exercise price of HK$0.95 per share upon approvals of the independent non-executive directors on that date. These share options are vested at the date of grant. The share options shall be valid and exercisable for 8 years with effective from the date of grant of share option on 28 May 2012. Consideration of HK$4 in respect of these granted share options was received.

(iv) On 14 May 2015, the Directors granted 9,500,000 share options to the Company's employees at exercise price of HK$2.61 per share upon approvals of the independent non-executive directors on that date. These share options are vested at the date of grant. The share options shall be valid and exercisable for 8 years with effective from the date of grant of share option on 15 May 2015. Consideration of HK$3 in respect of these granted share options was received. The closing price of the shares of the Company quoted on the SEHK on 13 May 2015, being the business date immediately before the date on which the share options were granted, was HK$2.55.

(v) No share options were exercised for the year ended 31 December 2019 and 2018.

(vi) The fair values of options granted under the Share Option Scheme on Lots A and B on 6 May 2010, 28 May 2012, and 14 May 2015, measured at the date of grant, were approximately HK$23,124,000, HK$93,637,000, HK$9,290,000 and HK$10,812,000 respectively. The following key assumptions were used to derive the fair values, using the Black-Scholes option pricing model:

Date of grant	6 May 2010 Lot A	6 May 2010 Lot B	28 May 2012	14 May 2015
Expected volatility	69%	74%	61%	76%
Expected life (in years)	2.0	3.0	8.0	8.0
Risk-free interest rate	1%	1%	1%	1.6%
Expected dividend yield	Nil	Nil	Nil	Nil

The expected volatility is based on the historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted based on management's best estimate.

(vii) For the year ended 31 December 2019, no share-based payment expenses (2018: Nil) have been included in the consolidated statement of profit or loss and other comprehensive income, with a corresponding credit in share-based payment reserve. The amount recorded in share-based payment reserve represented the fair value of share options expense vested during the year. No liabilities were recognised due to share-based payment transactions.

(viii) Share options and weighted average exercise prices are as follows for the reporting period presented:

	2019		2018	
	Number of share options	**Weighted average exercise price *HK$***	Number of share options	Weighted average exercise price *HK$*
Outstanding at 1 January	**13,750,000**	**2.01**	118,750,000	2.53
Expired	**–**	**–**	(105,000,000)	2.60
Outstanding at 31 December	**13,750,000**	**2.01**	13,750,000	2.01

For the year ended 31 December 2019, No share options have been exercised (2018:Nil). The weighted average is remaining contractual life of 2.3 years (2018: 3.3 years). There are 13,750,000(2018: 13,750,000) share options exercisable as at 31 December 2019.

(ix) For the year ended 31 December 2019, no share options have been expired (2018: 105,000,000).

36. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		141	389
Investments in subsidiaries	37	78	119
Financial assets at fair value through other comprehensive income		25,591	–
Amounts due from subsidiaries		859,834	–
Right-of-use assets		6,295	–
		891,939	508
Current assets			
Financial assets at fair value through profit or loss		139,611	–
Deposits and other receivables		700	135,232
Amounts due from subsidiaries		–	758,749
Cash and cash equivalents		55,618	385,923
		195,929	1,279,904
Current liabilities			
Other payables and accrued expenses		3,476	3,496
Amount due to a subsidiary		41	–
Lease liabilities		2,812	–
		6,329	3,496
Net current assets		189,600	1,276,408
Total assets less current liabilities		1,081,539	1,276,916
Current liabilities			
Lease liabilities		3,724	–
Net assets		1,077,815	1,276,916
EQUITY			
Share capital	34	9,855	9,855
Reserves	38	1,067,960	1,267,061
Total equity		1,077,815	1,276,916

