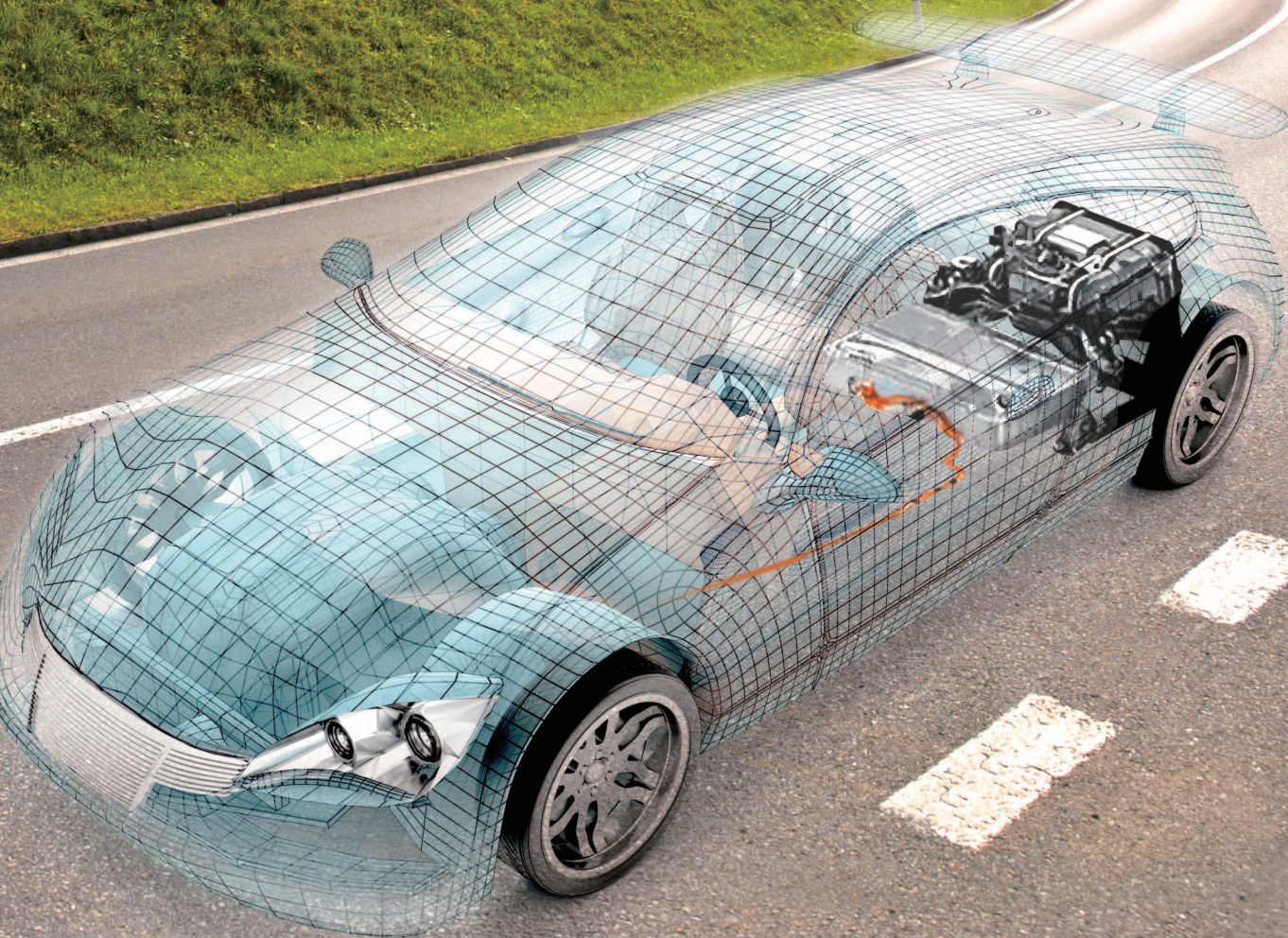




HONBRIDGE HOLDINGS LIMITED
洪橋集團有限公司
(Stock Code: 8137)

2015

ANNUAL REPORT



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.



Qualified battery cells stored systematically in a warehouse of Shandong Forever New Energy Co., Ltd.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. He Xuechu (*Chairman*)
Mr. Liu Wei, William (*Chief Executive Officer*)
Mr. Shi Lixin

Non-Executive Directors

Mr. Yan Weimin
Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Directors

Mr. Chan Chun Wai, Tony
Mr. Ma Gang
Mr. Ha Chun (appointed on 28 August 2015)
Mr. Fok Hon (resigned on 19 August 2015)

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 (appointed on 28 August 2015)
Mr. Fok Hon (resigned on 19 August 2015)

REMUNERATION COMMITTEE

Mr. Ha Chun (*Committee Chairman*)
(appointed on 28 August 2015)
Mr. Ma Gang
Mr. Chan Chun Wai, Tony
Mr. He Xuechu
Mr. Liu Wei, William
Mr. Fok Hon (resigned on 19 August 2015)

NOMINATION COMMITTEE

Mr. Chan Chun Wai, Tony (*Committee Chairman*)
Mr. Liu Wei, William
Mr. Ang Siu Lun, Lawrence
Mr. Ma Gang
Mr. Ha Chun (appointed on 28 August 2015)
Mr. Fok Hon (resigned on 19 August 2015)

AUDITOR

BDO Limited

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

4th Floor, Willow House
Cricket Square, P.O. Box 2804
Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit 5402, 54th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
18th Floor, Asia Orient Tower
Town Place, 33 Lockhart Road
Wanchai
Hong Kong

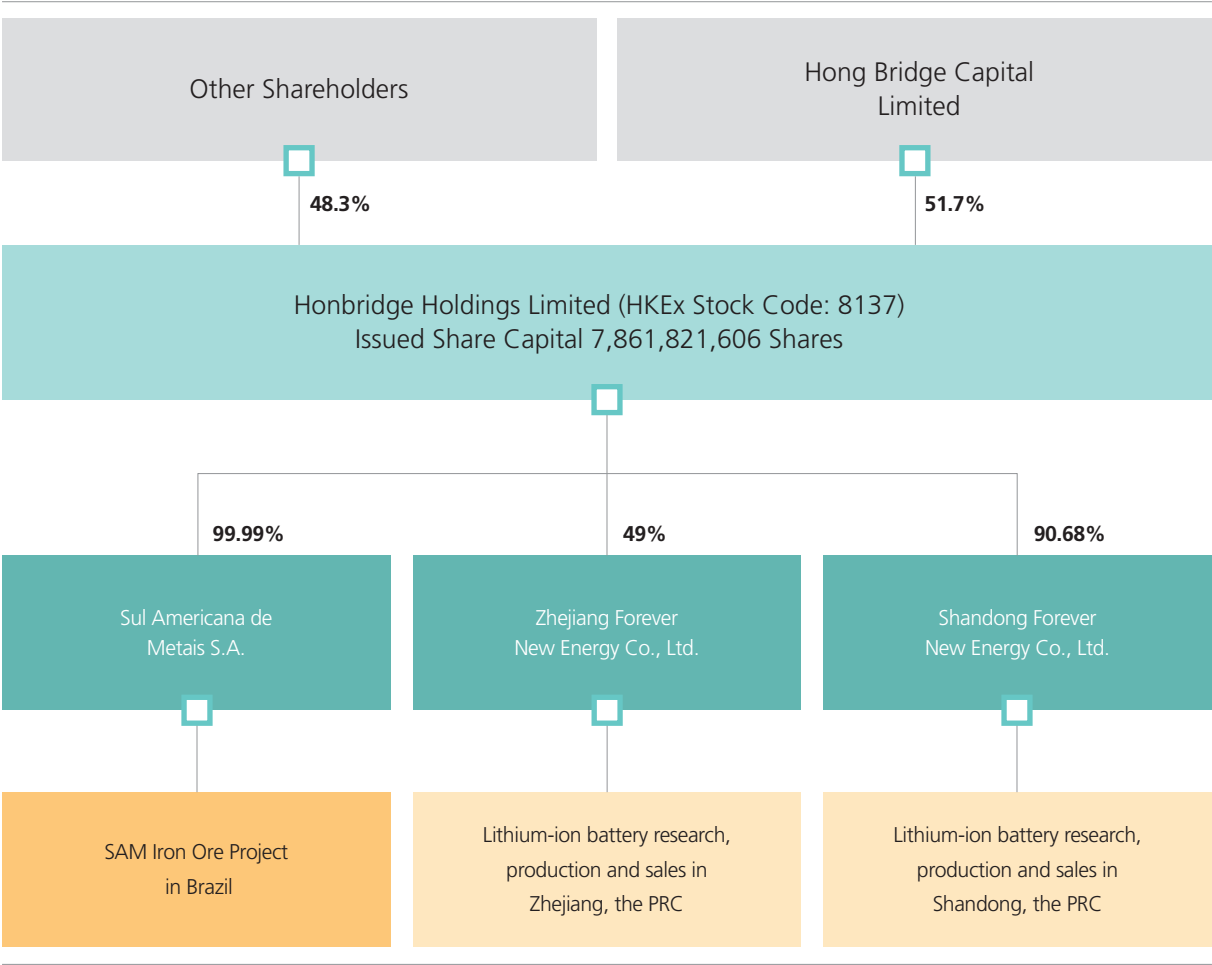
STOCK CODE

8137

COMPANY WEBSITE

www.8137.hk

Corporate Structure



Chairman's Statement

I report the activities of the Honbridge Holdings Limited (the "Company") and its subsidiaries (together "the Group") for the year ended 31 December 2015.

BUSINESS REVIEW

In June 2015, an aggregate of 754,000,000 Placing Shares have been successfully placed by ABCI Securities Company Limited, the Placing Agent, to not less than six placees at the placing price of HK\$1.12 per placing shares. In the same month, an aggregate of 446,000,000 new Shares have been issued to Shagang International (Hong Kong) Co., Limited at a subscription price of HK\$1.12 per subscription shares. Net proceeds of HK\$836.7 million and HK\$499.3 million have been successfully raised through the placing and share subscription respectively. The HK\$1,336.0 million fund raised improved the financial position of the Group and build a solid foundation for the Group to execute its business plan.

On 16 December 2015, the Group, Shanghai Maple Automobile Company Limited, a subsidiary of Zhejiang Geely and Jiaying Jiale established a joint investment named Zhejiang Forever New Energy Company Limited ("Zhejiang Forever New Energy") in Jinhua City, Zhejiang Province, the People's Republic of China. With total investment of approximately RMB1,500 million, Zhejiang Forever New Energy will develop a modern lithium-ion battery enterprise with annual production capacity of 1,500,000 kWh lithium-ion battery in Jinhua New Energy Automobile Industrial Park. The Group is the single largest shareholders of Zhejiang Forever New Energy and holds 49% equity interest.

In order to streamline the structure and concentrate resources on other business, the Group has disposed the loss-making metal trading business in December 2015.

The total revenue recorded by the Group was HK\$115.4 million in 2015 financial year. The lithium-ion battery business contributed HK\$114.0 million revenue to the Group. The remaining revenue came from the mineral resources and steel metal trading arm. Compared to 2014, trading segment revenue decreased from HK\$3.5 million to HK\$1.4 million which is mainly due to the decrease in the number of transactions.

Group results changed from loss of HK\$3,241.8 million in 2014 to a loss of HK\$1,995.0 million in 2015. The loss was mainly due to the impairment loss of HK\$3,305.8 million on exploration and evaluation asset recognised mainly due to the substantial decrease in iron ore concentrates price and delay of commencement date of operations in current year.

PROSPECTS

Thanks to the global awareness of environmental protection and policies favouring new energy, there is an increasing number of automobile enterprises which start to expand the production scale of electric vehicles. The Group is determined to develop in new energy vehicles industry and is looking for acquisition and investment target which is engaged in battery, motor vehicle management system as well as new energy vehicle manufacturing business. Our strategy is to conduct industry integration by mergers and acquisitions globally in order to obtain the world's cutting-edge techniques and to integrate creativity, and to industrialize the production of new energy vehicles and related core components in China. The Company entered the lithium-ion power batteries field after the acquisition of Shandong Forever New Energy Co., Ltd. in September 2014. In 2016, the Group will focus on developing Zhejiang Forever New Energy into 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 will occupy an area of approximately 200 Mu, and it can produce approximately 1,500,000 kWh lithium-ion battery for new energy vehicles annually after completion of the construction of the production facilities, which is scheduled in late-2017.

Chairman's Statement

For the resource sector, the iron ore market has experienced a difficult year with weaker demand and increasing supply. Nevertheless, there were still no breakthrough in the progress of the Group's efforts in obtaining approvals for starting the construction in respect of the SAM iron ore project.

The overall business strategy of the Group is the dual development of new energy and resources, creating value for our shareholders. The Group will continue to look for potential new energy vehicles related projects for co-operation and acquisition while at the same time ensure the idle cash is properly utilised to provide return to the Company.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and cooperative partners for their continued support during 2015 and all staff for their hard work.

He Xuechu

Chairman

Hong Kong
29 March 2016

Management Discussion and Analysis

NEW ENERGY VEHICLES-RELATED BUSINESS

Benefit from the global awareness of environmental protection and policies favouring new energy, there is an increasing number of automobile enterprises which start to expand the production scale of electric vehicles, including hybrid electric vehicle and pure electric vehicle. Lithium-ion battery cells which is the power and energy storage carrier of new energy vehicles, have been under tremendous and sustained market demand. Under these good business development opportunities, the Company acquired Shandong Forever New Energy Co., Ltd. in 2014 and established Zhejiang Forever New Energy in 2015.

The Group is also determined to enter the field of new energy vehicles and intended to acquire all the core technology such as battery management system, electric motor system and vehicle control module by acquisition. Through integration of technology and innovation, ultimately, produce and sell new energy vehicles and following this direction to seek for merger and acquisition opportunities.

INVESTMENT AGREEMENT TO FORM A MODERN LITHIUM-ION BATTERY JOINT VENTURE WITH 1,500,000 KWH ANNUAL PRODUCTION CAPACITY IN JINHUA

On 25 October 2015, the Company entered into an investment agreement with the Zhejiang Jinhua Economic and Technological Development Zone Committee (金華開發區管委) ("Jinhua Development Zone Committee") and Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely") to establish a modern lithium-ion battery enterprise in Jinhua City, Zhejiang Province.

Formation of a Joint Investment Project Company

On 16 December 2015, Honbridge Power Limited, a wholly owned subsidiary of the Company, Shanghai Maple Automobile Company Limited, a subsidiary of Zhejiang Geely and Jiaying Jiale established a joint investment named Zhejiang Forever New Energy Company Limited ("Zhejiang Forever New Energy") in Jinhua New Energy Automobile Industrial Park to serve as the operation entity of the Project (as defined below). The total investment is RMB1,500 million (including cost of acquiring the land use rights for constructing production site, equipment and working capital) which will be funded by equity capital and loan.

Business Scope of the Zhejiang Forever New Energy

Zhejiang Forever New Energy will develop 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 will occupy an area of approximately 200 Mu, and it can produce approximately 1,500,000 kWh lithium-ion battery for new energy vehicles annually after completion of the construction of the production facilities, which is scheduled in late-2017.

Reason and Benefit of the Investment Agreement and Arrangement of Joint Venture

The headquarters of Zhejiang Geely is established in Zhejiang Province and is principally engaged in manufacturing and sales of automobile. Zhejiang Geely owns and control the automobile brand "Geely" in the PRC and luxury European automobile brand "Volvo", and Zhejiang Geely is also one of the Fortune Global 500 companies in 2014. Through co-operation with Zhejiang Geely, the Company can benefit from its business running experience in Zhejiang and along with the support from Jinhua Development Zone Committee, which will be beneficial for the Project development.

Management Discussion and Analysis

LITHIUM-ION BATTERIES BUSINESS

Currently, the production plant of Shandong Forever New Energy Co., Ltd. (“Shandong Forever New Energy”) 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 design 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.

In October 2015, the new ternary lithium battery product has passed tests conducted by a national quality supervision and inspection center and is in fine adjustment stage and is expected to be ready for mass production in 2016. In December 2015, Shandong Forever New Energy was recognised by certain government authorities under the Shandong Province government as a high-tech Enterprises (“高新技術企業”).

Subject to various factors such as technology, crafts, investment and sales of products, the Company is re-valuating the expansion plan in Zou Cheng, Shandong and exploring the possibilities of massive expansion in areas other than Jinhua in Zhejiang. Nevertheless, Shandong Forever New Energy will continue to improve and optimise its production facilities.



Staff group photo taken in an outdoor group activity.



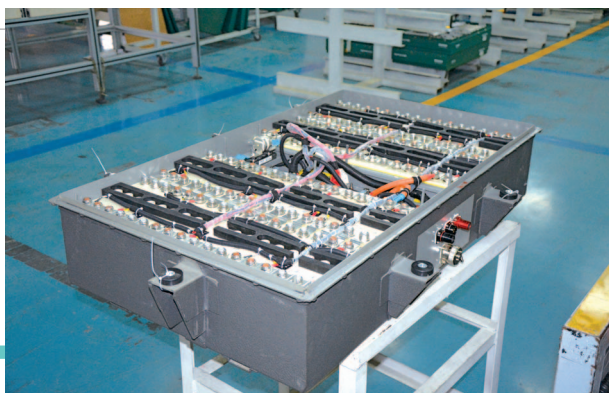
The appearance of the new ternary lithium battery cell.

During the year ended 31 December 2015, Shandong Forever New Energy, recorded a revenue of approximately HK\$114.0 million (equivalent to approximately RMB91.7 million), which decreased by 33.9% when compared to HK\$172.4 million (equivalent to approximately RMB136.8 million) revenue recognised in the last corresponding year (note). The decrease was mainly due to the scheduled modification of production line in 2015. However, the overall gross profit percentage has improved from last corresponding period’s 17.4% to 19.5% because Shandong Forever New Energy only commenced mass production in late 2013. In the current year, Shandong Forever New Energy has lowered the average unit cost of products due to the better economies of scale, lower merchandising price of raw materials and improved production schedule and management. During the year ended 31 December 2015, Shandong Forever New Energy’s earnings before interests, taxes, depreciation and amortisation (“EBITDA”) and excluding the impairment losses was approximately HK\$38.1 million (equivalent to approximately RMB30.7 million). However, the net loss for the lithium-ion batteries business was approximately HK\$278.1 million (equivalent to approximately RMB223.7 million) during the year ended 31 December 2015 mainly due to the non-cash amortisation expenses of patents and customers relationship of HK\$38.7 million and HK\$2.8 million (equivalent to approximately RMB31.1 million and RMB2.3 million respectively) charged and impairment loss of HK\$290.1 million (equivalent to approximately RMB233.4 million) recognised in the same year respectively. The significant impairment loss recognised was mainly due to the change of expansion plan in Shandong Forever New Energy in order to focus on the plan and resources in Zhejiang Forever New Energy. Other details on Shandong Forever New Energy have been set out in annual report 2015 of the Group.

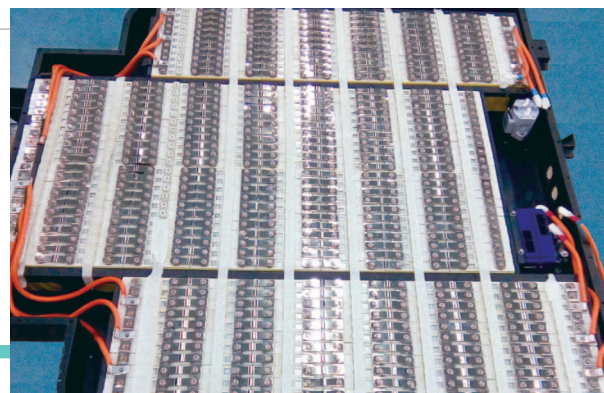
(Note: Shandong Forever New Energy only became a subsidiary of the Group since 26 September 2014 so its 2014 results did not form part of the Group’s consolidated results for the nine months ended 30 September 2014. They are presented in this report for reference purpose only.)

Management Discussion and Analysis

LITHIUM-ION BATTERIES BUSINESS – CONTINUED



Sophisticated integration and combination of battery cells into a battery pack



Internal structure of a battery pack

Statement of profit or loss for Shandong Forever New Energy prepared in accordance with PRC accounting standards

| | 2015 RMB Unaudited | Year ended | |
|---------------------------------|--------------------------|------------------------|------------------------|
| | | 2014 RMB Audited | 2013 RMB Audited |
| Revenue | 91,706,897.70 | 137,274,477.83 | 18,181,156.02 |
| Cost of sales | (73,792,900.15) | (113,000,695.82) | (22,657,658.52) |
| Gross profit (loss) | 17,913,997.55 | 24,273,782.01 | (4,476,502.50) |
| Selling and distribution costs | (1,850,484.72) | (1,270,764.10) | (468,539.01) |
| Administrative expenses | (11,621,263.23) | (10,753,655.24) | (8,189,211.28) |
| Finance income (costs) | (597,443.16) | (943,941.69) | 467,682.85 |
| Write-down of inventories | – | (1,004,723.48) | (5,514,350.97) |
| Operating profit (loss) | 3,844,806.44 | 10,300,697.50 | (18,180,920.91) |
| other income | 11,432,678.15 | 9,181,371.69 | 9,141,379.96 |
| other expenses | (566,743.85) | (113,112.30) | (1,261.49) |
| Profit (loss) before tax | 14,710,740.74 | 19,368,956.89 | (9,040,802.44) |
| Income tax (expenses) credit | (4,508,100.11) | (4,842,239.23) | 5,553,082.35 |
| Net Profit (loss) | 10,202,640.63 | 14,526,717.66 | (3,487,720.09) |

(Note: The figures presented here is not prepared in accordance with Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants. They are for reference purpose only.)