On behalf of directors

He Xuechu
Chairman

Liu Wei, William
Director

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37. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2019 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Particulars of issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities and place of operation
			Directly	Indirectly	
New Trinity Holdings Limited	BVI, limited liability company	10,000 ordinary shares of US$1 each	–	100%	Investment holding, Hong Kong
SAM	Brazil, limited liability company	10,000 ordinary shares in Reais ("R$") 5,266,604	–	100%	Research and exploration of iron ores, Brazil
Shandong Forever	PRC, limited liability company	Registered capital of US$20,408,100	–	44.43%*	Research , production and sales of lithium battery, PRC
Zhejiang Forever	PRC, limited liability company	Registered capital of US$80,000,000	–	52% (2018: 49%*)	Research and development, production, sales of lithium-ion battery and battery system, PRC
GETI (China) Energy Technology Company Limited	PRC, limited liability company	Registered capital of RMB60,000,000	–	90% (2018: Nil)	Battery swapping services, PRC

* The adoption of HKFRS 10 has resulted in the consolidation of Shandong Forever and Zhejiang Forever despite the Group owning less than 50% of the equity interests. This is because the Group has the practical ability to unilaterally direct the operating and financial activities and also the decision making in the board of Shandong Forever and Zhejiang Forever.

During the year, the Group acquired additional 3% equity interests in its non-wholly owned subsidiary, Zhejiang Forever, with the consideration of HK$10,572,000. As a result, the equity interests in Zhejiang Forever held by the Group was increased from 49% to 52%. The transactions had been accounted for as equity transactions and the difference between the proportionate share of the carrying amount of net assets and the consideration paid for the additional interest of HK$7,397,000 have been debited to retained earnings.

37. INTERESTS IN SUBSIDIARIES — CONTINUED

Details of non-wholly owned subsidiary that has non-controlling interests

As at 31 December 2019 and 2018, non-controlling interests ("NCI") of the Group is represented by (1) 9.32% equity interests in Triumphant Glory, which owns 49% equity interest of Shandong Forever (collectively known as TG Group); (2) 48% (2018: 51%) equity interests in Zhejiang Forever; and (3) 10% (2018: Nil) equity interests in GETI Energy Sharing Technology Company Limited and its wholly owned subsidiaries (collectively known as GETI Group) held by non-controlling shareholders.

Summarised financial information in relation to the NCI of TG Group, Zhejiang Forever and GETI Group is presented below:

	TG Group		Zhejiang Forever New Energy		GETI Group	
	2019	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
For the year ended 31 December						
Revenue	**4,942**	18,183	**333,355**	220,426	**973**	–
Profit/(Loss) for the year	**7,892**	(77,973)	**(245,124)**	(138,327)	**(2,832)**	–
Total comprehensive income	**18,195**	(81,341)	**(255,712)**	(143,171)	**(4,136)**	–
Profit/(Loss) allocated to NCI	**9,905**	(49,277)	**(118,274)**	(70,547)	**(283)**	–
Cash flows used in operating activities	**(1,513)**	(12,109)	**(335,011)**	(14,755)	**(1,279)**	–
Cash flows used in investing activities	**(490)**	(943)	**(41,602)**	(127,790)	**(7,083)**	–
Cash flows generated from financing activities	**–**	–	**404,544**	227,578	**68,558**	–
Net cash (outflows)/inflows	**(2,003)**	(13,052)	**27,931**	85,033	**60,196**	–
As at 31 December						
Current assets	**14,905**	30,141	**664,234**	520,349	**61,542**	–
Non-current assets	**355,348**	344,023	**232,819**	583,513	**7,346**	–
Current liabilities	**(7,356)**	(28,057)	**(767,270)**	(867,549)	**(72,954)**	–
Non-current liabilities	**(149,845)**	(151,250)	**(266,344)**	(113,842)	**–**	–
Net assets/(liabilities)	**213,052**	194,857	**(136,561)**	122,471	**(4,066)**	–
Accumulated non-controlling interests	**154,823**	144,697	**(88,645)**	35,632	**(413)**	–

38. RESERVES

Share-based payment reserve of the Company and the Group arose from the recognition of the share-based payment expenses in statement of comprehensive income with a corresponding credit to share-based payment reserve.