Management Discussion and Analysis

POSSIBLE ACQUISITION OF A TARGET COMPANY BASED IN NORTH AMERICA WITH MASS PRODUCTION FACILITY LOCATED IN CHINA

The Company has been negotiating with the major shareholder of a target company (the "Target Company") for a possible acquisition for more than a year. The Target Company is principally engaged in the research and development, manufacture and sale of electric vehicle power system as well as provides electric vehicle integration solution for automobile manufacturers. The products of the Target Company include high power motors, inverters, high power chargers, energy regeneration system, vehicle control module and battery management system. The Target Company has a number of patented technologies (and a few pending patents) and the reliability of its advanced technology has been validated by a numbers of leading automobile manufacturers worldwide. The research and development headquarter of the Target Company is located in North America and a mass production facility which is under construction will be located in China. As at the date of this report, the parties has not reached consensus on certain trading conditions and the negotiation is still ongoing. The Company is not in a position to determine whether and when any agreements will be reached finally.

COOPERATION FRAMEWORK AGREEMENT ON NEW ENERGY AUTOMOBILE PRODUCTION BASE

On 16 October 2014, the Company entered into a non-legally binding cooperation framework agreement (the "Cooperation Framework Agreement") with the New District Administrative Committee of Wuxi Municipal People's Government, Jiangsu Province of the PRC (the "Wuxi New District Administrative Committee") and Sunbase International (Holdings) Limited ("Sunbase Holdings") to establish a new energy automobile production base in the New District of Wuxi (the "Production Base") jointly with Sunbase Holdings. The initial annual production target of the Production Base is 200,000 new energy vehicles, 3,000,000 kWh power batteries, as well as around 200,000 sets of core components such as electric motor system and electronic vehicle control module. Since the parties were unable to reach consensus for the cooperation details, the negotiation was terminated in November 2015.

PLACING OF 754,000,000 NEW SHARES OF THE COMPANY

On 30 June 2015, an aggregate of 754,000,000 Placing Shares have been successfully placed by ABCI Securities Company Limited, the Placing Agent, to not less than six places at the Placing Price of HK\$1.12 per Placing Share (the "Placing") pursuant to the terms and conditions of the Placing Agreement, the net proceeds are approximately HK\$836.7 million.

SUBSCRIPTION OF 446,000,000 NEW SHARES OF THE COMPANY BY SHAGANG INTERNATIONAL (HONG KONG) CO., LIMITED ("SHAGANG INTERNATIONAL")

On 19 June 2015, an aggregate of 446,000,000 new Shares have been issued to Shagang International at the Subscription Price of HK\$1.12 per Subscription Share (the "Share Subscription"). The net proceeds from the Share Subscription are approximately HK\$499.3 million.

Shagang International is an investment holding company wholly owned by Jiangsu Shagang Group Company Limited (江蘇沙鋼集團有限公司) (the "Shagang Group"). Shagang International is principally engaged in international trading, foreign investments and development of foreign resources. Shagang International currently holds approximately 47% shareholding in Grange Resources Limited, an iron ore mining company listed on the ASX Limited (ASX Code: GRR) in Australia.

Shagang Group is the largest privately owned steel and iron company in the PRC. According to information provided by the Shagang Group, the recognised revenue of the Shagang Group in 2014 was approximately RMB248.5 billion with a gross profit ranked second in the corresponding industry in the PRC. In 2014, the Shagang Group ranked 54th and 19th among the Top 500 Enterprises of China and Top 500 Manufacturers of China respectively. In addition, the Shagang Group has been ranked among the Fortune's Global 500 list of the world's largest corporations for 6 consecutive years and the Shagang Group ranked 308th in 2014.

Management Discussion and Analysis

DISPOSAL OF HONBRIDGE INTERNATIONAL TRADING COMPANY LIMITED (“HONBRIDGE INTERNATIONAL TRADING”)

To further streamline the structure of the Group, reduce losses and concentrate its resources on other businesses, on 23 December 2015, the Company has disposed the entire issued share capital of Honbridge International Trading to an independent third party for a cash consideration of HK\$0.1 million. A gain of approximately HK\$3.2 million was recognised due to this disposal.

PROGRESS OF SAM

As at 31 December 2015, SAM has approximately 29 staff in Brazil. As of the date of this report, the Group has provided funding with principal amount of approximately USD64 million to SAM through shareholders' loans and increase of registered capital in SAM and it is expected that approximately USD38 million would be required for the preliminary works from now until all major approvals are obtained.

SAM is devoted to develop Block 8 as phase I of operation with an annual production capacity of 27.5 million tons of 66.5% or above iron concentrate. The project will have an integrated system comprised an open-pit mine, a beneficiation plant, a 480km underground slurry pipeline, filtering plant and port for product export. According to local topographic features, Block 8 was named as Vale do Rio Pardo.

1. Construction Phase I

For the construction of Vale do Rio Pardo project, after extensive beneficiation test and completion of feasibility study, extensive engineering design for mining, beneficiation, water supply, electricity supply, pipelines and ports has commenced.

2. Licenses and Approvals for Commencement of Construction

Construction of the project shall obtain 8 major approvals according to the Brazilian laws, including:

Vegetation Suppression License (“ASV”): SAM will be granted by Brazilian Institute of Environment and Renewable Natural Resources (“IBAMA”) together with Installation License if land owners across the underground pipeline route and mine area agree the pipeline to pass through their properties. SAM will restart the negotiations with land owners only after preliminary license (“LP”) for Block 8 is granted and the pipeline route is confirmed.

Preliminary License (LP): Environmental impact assessment (“EIA”) has been submitted to IBAMA, the government agency responsible for environmental licensing of the SAM project, on 3 July 2012 and was accepted on 21 August 2012. Three public hearings were held in January 2013. On 12 December 2013, IBAMA issued technical opinions requesting further clarification/detailing about the EIA. On 27 February and 24 October 2014, SAM submitted IBAMA some supplementary documents and further elaborations. At the request and under supervision of IBAMA, SAM has hosted the forth public hearing session on 5 February 2015. On 7 May 2015, IBAMA requested SAM to procure Compliance Certificates from 22 cities in the directly affected area of the project. The Compliance Certificate states that the location, project type and activity of Vale do Rio Pardo Project is in conformity with the municipal law of the city regarding to land use and occupation. By the end of 15 June 2015, SAM had procured all the 22 Compliance Certificates. On 13 July 2015, SAM received a report of technical opinions from IBAMA, in which some minor points need further supplemental information and clarifications. In October 2015, SAM filed the clarification documents for IBAMA further review.

Management Discussion and Analysis

PROGRESS OF SAM – CONTINUED

2. Licenses and Approvals for Commencement of Construction – continued

On 5 November 2015, a tailing dam located in the region of Mariana, Minas Gerais State of Brazil broke and caused significant damages and pollution in the surrounding area. Although this most serious accident in Brazilian mining history is not related to the SAM project, it raised safety concern on tailing dams. The accident is leading to stricter related laws and regulations, which will make all environmental licenses for mine projects with tailing dam in Brazil severely delayed. The Company expects more in-depth studies and work are required for the tailing disposal of the project.

On 23 May 2014, SAM received a summons from Minas Gerais Federal Courts in relation to a civil action against SAM and IBAMA, claiming SAM environmental licensing application is not supported with sufficient details and analysis and does not comply with relevant laws. The Group appointed a Brazilian legal representative who is experienced in the area to defend SAM. According to the legal opinion of a Brazilian legal firm, SAM application is in accordance with relevant laws and the civil action against SAM is not supported with concrete evidence. IBAMA also issued a document which confirmed the licensing process of SAM is in accordance with the Brazilian environmental legislation and defended against the civil action along with SAM. The plaintiff has submitted supplemental information to the court on 15 October 2014 according to the solicitation of the judge. In February 2015, Minas Gerais Federal Courts requested the Federal Public Ministry to express its opinion on the civil action. On 8 June 2015, Federal Public Ministry answered the court and expressed the same legal statement with SAM that the plaintiff is illegitimacy. As a conclusion of Federal Public Ministry's answer, Federal Public Ministry requested the court to extinguish the civil action. On 30 September 2015, the plaintiff filed an appeal and the case was forwarded to the second instance. SAM filed related counter arguments on 20 January 2016. As at the date of this report, SAM is awaiting the court's decision but the Group believe this civil action does not have material impact on the overall plan and progress of the Vale do Rio Pardo project.

Installation License ("LI"): SAM is still in the process of preparing the basic environment plan ("PBA"), which is one of the documents required for LI application.

Mining License ("PL"): Economic development plan report was first submitted in 2013 and supplementary documents have been submitted on 26 November 2014 and 27 January 2015, which all submissions are currently under review by DNPM.

Landowners Expropriation Authorization: The Minas Gerais state government in Brazil has issued a public utility decree ("DUP") on 22 January 2014, which declares the land including attachments and young crops above the cities, which SAM iron ore project pipeline under phase one construction will pass through, as land for public facilities and creating easements. The decree also authorises the relevant bodies to perform land acquisition and creating easements by claiming the urgency of project as stipulated in the decree when necessary. As part of the pipeline needs to pass through Bahia state, SAM is seeking Bahia state to issue similar DUP. On 6 September 2013, Bahia state signed a Memorandum of Understanding with SAM, in which Bahia state committed to issue the "DUP" once SAM's Vale do Rio Pardo project is granted LP.

Federal Water License and State Water License: The Brazilian Federal Water Authority has granted SAM a water right in March 2012, which allows SAM to have an annual water consumption of 51 million cubic meters from the Irape Dam for 20 consecutive years. The Irape Dam is approximately 50 kilometers from the beneficiation plant. Agreement was reached with the State of Minas to construct a dam in Vacaria, which is 17 kilometers from the beneficiation plant, with an annual water consumption of 60 million cubic meters. The environmental impact studies (EIA) for Vacaria dam is currently in the process.

Management Discussion and Analysis

PROGRESS OF SAM – CONTINUED

2. Licenses and Approvals for Commencement of Construction – continued

ANTAQ Port Operating License: In view of the changes of Brazilian overall economic environment and the pressure from the falling down price of international iron ore, on 5 December 2014, Bahia Government published a public notice that the tender was suspended. According to the previous tender document, Porto Sul consists of a private port as well as a public port owned by the government of the State of Bahia (“Bahia Government”) to transport iron ore, feed, soybeans, ethanol, fertilizer and other bulk cargo. The infrastructure of the project includes an on-shore area of approximately 1,224.9 hectares, a bridge of 3,500 meters long, a pier, a breakwater, a quarry and other facilities related to Porto Sul.

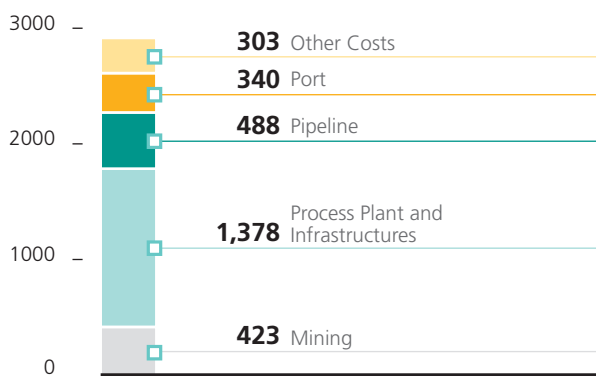
Bahia Government decided to scale down the whole Porto Sul and give priority to build iron ore exclusive pier. Bahia Government has appointed a famous investment bank of Brazil, to optimize the Porto Sul scheme including the shareholding structure and financial model, which target to improve the port financially so that operators, users and other stakeholders of the project will benefit from it. Porto Sul has already obtained its LP, LI, DUP and ASV.

According to SAM’s project timetable for mine, beneficiation plant and pipeline, SAM will actively participate in preparation stage studies for the new Porto Sul and dedicated to create advantages for being an operator and an user of Porto Sul in the future.

3. CAPEX and OPEX

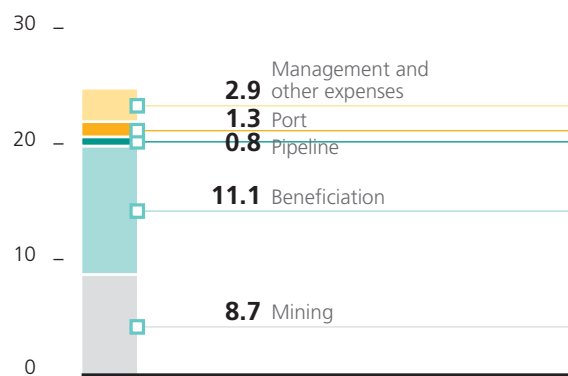
The latest estimated capital expenditure (“CAPEX”) is approximately USD2.93 billion (2014: USD3.96 billion) while F.O.B. operating cost (“OPEX”) (per ton of iron concentrate) is approximately USD24.8 (2014: USD38.8) for Vale do Rio Pardo. The decrease in CAPEX was mainly due to the decrease in the price of steel which is a significant cost component of construction. Besides, the estimated price of machineries and equipment also decreased because of the weak demand in the mining industry. Decrease in oil price, depreciation of Brazilian Reals against the dollar and scale down of the port improved the OPEX of the project.

CAPEX (US\$’million)



Total **2,932**

OPEX/ton (US\$)



Total **24.8**

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

Management Discussion and Analysis

PROGRESS OF SAM – CONTINUED

4. Others

On 21 October 2014, the Ministry of Mines and Energy of Brazil (MME) issued a permit that allow SAM to connect to the national power grid at the Irape Dam, SAM will continue to work on the electricity supply related engineering design and environmental studies.

As the relevant government authorities require more time in reviewing the relevant applications, the time to obtain the approvals is already greatly lagging behind the estimates made by the management earlier. The Company is actively seeking to obtain all the license and commence construction before mid-2019.

In current year, there was a significant decrease in iron ore price. Although the decrease in steel and oil price, along with the depreciation of Brazilian Reais against US dollar, improved the CAPEX and OPEX of the Vale do Rio Pardo project, SAM project has become less attractive.

IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

As disclosed in the Company's 2014 annual report, based on a JORC compliant iron mineral resources report of SAM, the valuation of SAM's exploration rights estimated by an independent professional valuer, Roma Appraisal Limited, was approximately USD1,147.0 million (equivalent to approximately HK\$8,900.7 million) as at 31 December 2014.

A revaluation on SAM's exploration and evaluation assets has been performed as at year end date 31 December 2015 and the recent iron ore concentrate price in the market has been considered in the revaluation. Additionally, based on the latest studies, an updated USD2.93 billion CAPEX (2014: USD3.96 billion) and USD24.8 per tonnes OPEX (2014: USD38.8 per tonnes) were applied in the revaluation. Regarding the project timeline, the new operation commencement date is expected to be mid-2022 as it requires more time for relevant government authorities in reviewing applications. 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 USD350.0 million (equivalent to approximately HK\$2,716.0 million). An impairment loss of USD426.0 million (equivalent to approximately HK\$3,305.8 million) on exploration and evaluation assets has been recognised in current year accordingly.

TERMINATION OF THE SHARE PURCHASE AGREEMENT IN RELATION TO ACQUISITION OF SAM (THE "SPA")

Pursuant to the SPA (as amended by the Supplemental SPA), if the Required Approvals have not been fully obtained by 11:59 p.m. New York City time on 5 September 2014 (the "Termination Date"), VNN, Lit Mining ("Sellers") or Infinite Sky ("Buyer"), a subsidiary of the Company, has the right to terminate the SPA (as amended by the Supplemental SPA), provided that the right to terminate shall not be exercisable by any party whose failure to comply with the SPA or the other Transaction Documents has materially contributed to, or resulted in, the failure of the transactions contemplated above to occur on or prior to the Termination Date (the "Termination Provisions").

On 5 September 2014 (New York City time), the Required Approvals had not been fully obtained. Accordingly, Infinite Sky issued a termination notice to VNN and Lit Mining pursuant to the Termination Provisions on 6 September 2014 (New York City time), requesting (i) VNN and Lit Mining's execution of the joint instructions to the Custodian to release the New Trinity Certificate to Infinite Sky; (ii) transfer of the Golden Share to New Trinity; and (iii) VNN and Lit Mining's execution of the release relating to the Brazilian Security Agreement.

Management Discussion and Analysis

TERMINATION OF THE SHARE PURCHASE AGREEMENT IN RELATION TO ACQUISITION OF SAM (THE "SPA") – CONTINUED

Infinite Sky had received correspondence from VNN that the latter rejected the said termination and did not consider the SPA (as amended by the Supplemental SPA) had been terminated (and therefore did not intend to sign the joint instructions to the Custodians or transfer the Golden Share) unless and until the parties had reached a mutually agreeable commercial resolution regarding the foregoing, or an arbitration decision compels VNN and Lit Mining to do so. On 10 June 2015, the Group filed a request for arbitration against Lit Mining and VNN in relation to termination of the SPA (as supplemented by the Supplemental SPA) (the "Arbitration"). VNN also filed a counterclaim stated that an Acceleration Event has occurred under the SPA as a result of a series of funding arrangements made by the Company, thereby requiring Infinite Sky to pay USD315.0 million, such amount being the total maximum amount to be paid to VNN for the project under the SPA less the amount already settled. As at report date, the Arbitration is still in progress.

The Arbitration is an inherently uncertain process. If the Group were to prevail in the Arbitration, a possible outcome would be that VNN would need to transfer the Golden Share, as well as return the other documents requested by the Group, and the Group would not need to pay the remaining instalments of consideration (namely the Approvals Payment, and those payables on Port Operation Commencement and Mining Production Commencement) under the Share Purchase Agreement (as amended by the Supplemental SPA). In the event VNN were to prevail, one of the possible outcomes would be that the Group would need to continue to perform the terms of Share Purchase Agreement (as amended by the Supplemental SPA) as if no Arbitration had taken place. The Arbitration and the counterclaim filed by VNN are not expected to cause material impact on the operation of the Group and the SAM iron ore project in Brazil. The Group will continue to push forward the SAM iron ore project like always.

As there will be time, money factors and other uncertainties during the Arbitration, the Group does not rule out to discuss a commercial resolution with VNN which is beneficial for both sides.

TERM SHEET IN RELATION TO POTENTIAL INVESTMENT IN LIMITED PARTNERSHIP

Upon completion of the Placing and the Share Subscription in June 2014, the Company received an aggregate of HK\$1,336.0 million of net proceeds, the majority of which was intended to be applied to the new energy vehicle related field. However, as at the date of this announcement, the Company has yet to identify suitable investment and acquisition targets in the new energy vehicle-related field. Whilst the Company will continue to explore and identify suitable targets in the new energy vehicle-related field, the Company has 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.

On 25 March 2016, the Company and Cloudmatrix entered into a term sheet (the "Term Sheet") which was non-legal binding in nature. Pursuant to the Term Sheet, the Company agreed to invest at least US\$10.0 million (equivalent to HK\$78.0 million) as a limited partner in the limited partnership (the "Limited Partnership") to be managed by Cloudmatrix. The Company intends to invest an amount no more than US\$70.0 million (equivalent to HK\$546.0 million) in the Limited Partnership.

The investment objective of the Limited Partnership is to seek to generate guaranteed return by investing, either directly or indirectly, in entities within the telecommunication media and technology industry.

As at the date of this report, no definitive agreement has been entered into between the Company and Cloudmatrix.

BUSINESS REVIEW

For the year ended 31 December 2015, the Group recorded a turnover of HK\$115.4 million which comprised HK\$1.4 million from mineral resources and steel metal trading and HK\$114.0 million from the sale of lithium-ion batteries. Group results changed from loss of HK\$3,241.8 million in 2014 to a loss of HK\$1,995.0 million in 2015. It was mainly due to the decrease in impairment loss of HK\$1,168.2 million on exploration and evaluation asset recognised in current year.

Management Discussion and Analysis

LIQUIDITY AND THE USE OF PROCEEDS FROM PLACING AND SHARE SUBSCRIPTION

During the year ended 31 December 2015, the operation of the Group was mainly financed by the proceeds received from Placing and Share Subscription and the proceeds received from sale of treasury shares. HK\$1,336.0 million net proceeds have been raised from the Placing and the Share Subscription, HK\$109.1 million has been utilised to repaid the loans and related interest from the ultimate holding company, approximately HK\$12.4 million as general working capital and approximately HK\$8.4 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$1,206.1 million, HK\$950.0 million will be invested into the new energy automotive-related business, HK\$191.6 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$64.5 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Approximately HK\$30.4 million has been invested in Zhejiang Forever New Energy and all of the amount will be utilised in the lithium-ion batteries business.

As at 31 December 2015, the Group had net current assets of HK\$674.3 million (31 December 2014: HK\$132.1 million). Current assets mainly comprised of bank balances and cash of HK\$1,228.7 million, trade and bill receivables of HK\$118.5 million, prepayments, deposits and other receivables of HK\$11.5 million and inventories of HK\$38.0 million. Current liabilities mainly comprised of convertible bonds liabilities of HK\$552.4 million and derivative financial liabilities of HK\$68.2 million, trade and bill payables of HK\$56.1 million, other payables and accrued expenses and receipts in advance of HK\$8.5 million.

The increase in current assets was mainly due to the increase in cash and cash equivalent of approximately HK\$1,171.6 million after completion of the Placing and Share Subscription in June 2015. The amount was mainly net-off by the HK\$552.4 million convertible bonds liabilities and its derivative financial liabilities of HK\$68.2 million which both were classified as non-current in year 2014.

Besides, the amount of trade and other receivables, trade and other payables decreased significantly because HK\$266.0 million trade and other receivables and HK\$268.3 million trade and other payables were disposed along with Honbridge International Trading Company Limited.

As at 31 December 2015, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.38 (31 December 2014: 0.17).

SIGNIFICANT INVESTMENT PLANS

Save as disclosed above, as at 31 December 2015, the Group did not have any significant investment plans.