Treasury shares reserve represented the fair value at the date of disposal of Hill Talent Limited and its subsidiaries (the "Hill Talent Group") in 2013 of 226,500,000 ordinary shares of the Company held by the purchaser which were receivable as part of the consideration of the disposals of the Hill Talent Group. As at 31 December 2019, the Company held 117,100,000 (2018: 117,100,000) ordinary shares as treasury shares.

Exchange fluctuation reserve represented gains/losses arising on retranslating the net assets of overseas operations into HK$.

COMPANY

	Share premium *HK$'000*	Treasury shares reserve *HK$'000*	Share-based payment reserve *HK$'000*	FVOCI reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2018	3,563,686	(142,864)	136,741	–	(1,844,974)	1,712,589
Loss for the year and total comprehensive income for the year	–	–	–	–	(445,528)	(445,528)
Share options expired	–	–	(124,571)	–	124,571	–
At 31 December 2018 and 1 January 2019	**3,563,686**	**(142,864)**	**12,170**	**–**	**(2,165,931)**	**1,267,061**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(130,566)**	**(130,566)**
Changes of fair value of financial assets at fair value through other comprehensive income	**–**	**–**	**–**	**(68,535)**	**–**	**(68,535)**
At 31 December 2019	**3,563,686**	**(142,864)**	**12,170**	**(68,535)**	**(2,296,497)**	**1,067,960**

39. CAPITAL COMMITMENTS

	2019 HK$'000	2018 HK$'000
Contracted but not provided for Property, plant and equipment	56,126	63,990

As at 31 December 2019, the estimated capital expenditures for the mineral resources exploration business in Brazil, which is operated by SAM, are stated in Note 15.

40. CONTINGENT CONSIDERATION PAYABLES

	2019 HK$'000	2018 HK$'000
At 1 January	156,496	159,080
Loss/(Gain) on changes in fair value and terms of contingent consideration	4,598	(2,584)
At 31 December	161,094	156,496

Under the settlement agreement related to the acquisition of SAM, the Company is committed to pay a maximum aggregate amount of US$60,000,000 contingent additional payment and conditional mining production payment to the sellers upon occurrence of certain events. Details of the settlement agreement are set out in the Company's announcement dated 13 May 2016.

The contingent consideration payables represent the fair value of the obligation for the contingent payable in accordance with the new settlement and are estimated by independent professional valuers. As at 31 December 2019, the fair value of the contingent consideration payables was estimated by applying income approach at a discount rate of 17.07% (2018: 18.42%) and the probability of occurrence of certain events as stated in the settlement agreement such as occurrence of disposal event or the commencement of mining. The higher the discount rate, the lower the fair value.

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The following table shows the carrying amount and fair value of financial assets and liabilities.

	2019 HK$'000	2018 HK$'000
Financial assets		
Financial assets measured at fair value through profit or loss:		
Current assets		
Listed securities held for trading	**139,611**	–
Financial assets measured at fair value through other comprehensive income:		
Non-current assets		
Listed equity securities	**25,591**	–
Financial assets measured at amortised cost:		
Non-current assets		
Amounts due from non-controlling interests of a subsidiary	**311,807**	298,720
Current assets		
Trade and bill receivables	**133,945**	116,586
Other receivables	**6,448**	136,285
Restricted bank deposits	**660**	26,019
Cash and bank balances	**351,714**	577,259
	969,776	1,154,869
Financial liabilities		
Financial liabilities measured at fair value through profit or loss:		
Non-current liabilities		
Contingent consideration payables	**161,094**	156,496
Financial liabilities measured at amortised cost:		
Current liabilities		
Trade and bill payables	**87,116**	306,420
Other payables and accrued expenses and deposits received	**143,109**	145,559
Lease liabilities	**2,812**	–
Borrowings	**452,593**	455,366
Non-current liabilities		
Borrowings	**192,179**	113,842
Lease liabilities	**3,724**	–
	1,042,627	1,177,683

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY — CONTINUED

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments that are measured at fair value in the statements of financial position:

Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial assets or liabilities are categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

Financial assets/liabilities measured at fair value through profit or loss

As at 31 December 2019	**Level 1** *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Assets				
Listed equity securities for strategic purpose *(Note 19)*	**25,591**	–	–	**25,591**
Listed securities held for trading *(Note 26)*	**139,611**	–	–	**139,611**
	165,202	–	–	**165,202**
Liabilities				
Contingent consideration payables	–	–	**161,094**	**161,094**

As at 31 December 2018	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Liabilities				
Contingent consideration payables	–	–	156,496	156,496

The details of the valuation of the fair value of contingent consideration payables were disclosed in Note 40.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the Directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long-term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. Management identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the Directors.

42.1 Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

42.2 Interest rate risk

The Group's exposure to cash flow interest rate risk is minimal as the Group has no financial assets or liabilities of material amounts with floating interest rates except for deposits held in banks as at 31 December 2019. The exposure to fluctuations in interest rates for the Group's bank deposits, bank and other borrowing are considered immaterial.

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Directors are of the opinion that sensitivity of the Group's profit after tax and retained earnings to a reasonable change in the interest rates are assessed to be immaterial. Changes in interest rates have no impact on other components of equity.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — CONTINUED

42.3 Credit risk

The Group continuously monitors defaults of customers and other counterparties, identifies either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group has certain concentration of credit risk as 87% (2018: 92%) of the Group's revenue for the year was derived from 2 major customers (2018: 2) and as at reporting date, 100% (2018: 94%) of the Group's trade and bill receivables was due from these customers. The Group continuously and actively evaluates the credit risk of these debtors.

The Group measures loss allowances for trade and bill receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group recognised lifetime ECL for trade and bill receivables based on individually specific customer or the ageing of customers collectively. The following table provides information about the Group's exposure to credit risk and ECLs for trade and bill receivables:

	Weighted average lifetime ECL	Gross carrying amount *(HK$'000)*	Loss allowance *(HK$'000)*
As at 31 December 2019			
Current (not past due)	**0.46%**	**126,520**	**582**
1–90 days past due	**1.12%**	**7,980**	**89**
91–365 days past due	**3.89%**	**121**	**5**
		134,621	**676**
Individual assessment	**100%**	**24,344**	**24,344**
		158,965	**25,020**
As at 31 December 2018			
Current (not past due)	0.5%	102,609	517
1–90 days past due	1.2%	7,627	92
91–365 days past due	2.92%	2,566	75
Over 1 year past due	16.2%	5,332	864
		118,134	1,548
Individual assessment	100%	37,293	37,293
		155,427	38,841

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — CONTINUED

42.3 Credit risk — Continued

Expected loss rates are based on actual loss experience or general default rate of the industry if no historical record available. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

Apart from those trade receivables identified for individual assessment for full impairment, the directors of the Company considered that there is no material credit risk inherent in the Group's carrying amounts of trade and bill receivables in view of (1) most of the trade receivables are not yet past due and (2) the potential impact of impairment on these trade receivables are insignificant to the consolidated financial statements of the Group.

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

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

For other receivables and amounts due from non-controlling interests, management makes periodic collective assessments as well as individual assessment on the recoverability of these receivables based on historical settlement records and past experience.

Approximately 49% (2018: 60%) of the bank balances as at 31 December 2019 were deposited at a major bank, the credit risk for liquid funds is considered negligible, since the counterparty is a reputable bank with high quality external credit ratings.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — CONTINUED

42.4 Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2019 and 2018, the Group's financial liabilities have contractual maturities which are summarised below:

	Within 1 year or on demand	1–5 years	Over 5 years	Total undiscounted amount	Total carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2019					
Non-derivatives:					
Trade and bill payables	**87,116**	**–**	**–**	**87,116**	**87,116**
Other payables and accrued expenses	**143,109**	**–**	**–**	**143,109**	**143,109**
Lease liabilities	**3,132**	**3,916**	**–**	**7,048**	**6,536**
Borrowings	**471,173**	**112,555**	**126,447**	**710,175**	**644,772**
Contingent consideration payables	**–**	**158,080**	**118,420**	**276,500**	**161,094**
	704,530	**274,551**	**244,867**	**1,223,948**	**1,042,627**
At 31 December 2018					
Non-derivatives:					
Trade and bill payables	306,420	–	–	306,420	306,420
Other payables and accrued expenses	145,559	–	–	145,559	145,559
Borrowings	455,366	113,842	–	569,208	569,208
Contingent consideration payables	–	159,111	119,243	278,354	156,496
	907,345	272,953	119,243	1,299,541	1,177,683