CAPITAL COMMITMENTS

As at 31 December 2015, the Group has contracted but not provided for capital commitments in relation to property, plant and equipment amounted to approximately HK\$14.5 million. Zhejiang Forever New Energy was established in the PRC with registered capital of USD80.0 million which the Group held 49% of its equity interests. As at 31 December 2015, the Group injected USD3.9 million (approximately to HK\$30.4 million) as capital to Zhejiang Forever New Energy and the remaining balance of USD35.3 million (approximately to HK\$273.8 million) to be injected on or before 31 December 2025.

CONTINGENT CONSIDERATION AND LIABILITIES

On 5 March 2010, Lit Mining (as the seller), VNN (also as the seller), Esperento, Mineral Ventures, Infinite Sky (as the buyer), New Trinity, and the Company entered into the SPA. Pursuant to the SPA, the Consideration of USD390.0 million for the Acquisition was to be satisfied in cash in five instalment payments.

Management Discussion and Analysis

CONTINGENT CONSIDERATION AND LIABILITIES – CONTINUED

As at 31 December 2015, the first and the second instalment payment amount to USD75.0 million (equivalent to approximately HK\$582.0 million) have been settled. The third instalment payment amount to USD115.0 million (equivalent to approximately HK\$892.4 million) are to be settled on the tenth Business Day following the Approval Date (or the date Infinite Sky waives the requirements that all Required Approvals be obtained). The fourth instalment payment of USD100.0 million (equivalent to approximately HK\$776.0 million) was agreed to pay on the tenth Business Day following the Port Operation Commencement Date, being the later of (a) the Closing Date; and (b) the date by which an aggregate of 100,000 metric tons of pellet feed have been shipped through the Port on a commercial basis; and the fifth instalment payment of USD100.0 million (equivalent to approximately HK\$776.0 million) is required to settle on the tenth Business Day following the Mining Production Commencement Date.

The fair value of contingent consideration as mentioned above for the third to fifth instalments payment were approximately USD157 million (equivalent to approximately HK\$1,216 million). For financial reporting and valuation for the year ended 2015, it is considered that termination of SPA has no material impact on contingent consideration. The Company will assess the situation continuously.

As at 31 December 2015, saved as disclosed above the Group did not have any significant contingent liabilities.

EMPLOYEES

As at 31 December 2015, the total number of employees of the Group was 375 (2014: 428). Employees' cost (including directors' emoluments) amounted to HK\$41.8 million for the year (2014: HK\$34.3 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.

PROSPECT

Benefited from the increasing public awareness of environmental protection and various incentive policies implemented by different governments from time to time, new energy vehicles, especially electric vehicles, are currently facing a historic opportunity for rapid development. The core technologies of electric vehicles include power battery system, motor drive system and vehicle electronic control module. Following the acquisition and establishment of the two lithium battery projects, the Group possess one of the core technologies of electric vehicles and set to secure return from this thriving industry by providing the power system to electric automobile enterprises.

The Company is determined to develop new energy vehicle related business. The strategy is to conduct business consolidation by mergers and acquisitions globally in order to obtain the cutting-edge techniques and to integrate creativity, and to industrialize the production of new energy vehicles and related core components in the PRC.

The Company will continue to manage the progress of SAM Iron Ore Project and will seek to obtain all licenses and approvals for commencement of construction before mid-2019. If all licenses and approvals for starting the construction are obtained in mid-2019, the mine is expected to commence operation by 2022.

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

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. He Xuechu, aged 53, 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, Triumphant Glory Investments Limited and Shandong Forever New Energy Co., Ltd., all being subsidiaries of the Company.

Mr. Liu Wei, William, aged 51, is the 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. He was the managing director of a private company engaged in media business. Mr. Liu was experienced in the publication business and was involved in the publication of 世界經濟論壇 (World Economic Review), 今日健康生活 (Healthy Life Today) and 中國新聞周刊 (China News Weekly) during his tenure with the above private company. 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, Triumphant Glory Investments Limited, Zhejiang Forever New Energy Co., Ltd. and Shandong Forever New Energy Co., Ltd., all being subsidiaries of the Company. Mr. Liu is also a director of New Potential Development Limited, a company principally engaged in the after sale services of automobiles.

Mr. Shi Lixin, aged 48, a postgraduate diploma holder in business administration from the University of Wales College, Newport, has experience in mergers and acquisitions and project finance. Mr. Shi is the chief executive officer of 萬博港工業品超市有限公司 (Wanbo Industrial Provision & Exposition Co., Ltd.) since 2003 and was once the special assistant to the chairman of 湖南投資集團股份有限公司 (Hunan Investment (Group) Corporation). Mr. Shi was also the chief executive officer of a company which was involved in the business procurement of 湘潭高新技術產業開發區 (Xiangtang Hi-Tech Industrial Development Zone), which in turn contains the 湘潭(德國)工業園 (Xiangtang (Germany) Industrial Park).

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Ang Siu Lun, Lawrence, aged 55, 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 (HK Stock Code: 175). Mr. Ang assists the Group's capital market activities and investor relations.

Mr. Yan Weimin, aged 49, 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 responsible as the Group's contact person for Mainland China's steel conglomerates, mining corporations, and port and mining construction enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chun Wai, Tony, aged 44, joined the Company as Independent Non-Executive Director in October 2007. Mr. Chan is a Certified Public Accountant and owns a CPA practice. He has extensive experience in general 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 and Wai Chun Mining Industry Group Company Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. Ma Gang, aged 59, 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 46, 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Yeung Ho Ming, aged 32, 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 63, 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 power 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 power 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 power battery project, and worked as the general manager of Shandong Forever from the period 2010 to 2013. Mr. Yang Xuankun is currently a director and research and development department's chief engineer of Shandong Forever New Energy Co., Ltd. and Zhejiang Forever New Energy Co., Ltd..

Mr. Zhang Lei, aged 36, obtained a degree in Mechanical Engineering from Yangzhou University in 2001 and a master degree in Management for Auto Companies from Zhejiang Automotive Engineering Institute in 2010. From 2006 to 2010, Mr. Zhang served as the assistant to the president of Zhejiang Geely Automobile Research Institute Limited. Later, Mr. Zhang Lei has worked as the deputy general manager of Zhejiang Kingkong Automobile Company Limited, Englon Automobile Company Limited and Lanzhou Geely Automobile Company Limited respectively, and was responsible for the methanol automotive operation of Geely. He had years of experience in material molding, control engineering and management of auto companies. He joined Shandong Forever New Energy Co., Ltd. and Zhejiang Forever New Energy Co., Ltd. as general manager in July 2014 and December 2015 respectively.

Dr. Eder de Silvio, aged 53, 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, Itabirito 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.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT – CONTINUED

Mr. Jin Yongshi, aged 36, 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 nearly 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 2015.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 39 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: Nil).

FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years is set out on page 108 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 31 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 Wei, William (*Chief Executive Officer*)
Mr. Shi Lixin

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 (appointed on 28 August 2015)
Mr. Fok Hon (resigned on 19 August 2015)

In accordance with Article 116 of the Articles of Association of the Company, Mr. He Xuechu, Mr. Yan Weimin, Mr. Chan Chun Wai, Tony and Mr. Ha Chun 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' Report

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 2015, 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

| Name of director | Number of shares in the Company | | | Number of Share option ² | Total | Approximate percentage of shareholding (%) |
|-----------------------|---------------------------------|--------------------|------------------------------------|-------------------------------------|---------------|--|
| | Beneficial owner | Interest of spouse | Interest of controlled corporation | | | |
| HE Xuechu | 57,939,189 | 22,460,000 | 4,065,000,000 ¹ | – | 4,145,399,189 | 52.73 |
| LIU Wei, William | 9,002,000 | – | – | 30,000,000 | 39,002,000 | 0.50 |
| SHI Lixin | – | – | – | 25,000,000 | 25,000,000 | 0.32 |
| YAN Weimin | 30,000,000 | – | – | 30,000,000 | 60,000,000 | 0.76 |
| ANG Siu Lun, Lawrence | – | – | – | 15,000,000 | 15,000,000 | 0.19 |
| CHAN Chun Wai, Tony | 1,000,000 | – | – | 2,000,000 | 3,000,000 | 0.04 |
| MA Gang | – | – | – | 3,000,000 | 3,000,000 | 0.04 |
| HA Chun | – | – | – | – | – | – |

Notes:

- 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 68% equity interest of Hong Bridge.
- This refers to the number of underlying shares of the Company covered by its share option scheme.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2015, 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.

Directors' Report

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 2015, an aggregate of 118,750,000 Shares were issuable pursuant to share options granted. For the year ended 31 December 2015, 9,500,000 share option was granted and 17,250,000 options were exercised by the grantees and 3,500,000 options were lapsed pursuant to the Scheme.

As at 31 December 2015, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 594,567,971, representing approximately 7.6% of the issued share capital of the Company as at 31 December 2015.

Directors' Report

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.

Directors' Report

SHARE OPTION SCHEME – CONTINUED

(ii) Details of options granted

Particulars and movements during the year of the outstanding share options granted under the Scheme and Option Deed were as follows:

| Name or category of participant | Number of share options | | | | | Outstanding as at 31/12/2015 | Date of grant of share options (Note a) | Exercise period of share option | Exercise price per share option HK\$ | Price immediately preceding the grant date of share options (Note b) HK\$ | Price immediately preceding the exercise date of share options (Note c) HK\$ |
|--|------------------------------|-------------------------|---------------------------|------------------------|---------------------------|------------------------------|---|---------------------------------|---|---|--|
| | Outstanding as at 01/01/2015 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year | | | | | | |
| Director | | | | | | | | | | | |
| LIU Wei, William | 30,000,000 | - | - | - | - | 30,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| | 10,000,000 | - | (10,000,000) | - | - | - | 28/05/2012 | 28/05/2012 – 27/05/2020 | 0.95 | 0.91 | 2.49 |
| SHI Lixin | 20,000,000 | - | - | - | - | 20,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| | 10,000,000 | - | (5,000,000) | - | - | 5,000,000 | 28/05/2012 | 28/05/2012 – 27/05/2020 | 0.95 | 0.91 | 2.49 |
| YAN Weimin | 30,000,000 | - | - | - | - | 30,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| ANG Siu Lun, Lawrence | 15,000,000 | - | - | - | - | 15,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| CHAN Chun Wai, Tony | 3,000,000 | - | (1,000,000) | - | - | 2,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | 3.10 |
| FOK Hon (resigned on 19 August 2015) | 3,000,000 | - | - | (3,000,000) | - | - | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| MA Gang | 3,000,000 | - | - | - | - | 3,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| Sub-total | 124,000,000 | - | (16,000,000) | (3,000,000) | - | 105,000,000 | | | | | |
| Employee | 5,000,000 | - | - | - | - | 5,000,000 | 06/05/2010 | 06/05/2011 – 05/05/2018 | 2.60 | 2.13 | N/A |
| | 1,000,000 | - | (1,000,000) | - | - | - | 28/05/2012 | 28/05/2012 – 27/05/2020 | 0.95 | 0.91 | 2.31 |
| | - | 9,500,000 | (250,000) | (500,000) | - | 8,750,000 | 14/05/2015 | 15/05/2015 – 14/05/2023 | 2.61 | 2.55 | 3.10 |
| Total | 130,000,000 | 9,500,000 | (17,250,000) | (3,500,000) | - | 118,750,000 | | | | | |

Directors' Report

SHARE OPTION SCHEME – CONTINUED

(ii) Details of options granted – continued

Notes:

- (a) 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% |

Share options granted on 28 May 2012 and 14 May 2015 under the Share Option Scheme are 100% exercisable on the date of grant of the share options and on 15 May 2015 respectively.

- (b) The price of the Shares disclosed as immediately preceding the grant date of the share options is the Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- (c) The weighted average closing price of the Shares immediately before the date on which the options were exercised.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 December 2015, 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.

Directors' Report

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

As at 31 December 2015, 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:

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

| Name of Shareholder | Number of Shares in the Company | | | Total number of shares held | Approximate percentage of shareholding (%) |
|---|---------------------------------|--------------------|-------------------------------------|-----------------------------|--|
| | Beneficial owner | Interest of spouse | Interests of controlled corporation | | |
| Hong Bridge | 4,065,000,000 (Note 1) | – | – | 4,065,000,000 | 51.71 |
| HE Xuechu (Note 2) | 57,939,189 | 22,460,000 | 4,065,000,000 (Note 1) | 4,145,399,189 | 52.73 |
| FOO Yatian (Note 2) | 22,460,000 | 4,122,939,189 | – | 4,145,399,189 | 52.73 |
| LI Xing Xing | – | – | 4,065,000,000 (Note 3) | 4,065,000,000 | 51.71 |
| Geely International (Hong Kong) Limited | 2,250,675,675 (Note 4) | – | – | 2,250,675,675 | 28.63 |
| Zhejiang Geely Holding Group Co., Ltd. (Note 5) | – | – | 2,250,675,675 | 2,250,675,675 | 28.63 |
| LI Shufu (Note 6) | 103,064,000 | – | 2,250,675,675 | 2,353,739,675 | 29.94 |
| Shagang International (Hong Kong) Co., Ltd. | 446,000,000 | – | – | 446,000,000 | 5.67 |
| Jiangsu Shagang Group Co., Ltd. (Note 7) | – | – | 446,000,000 | 446,000,000 | 5.67 |
| Shen Wenrong (Note 8) | – | – | 446,000,000 | 446,000,000 | 5.67 |
| Yue Xiu Great China Fixed Income Fund II LP | 694,000,000 | – | – | 694,000,000 | 8.83 |
| Yue Xiu Investment Management Limited (Note 9) | – | – | 694,000,000 | 694,000,000 | 8.83 |
| Yue Xiu Investment Consultants Limited (Note 10) | – | – | 694,000,000 | 694,000,000 | 8.83 |
| Yue Xiu Securities Holdings Limited (Note 11) | – | – | 694,000,000 | 694,000,000 | 8.83 |
| Yue Xiu Enterprises (Holdings) Limited (Note 12) | – | – | 694,000,000 | 694,000,000 | 8.83 |
| Guangzhou Yuexiu Holdings Limited (Note 13) | – | – | 694,000,000 | 694,000,000 | 8.83 |

Directors' Report

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

Long positions of Substantial Shareholders in the ordinary shares of HK\$0.001 each of the Company – continued

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge. Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.
2. Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.
3. Mr. LI Xing Xing holds 32% equity interest of Hong Bridge.
4. The 2,250,675,675 shares held by Geely International (Hong Kong) Limited represent 2,000,000,000 shares through a HK\$740,000,000 convertible notes with a conversion price of HK\$0.37 per conversion share of the Company and the remaining 250,675,675 represents ordinary shares held.
5. Zhejiang Geely Holding Group Co., Ltd. holds 100% equity interest of Geely International (Hong Kong) Limited.
6. Mr. LI Shufu is the controlling shareholder holding 90% equity interest of Zhejiang Geely Holding Group Co., Ltd.
7. Jiangsu Shagang Group Co., Ltd. holds 100% equity interest of Shagang International (Hong Kong) Co., Ltd.
8. Mr. Shen Wenrong is the controlling shareholder holding 46.99% equity interest of Jiangsu Shagang Group Co., Ltd.
9. Yue Xiu Investment Management Limited holds 100% equity interest of Yue Xiu Great China Fixed Income Fund II LP.
10. Yue Xiu Investment Consultants Limited holds 100% equity interest of Yue Xiu Investment Management Limited.
11. Yue Xiu Securities Holdings Limited holds 100% equity interest of Yue Xiu Investment Consultants Limited.
12. Yue Xiu Enterprises (Holdings) Limited holds 100% equity interest of Yue Xiu Securities Holdings Limited.
13. Guangzhou Yuexiu Holdings Limited holds 100% equity interest of Yue Xiu Enterprises (Holdings) Limited.

Save as disclosed above, as at 31 December 2015, 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

During the year ended 31 December 2015, the Group has interest on loans from ultimate holding company of approximately HK\$2.3 million. As at 31 December 2015, the loans from ultimate holding company were fully repaid after settlement of HK\$224.1 million during the year.

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, special reserve and share premium of the Company. The Company's reserve available for distribution to shareholders as at 31 December 2015 amounted to approximately HK\$1,178,142,000 (2014: HK\$630,123,000).

Directors' Report

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 2015.

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 2015, the five largest customers of the Group accounted for 99% of the Group's total turnover and the five largest suppliers of the Group accounted for 46% of the Group's total purchases.

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 2015.

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

During the year ended 31 December 2015, 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 2015 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

29 March 2016

Corporate Governance Report

The Company is committed to maintaining 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 2015 with the exception that the Articles of Association of the Company does not provide that (a) every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years; (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting of the Company after their appointment, and (c) deviation from code provision E.1.2. In view of good corporate governance practices, all Directors have agreed to comply with the GEM Listing Rules and that their term of appointment will be limited accordingly. Furthermore, 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.

Pursuant to Rules 5.05(1), 5.05A, 5.28 and 5.34 and code provision A.5.1 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules, (i) the Board must include at least three independent non-executive directors; (ii) the Board must appoint independent non-executive directors representing at least one third of the Board; (iii) the audit committee must comprise a minimum of 3 members, all of whom are non-executive directors only; and (iv) each of the members of the audit, remuneration and nomination committee should comprise a majority of independent non-executive directors.

Mr. Fok Hon, an Independent Non-executive Director, chairman of the Remuneration Committee as well as a member of the Audit Committee and Nomination Committee of the Company resigned on 19 August 2015. Following the resignation of Mr. Fok Hon, the Company only had two Independent Non-executive Directors which deviated from the requirements under Rules 5.05(1), 5.05A, 5.28 and 5.34 and code provision A.5.1 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules.

On 28 August 2015, Mr. Ha Chun was appointed as an Independent Non-executive Director, the chairman of the Remuneration Committee as well as a member of the Audit Committee and the Nomination Committee of the Company. Following the appointment of Mr. Ha Chun, the number of Independent Non-executive Directors of the Company and Audit Committee members fulfills the minimum number as required under Rules 5.05(1), 5.05A and 5.28 of the GEM Listing Rules, and the number of Independent Non-executive Directors in the Remuneration Committee and Nomination Committee of the Company also represents a majority as required under Rule 5.34 and code provision A.5.1 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules.

BOARD COMPOSITION

The Board of Directors (the "Board") of the Company composed of eight Directors, including the Chairman and the Chief Executive Officer who are Executive Directors, another Executive Director, 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 on pages 18 to 21 of this annual report.

Corporate Governance 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 Officer 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 committee, comprising all of the Executive Directors along with other senior executives. They report periodically to the Board their work and business decisions.

BOARD MEETINGS

Four Board meetings were held during the financial year ended 31 December 2015 and the attendance records of the Directors are as follows:

| | Attendance |
|---|------------|
| Executive Director | |
| He Xuechu (<i>Chairman</i>) | 4/4 |
| Liu Wei, William (<i>Chief Executive Officer</i>) | 3/4 |
| Shi Lixin | 3/4 |
| Non-Executive Director | |
| Yan Weimin | 4/4 |
| Ang Siu Lun, Lawrence | 3/4 |
| Independent Non-Executive Director | |
| Chan Chun Wai, Tony | 4/4 |
| Ma Gang | 4/4 |
| Ha Chun (appointed on 28 August 2015) | 1/1 |
| Fok Hon (resigned on 19 August 2015) | 3/3 |

Corporate Governance Report

Formal notice of at least 14 days are given to the Directors for board meetings. The Directors can attend meetings in person 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. Although all existing Board members are male, they 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 2015, 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.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2015.

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 also acknowledge that they have overall responsibility for the Company's internal control, financial control and risk management and shall monitor its effectiveness from time to time. Therefore, regular review of financial statements of subsidiaries are carried out by the qualified accountant of the Company.

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 37 to 38 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2015, the Auditors of the Company received approximately HK\$1,950,000 for audit services and there were no non-audit services provided by the Auditors.

Corporate Governance Report

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 2014 annual report, 2015 half-yearly report and quarterly reports 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 2015 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 Remuneration Committee was set up in 2005. 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 2015 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

Nomination Committee was set up in 2012. 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 2015 and was attended by all Committee members.

The primary duties of nomination committee is to (i) review the structure, size and composition of the Board on a regular basis and make recommendations to the Board regarding any proposed changes; (ii) identify individuals suitably qualified to become board members and select or make recommendations to the board on the selection of, individuals nominated or directorships; (iii) assess the independence of independent non-executive directors; and (iv) make recommendations to the board on relevant matters relating to the appointment or reappointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

Corporate Governance Report

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. 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 (including the value of the share options granted) of the senior management of our Group for the year ended 31 December 2015 and 2014 falls within the following band:

| | Number of individuals | |
|--------------------------------|-----------------------|------|
| | 2015 | 2014 |
| HK\$6,500,001 to HK\$7,000,000 | 1 | – |
| HK\$5,500,001 to HK\$6,000,000 | 1 | – |
| HK\$2,500,001 to HK\$3,000,000 | – | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$1,000,001 to HK\$1,500,000 | – | 1 |
| Nil to HK\$1,000,000 | 2 | 3 |

INVESTOR RELATIONS

The Group continues to promote and strengthen its relationship with investors 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.

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.