43. CAPITAL MANAGEMENT

The Group's objectives when managing capital include:

(i) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for shareholders and benefits for other stakeholders;

(ii) To support the Group's stability and growth; and

(iii) To provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or raise new debts, or sell assets to reduce debt.

The capital-to-overall financing ratio at reporting date was as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Capital		
Total equity	**4,766,595**	4,695,759
Overall financing		
Borrowings	**644,772**	569,208
Capital-to-overall financing ratio	**7.39 times**	8.25 times

44. RELATED AND CONNECTED PARTIES DISCLOSURES

(i) Related party transactions

Save as disclosed in consolidated financial statement, there are no other significant related party transactions during the years ended 31 December 2019 and 2018.

(ii) Connected party transactions

Name of connected party	Nature of transactions	2019 HK$'000	2018 HK$'000
Volvo Car and its related companies	Sales of lithium battery	**178,438**	88,661
Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. and its related companies	Sales of lithium battery	**156,916**	131,761
Zhejiang Geely Holdings Group Co., Ltd and its subsidiary	Borrowings	**320,373**	227,683
	Interest paid	**12,965**	9,778

Note:

Zhejiang Forever and Volvo Car Corporation ("Volvo Car") entered into a sale of lithium-ion battery agreement (the "Sale Agreement") on 23 October 2017 regarding the sales of high performance ternary lithium-ion powered battery packs by Zhejiang Forever to Volvo Car commencing from 23 October 2017 to 22 October 2020.

Zhejiang Forever and Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. ("Zhejiang Geely Components") entered into a sale of lithium-ion battery agreement (the "Sale Agreement") on 25 October 2017 regarding the sales of high performance ternary lithium-ion powered battery packs by Zhejiang Forever to Zhejiang Geely Components commencing from 25 October 2017 to 24 October 2020.

Shanghai Maple Automobile Co., Ltd. ("Shanghai Maple") is a substantial shareholder of Zhejiang Forever as it holds 48% equity interest in Zhejiang Forever, and therefore it is a connected person of the Company at the subsidiary level. Shanghai Maple is held as to 90% by Zhejiang Geely Holding Group Co., Ltd ("Zhejiang Geely"), and Volvo Car and Zhejiang Geely Components are subsidiaries of Zhejiang Geely. As such, Zhejiang Geely, Volvo Car and Zhejiang Geely Components are associates of Shanghai Maple in accordance with Rule 20.11 of the GEM Listing Rules, and each of them is therefore a connected person of the Company at the subsidiary level.

The annual cap amounts for the years ended 31 December 2018, 2019 and the period from 1 January 2020 to 22 October 2020 for the Sale Agreement of Volvo Car are RMB178 million, RMB278 million and RMB251 million respectively as set out in the circular of the Company dated 13 June 2018.

The annual cap amounts for the years ended 31 December 2018, 2019 and the period from 1 January 2020 to 24 October 2020 for the Sale Agreement of Zhejiang Geely Components are RMB207 million, RMB739 million and RMB951 million respectively as set out in the circular of the Company dated 13 June 2018.