Independent Auditor's Report



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To the members of Honbridge Holdings Limited

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Honbridge Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 39 to 107, which comprise the consolidated statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BDO Limited
香港立信德豪會計師事務所有限公司

BDO Limited, a Hong Kong limited company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited

Certified Public Accountants

Lo Ngai Hang

Practising Certificate Number P04743

Hong Kong, 29 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

| | Notes | 2015 HK\$'000 | 2014 HK\$'000 |
|--|-------|--------------------|----------------------------|
| Turnover | 5 | 115,394 | 73,481 |
| Cost of sales | | (91,723) | (51,996) |
| Gross profit | | 23,671 | 21,485 |
| Other operating income | 7 | 15,028 | 4,086 |
| Selling and distribution costs | | (2,323) | (959) |
| Administrative expenses | | (98,940) | (78,912) |
| Share-based payment expenses | 32 | (10,812) | – |
| Other operating expenses | 9 | – | (3,008) |
| Impairment of exploration and evaluation assets | 15 | (3,305,838) | (4,474,063) |
| Impairment of goodwill | 18 | (176,370) | – |
| Impairment of other intangible assets | 17 | (93,037) | – |
| Impairment of property, plant and equipment | 14 | (20,688) | – |
| Gain on full settlement of loans from ultimate holding company | 27 | 3,358 | – |
| Fair value gain on derivative financial liabilities | 29 | 15,510 | 8,812 |
| Fair value gain/(loss) on contingent consideration payables | 38 | 564,740 | (190,295) |
| Gain on disposals of subsidiaries | 39 | 3,239 | 18,161 |
| Finance costs | 8 | (66,556) | (67,327) |
| Loss before income tax | 9 | (3,149,018) | (4,762,020) |
| Income tax credit | 10 | 1,154,011 | 1,520,225 |
| Loss for the year | | (1,995,007) | (3,241,795) |
| Other comprehensive income | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange loss on translation of financial statements of foreign operations | 35 | (1,982,118) | (1,165,934) |
| Release of translation reserve upon disposals of subsidiaries | 39 | (959) | (1,920) |
| Other comprehensive income for the year, net of tax | | (1,983,077) | (1,167,854) |
| Total comprehensive income for the year | | (3,978,084) | (4,409,649) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | (1,984,984) | (3,241,459) |
| Non-controlling interests | | (10,023) | (336) |
| | | (1,995,007) | (3,241,795) |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | (3,966,343) | (4,409,313) |
| Non-controlling interests | | (11,741) | (336) |
| | | (3,978,084) | (4,409,649) |
| Loss per share | 11 | | |
| — Basic | | HK(26.55) cents | HK(48.17) cents (restated) |
| — Diluted | | N/A | N/A |

Consolidated Statement of Financial Position

As at 31 December 2015

| | Notes | 2015 HK\$'000 | 2014 HK\$'000 |
|---|-------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 109,551 | 141,615 |
| Exploration and evaluation assets | 15 | 2,716,000 | 8,900,720 |
| Prepaid land lease payments | 16 | 50,635 | 54,482 |
| Other intangible assets | 17 | 191,215 | 348,825 |
| Deferred tax assets | 30 | – | 896 |
| Goodwill | 18 | – | 186,166 |
| Deposits for acquisition of land use rights | 21 | 21,487 | – |
| | | 3,088,888 | 9,632,704 |
| Current assets | | | |
| Inventories | 19 | 37,957 | 31,268 |
| Trade and bill receivables | 20 | 118,456 | 359,480 |
| Prepayments, deposits and other receivables | 21 | 11,491 | 50,912 |
| Restricted bank deposits | 22 | – | 15,294 |
| Cash and cash equivalents | 22 | 1,228,682 | 57,080 |
| Total current assets | | 1,396,586 | 514,034 |
| Current liabilities | | | |
| Trade and bill payables | 23 | 56,103 | 324,176 |
| Other payables, accrued expenses, deposits received and receipts in advance | 24 | 8,496 | 57,719 |
| Borrowings | 25 | 35,811 | – |
| Derivative financial liabilities | 26 | 68,189 | – |
| Convertible bonds | 29 | 552,386 | – |
| Current tax liabilities | | 1,328 | 67 |
| Total current liabilities | | 722,313 | 381,962 |
| Net current assets | | 674,273 | 132,072 |
| Total assets less current liabilities | | 3,763,161 | 9,764,776 |
| Non-current liabilities | | | |
| Derivative financial liabilities | 26 | – | 83,699 |
| Loans from ultimate holding company | 27 | – | 220,138 |
| Deferred income | 28 | 114,378 | 133,279 |
| Convertible bonds | 29 | – | 489,436 |
| Deferred tax liabilities | 30 | 881,478 | 2,985,150 |
| Contingent consideration payables | 38 | 1,215,829 | 1,780,569 |
| | | 2,211,685 | 5,692,271 |
| Net assets | | 1,551,476 | 4,072,505 |

Consolidated Statement of Financial Position

As at 31 December 2015

| | Notes | 2015 HK\$'000 | 2014 HK\$'000 |
|---|-------|------------------|------------------|
| EQUITY | | | |
| Equity attributable to the owners of the Company | | | |
| Share capital | 31 | 7,862 | 6,645 |
| Reserves | 35 | 1,499,409 | 4,041,118 |
| | | 1,507,271 | 4,047,763 |
| Non-controlling interests | | 44,205 | 24,742 |
| Total equity | | 1,551,476 | 4,072,505 |

On behalf of directors

He Xuechu
Chairman

Liu Wei, William
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

| | Notes | 2015 HK\$'000 | 2014 HK\$'000 |
|--|-------|--------------------|------------------|
| Cash flows from operating activities | | | |
| Loss before income tax | | (3,149,018) | (4,762,020) |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | 14 | 14,581 | 5,036 |
| Amortisation of prepaid land lease payments | 16 | 1,117 | 328 |
| Amortisation of other intangible assets | 17 | 41,447 | 10,343 |
| Impairment of exploration and evaluation assets | 15 | 3,305,838 | 4,474,063 |
| Impairment of other intangible assets | 17 | 93,037 | – |
| Impairment of goodwill | 18 | 176,370 | – |
| Impairment of property, plant and equipment | 14 | 20,688 | – |
| Write-down of inventories | 9 | – | 1,266 |
| Interest expense on bank and other borrowings | 8 | 1,292 | 208 |
| Imputed interest expense on convertible bonds | 8 | 62,950 | 55,776 |
| Interest expense on loans from ultimate holding company | 8 | 2,314 | 11,343 |
| Fair value gain on derivative financial liabilities | 26 | (15,510) | (8,812) |
| Fair value (gain)/loss on contingent consideration payables | 38 | (564,740) | 190,295 |
| Share-based payment expenses | 32 | 10,812 | – |
| Bank interest income | 7 | (714) | (292) |
| Loss on disposals of property, plant and equipment | | 119 | 142 |
| Government grant | 28 | (11,052) | (2,801) |
| Gain on disposals of subsidiaries | 39 | (3,239) | (18,161) |
| Gain on full settlement of shareholder's loan | 27 | (3,358) | – |
| Operating loss before working capital changes | | (17,066) | (43,286) |
| (Increase)/Decrease in inventories | | (6,689) | 10,055 |
| Decrease/(Increase) in trade and bill receivables | | 10,871 | (36,735) |
| Decrease/(Increase) in prepayments, deposits and other receivables | | 3,562 | (23,409) |
| (Decrease)/Increase in trade and bill payables | | (31,591) | 22,838 |
| Decrease in other payables, accrued expenses and receipts in advance | | (17,359) | (4,366) |
| Cash used in operations | | (58,272) | (74,903) |
| Income tax paid | | (3,535) | (117) |
| <i>Net cash used in operating activities</i> | | (61,807) | (75,020) |

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

| | Notes | 2015 HK\$'000 | 2014 HK\$'000 |
|---|-------|------------------|------------------|
| Cash flows from investing activities | | | |
| Interest received | 7 | 714 | 292 |
| Purchases of property, plant and equipment | 14 | (11,707) | (713) |
| Additions of exploration and evaluation assets | 15 | (10,239) | (25,366) |
| Proceeds from disposals of property, plant and equipment | | 505 | 399 |
| Increase in deposits of acquisition of land use rights | | (21,487) | – |
| Decrease in restricted bank deposits | | 15,294 | 8,985 |
| Disposals of subsidiaries, net of cash disposed | 39 | (14) | 3,565 |
| Acquisition of subsidiaries, net of cash acquired | 40 | – | 47,353 |
| <i>Net cash (used in)/generated from investing activities</i> | | (26,934) | 34,515 |
| Cash flows from financing activities | | | |
| Proceeds from issue of share placing and subscription | | 1,344,000 | – |
| Share issuance costs related to placing and subscription | | (7,903) | – |
| Interest paid on bank and other borrowings | | (1,292) | (208) |
| Drawdown of borrowings | | 41,780 | – |
| Repayments of borrowings | | (5,969) | (25,200) |
| Repayments of loans from ultimate holding company | | (219,094) | (20,000) |
| Capital contribution from non-controlling interests | | 31,204 | – |
| Proceeds from sales of treasury shares | 35 | 60,490 | 58,028 |
| Proceeds from issue of new shares under share options scheme | | 18,452 | – |
| <i>Net cash generated from financing activities</i> | | 1,261,668 | 12,620 |
| Net increase/(decrease) in cash and cash equivalents | | 1,172,927 | (27,885) |
| Cash and cash equivalents at 1 January | | 57,080 | 86,142 |
| Effect of foreign exchange rate changes | | (1,325) | (1,177) |
| Cash and cash equivalents at 31 December | | 1,228,682 | 57,080 |
| Analysis of cash and cash equivalents | | | |
| Cash at banks and in hand | | 1,228,682 | 57,080 |