45. NOTES SUPPORTING STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financial activities:

	Borrowings (Note 30) 2019 HK$'000	2018 HK$'000	Lease liabilities (Note 31) 2019 HK$'000
At 1 January	569,208	360,215	–
Adjustment upon the application of HKFRS 16	–	–	9,092
	569,208	360,215	9,092
Changes from cash flows:			
Proceeds from new borrowings	426,973	237,026	–
Repayment of borrowings	(113,436)	–	–
Repayment of principal portion of lease liabilities	–		(2,556)
Interest paid	(18,950)	(9,778)	(445)
Total changes from financing cash flows	294,587	227,248	(3,001)
Other changes:			
Exchange difference	(11,101)	(28,033)	–
Transfer to deferred income	(226,872)	–	–
Interest expenses	18,950	9,778	445
At 31 December	644,772	569,208	6,536

46. SUBSEQUENT EVENTS

On 20 January 2020, the Group entered into the reorganisation agreement with non-controlling shareholder of a subsidiary and an independent third party, pursuant to which an independent third party agreed to make capital contribution of US$20.4 million into Shandong Forever. Upon completion of the reorganisation, the independent third party will own 50% equity interest in Shandong Forever, whereas the Group's effective interest in Shandong Forever will be diluted from 44% to 22% and there will be a loss on control of Shandong Forever. The reorganisation was completed on 19 March 2020.

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the PRC and Brazil. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group in the future but the estimate of its financial effect cannot be made at this stage.

47. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2019 were approved for issue by the Board of Directors on 27 March 2020.

FINANCIAL SUMMARY

FINANCIAL RESULTS

	Year ended 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
CONTINUING OPERATIONS					
Revenue	115,394	34,045	17,476	238,610	**341,270**
Direct operating expenses	(91,723)	(33,160)	(17,756)	(286,161)	**(336,947)**
Other operating revenue	15,028	33,959	144,403	38,267	**196,640**
Selling and distribution costs	(2,323)	(1,457)	(3,187)	(3,108)	**(13,402)**
Administrative expenses	(98,940)	(102,175)	(114,701)	(132,762)	**(92,715)**
Other operating expenses, net	–	(2,884)	(7,910)	(25,414)	**(5,131)**
Share-based payment expenses	(10,812)	–	–	–	**–**
(Impairment)/reverse of impairment of exploration and evaluation assets	(3,305,838)	(270,826)	1,131,284	2,165,938	**853,360**
Impairment of other intangible assets	(93,037)	(85,964)	(60,003)	–	**–**
Impairment of property, plant and equipment	(20,688)	(37,643)	(50,368)	(1,047)	**(331,909)**
(Impairment loss)/Reverse of impairment loss of trade receivables	–	–	–	(38,656)	**13,344**
Impairment/(Reverse of impairment) of prepayments, deposits and other receivables	–	–	–	(357,401)	**(2,322)**
Gain on disposal of subsidiaries	3,239	–	–	–	**–**
Gain on full settlement of shareholder's loan	3,358	–	–	–	**–**
Fair value gain on derivative financial liabilities	15,510	9,892	58,164	–	**–**
Fair value (loss)/gain on contingent consideration payables	564,740	1,039,423	(5,993)	2,584	**(4,598)**
Impairment of goodwill	(176,370)	–	–	–	**–**
Share of results of associate	–	–	–	–	**(1,096)**
Finance costs	(66,556)	(72,138)	(68,535)	(9,778)	**(19,395)**
(Loss)/Profit before income tax	(3,149,018)	511,072	1,022,874	1,591,072	**597,099**
Income tax credit/(expense)	1,154,011	122,135	(366,900)	(736,419)	**(290,142)**
(Loss)/Profit for the year	(1,995,007)	633,207	655,974	854,653	**306,957**
Attributable to:					
Owners of the Company	(1,984,984)	700,010	676,063	974,477	**415,609**
Non-controlling interests	(10,023)	(66,803)	(20,089)	(119,824)	**(108,652)**
(Loss)/Profit for the year	(1,995,007)	633,207	655,974	854,653	**306,957**

FINANCIAL SUMMARY

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2015	2016	2017	2018	**2019**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	4,485,474	4,851,487	6,175,449	7,694,356	**7,917,742**
Total liabilities	(2,933,998)	(2,040,865)	(1,911,492)	(2,998,597)	**(3,151,147)**
Non-controlling interests	(44,205)	(222,463)	(296,436)	(180,329)	**(65,765)**
Equity attributable to owners of the Company	1,507,271	2,588,159	3,967,521	4,515,430	**4,700,830**