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

| | Attributable to the owners of the Company | | | | | | | | | Non-controlling interests | Total equity |
|---|---|----------------|--------------------------|----------------|------------------------------|----------------------|----------------------------------|--------------------|-------------|---------------------------|--------------|
| | Share capital | Share premium* | Treasury shares reserve* | Other reserve* | Share-based payment reserve* | Translation reserve* | Convertible bond equity reserve* | Retained earnings* | Total | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2014 | 6,216 | 679,331 | (276,332) | 49,263 | 136,873 | (1,719,904) | 258,836 | 8,677,183 | 7,811,466 | (9,305) | 7,802,161 |
| Sales of treasury shares | - | - | 73,200 | - | - | - | - | (15,172) | 58,028 | - | 58,028 |
| Acquisition of subsidiaries (note 40) | - | - | - | - | - | - | - | - | - | 25,078 | 25,078 |
| Disposals of subsidiaries (note 39(b)) | - | - | - | (555) | - | - | - | 555 | - | 9,305 | 9,305 |
| Share issued for acquisition of subsidiaries (note 40) | 429 | 587,153 | - | - | - | - | - | - | 587,582 | - | 587,582 |
| Transactions with owners | 429 | 587,153 | 73,200 | (555) | - | - | - | (14,617) | 645,610 | 34,383 | 679,993 |
| Loss for the year | - | - | - | - | - | - | - | (3,241,459) | (3,241,459) | (336) | (3,241,795) |
| Other comprehensive income | | | | | | | | | | | |
| Currency translation | - | - | - | - | - | (1,165,934) | - | - | (1,165,934) | - | (1,165,934) |
| Release of translation reserve upon disposals of subsidiaries | - | - | - | - | - | (1,920) | - | - | (1,920) | - | (1,920) |
| Total comprehensive income | - | - | - | - | - | (1,167,854) | - | (3,241,459) | (4,409,313) | (336) | (4,409,649) |
| At 31 December 2014 and 1 January 2015 | 6,645 | 1,266,484 | (203,132) | 48,708 | 136,873 | (2,887,758) | 258,836 | 5,421,107 | 4,047,763 | 24,742 | 4,072,505 |
| Sales of treasury shares | - | - | 60,268 | - | - | - | - | 222 | 60,490 | - | 60,490 |
| Proceeds from placing and share subscription | 1,200 | 1,342,800 | - | - | - | - | - | - | 1,344,000 | - | 1,344,000 |
| Share issuance costs | - | (7,903) | - | - | - | - | - | - | (7,903) | - | (7,903) |
| Capital contribution from non-controlling interests | - | - | - | - | - | - | - | - | - | 31,204 | 31,204 |
| Shares issued under share option scheme | 17 | 25,925 | - | - | (7,490) | - | - | - | 18,452 | - | 18,452 |
| Equity-settled share-based transactions (note 32) | - | - | - | - | 10,812 | - | - | - | 10,812 | - | 10,812 |
| Lapse of share options (note 32) | - | - | - | - | (3,454) | - | - | 3,454 | - | - | - |
| Repayment of loans from ultimate holding company | - | - | - | (48,708) | - | - | - | 48,708 | - | - | - |
| Transactions with owners | 1,217 | 1,360,822 | 60,268 | (48,708) | (132) | - | - | 52,384 | 1,425,851 | 31,204 | 1,457,055 |
| Loss for the year | - | - | - | - | - | - | - | (1,984,984) | (1,984,984) | (10,023) | (1,995,007) |
| Other comprehensive income | | | | | | | | | | | |
| Currency translation | - | - | - | - | - | (1,980,400) | - | - | (1,980,400) | (1,718) | (1,982,118) |
| Release of translation reserve upon disposals of subsidiaries | - | - | - | - | - | (959) | - | - | (959) | - | (959) |
| Total comprehensive income | - | - | - | - | - | (1,981,359) | - | (1,984,984) | (3,966,343) | (11,741) | (3,978,084) |
| At 31 December 2015 | 7,862 | 2,627,306 | (142,864) | - | 136,741 | (4,869,117) | 258,836 | 3,488,507 | 1,507,271 | 44,205 | 1,551,476 |

* The aggregate amount of these balances of approximately HK\$1,499,409,000 (2014: HK\$4,041,118,000) is included as reserves in the consolidated statement of financial position.

Notes to the Financial Statements

For the year ended 31 December 2015

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 Growth Enterprise Market 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 34. 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.

Other than the disposal of Honbridge International Trading Company Limited ("HIT"), a wholly owned subsidiary of the Group as detailed in note 39(a), there were no significant changes in the Group's operations during the year.

The financial statements on pages 39 to 107 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 The Growth Enterprise Market 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

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

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

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 and 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 and amended HKFRSs that are expected to have an impact on the Group's accounting policies is provided below.

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF NEW OR AMENDED HKFRSs – CONTINUED HKFRS 9 (2014) — Financial Instruments

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

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

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

HKFRS 15 — Revenue from Contracts with Customers

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF NEW OR AMENDED HKFRSs – CONTINUED HKFRS 15 — Revenue from Contracts with Customers – continued

The Group has already commenced an assessment of the impact of adopting the above Standards and amendments to existing Standards to the Group.

New Companies Ordinance provisions relating to the preparation of financial statements

The provisions of the new Companies Ordinance, Cap.622, in relation to the preparation of financial statements apply to the Company in this financial year.

The directors consider that there is no impact on the Group's financial position or performance, however the new Companies Ordinance, Cap.622, impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company is now presented in the notes to the financial statements rather than as a primary statement and related notes to the statement of financial position of the Company are generally no longer presented.

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.

The consolidated financial statements have been prepared on a going concern basis which assumes the realisation of assets and satisfaction of liabilities in the ordinary course of business notwithstanding that the Group suffered a loss before income tax of HK\$133,335,000 (excluding impairment of exploration and evaluation assets of HK\$3,305,838,000, impairment of goodwill of HK\$176,370,000, impairment of other intangible assets of HK\$93,037,000, impairment of property, plant and equipment of HK\$20,688,000 and fair value gains on derivative financial liabilities and contingent consideration payables of HK\$15,510,000 and HK\$564,740,000 respectively for the year ended 31 December 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.1 Basis of preparation – continued

The going concern basis has been adopted on the following basis:

1. On 19 June 2015, an aggregate of 446,000,000 new shares have been issued to Shagang International (Hong Kong) Co., Limited at the subscription price of HK\$1.12 per subscription share (the "Share Subscription"). The net proceeds from the Share Subscription are approximately of HK\$499,300,000.
2. On 30 June 2015, an aggregate of 754,000,000 placing shares have been successfully placed by ABCI Securities Company Limited, the Placing Agent, to not less than six places at the placing price of HK\$1.12 per placing share pursuant (the "Placing") to the terms and conditions of the placing agreement. The net proceeds from Placing are approximately of HK\$836,700,000.
3. As stated in note 15, the estimated total capital expenditure for the mineral resources exploration business in Brazil, which is operated by Sul Americana de Metais S.A. ("SAM"), a subsidiary of the Group, is approximately US\$2,932 million. The Company has signed certain MOU and framework agreement with its strategic partners to obtain funding for the future construction cost and operations of SAM, which will be commenced when all required licenses are granted by the Brazilian authorities. The directors of the Company reviewed the financial position of the Group, the estimated capital expenditure for the construction and operation of SAM and the signed MOU, the directors are satisfied that the Group will be able to provide sufficient financing to the operations of SAM.
4. In addition, the Company's ultimate holding company, Hong Bridge, and its two shareholders have undertaken to provide financial support to the Group to meet its liabilities as they fall due and to maintain the Group as a going concern for a period at least up to 31 March 2017.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. These adjustments have not yet been reflected in the financial statements.

3.2 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. 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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.2 Business combination and basis of consolidation – continued

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.4 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.

3.5 Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value added tax ("VAT"), and rendering of services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

- Sale of goods is recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.
- Revenue from trading commodity contracts is recognised on settlement.
- Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.
- Interest income is recognised on time-proportion basis using effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.6 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.

3.7 Property, plant and equipment

Property, plant and equipment 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% |

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

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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.8 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.

3.9 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. The following useful lives are applied:

| | |
|------------------------|---------|
| Patents | 9 years |
| Customers relationship | 4 years |

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.

3.10 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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.10 Exploration and evaluation assets – continued

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 to sell 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.

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

Property, plant and equipment, prepaid land lease payments, other intangible assets and investments in subsidiaries 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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.12 Financial assets

The Group's financial assets are classified into loans and receivables. Management determines the classification of its financial assets at initial recognition, depending on the purpose for which the asset was acquired and where allowed and appropriate, re-evaluates this designation at each reporting date. Financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise principally through the provision of goods and services to customers (trade receivables), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using effective interest method, less any identified impairment losses.

Impairment of financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- Significant financial difficulty of the debtor;
- A breach of contracts, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss for the period in which the impairment occurs.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.12 Financial assets – continued

Impairment of financial assets – continued

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

De-recognition

The Group de-recognises 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 de-recognition in accordance with HKAS 39.

3.13 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.

3.14 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.

3.15 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent these are incremental costs directly attributable to the equity transaction.

Where the Company purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs (net of taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.16 Leasing

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.

3.17 Financial liabilities

The Group's financial liabilities include trade and bill payables, other payables, accrued expenses and deposits received, borrowings, convertible bonds, loans from ultimate holding company, derivative financial liabilities and contingent consideration payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in profit or loss.

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Financial liabilities at fair value through profit or loss

These include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.17 Financial liabilities – continued

Financial liabilities at amortised cost

Borrowings and loans from ultimate holding company are recognised initially at fair value, net of transaction costs incurred and subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss/other reserve over the respective period of borrowings/loans from ultimate holding company using effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bond equity reserve.

Liability component is subsequently carried at amortised cost using effective interest method. Equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion, are transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, repurchased or cancelled, the convertible bond equity reserve is released directly to retained earnings/accumulated losses.

Other financial liabilities

Other financial liabilities, including trade and bill payables, other payables, accrued expenses and deposits received are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and the Mandatory Provident Fund Scheme Ordinance (the "MPF Scheme"), which are available to its employees in Hong Kong. Contributions to the ORSO Scheme and 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 the ORSO Scheme and MPF Scheme. Assets of the ORSO Scheme and 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

3.24 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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.24 Segment reporting – continued

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.
- (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.

Notes to the Financial Statements

For the year ended 31 December 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3.25 Related parties – continued

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 goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.6. The recoverable amounts of CGU have been determined based on fair value less cost to sell calculations. These calculations require the use of estimates. When fair value less cost to sell calculations are undertaken, management estimates the expected future cash flows from the asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows.

(iii) Impairment of receivables

Management determines impairment of receivables on a regular basis. This estimate is based on the credit history of the customers/debtors and current market conditions. When management determines that there are indicators of significant financial difficulties of the trade customers/debtors such as default or delinquency in payments, impairment is estimated. When management determines the receivables are uncollectible, they are written off against impairment provision of receivables. Management reassesses the impairment of receivables at the reporting dates.

Notes to the Financial Statements

For the year ended 31 December 2015

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – CONTINUED

(iv) 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.

(v) Depreciation and amortisation

The Group depreciates/amortises its property, plant and equipment, prepaid land lease payments and other intangible assets in accordance with the accounting policies stated in notes 3.7, 3.8 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.

(vi) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees/consultants by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 32.

(vii) Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. 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 liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments (including contingent consideration payables).

(viii) Contractual obligations of financial liabilities

The Group determined the issued convertible bonds contained a liability component on the basis that on settlement, the Group will deliver either cash or another financial asset, or its own shares whose value is determined to exceed substantially the value of the cash or other financial assets. Although the Group does not have an explicit obligation to deliver cash or another financial asset, the holder of the asset has in substance been guaranteed a minimum amount equal to at least the cash/other financial asset settlement amount.

Notes to the Financial Statements

For the year ended 31 December 2015

5. TURNOVER

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| Sale of lithium batteries | 113,989 | 69,977 |
| Revenue from trading commodity contracts (note) | 1,405 | 3,504 |
| | 115,394 | 73,481 |

Note: Revenue from trading commodity contracts represented income on contracts to buy or sell copper and steel products by the Group, which were not entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements. Gross sale amount of these transactions was HK\$579 million (2014: HK\$2,970 million) during the year.

6. SEGMENT INFORMATION

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.

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION – 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 | Total HK\$'000 |
|--|--|---|--------------------------|
| Year ended 31 December 2015 | | | |
| Reportable segment turnover (external customers) | 1,405 | 113,989 | 115,934 |
| Reportable segment losses | (3,363,506) | (278,075) | (3,641,581) |
| Reportable segment assets | 2,719,084 | 611,035 | 3,330,119 |
| Reportable segment liabilities | 1,219,078 | 209,067 | 1,428,145 |
| Capital expenditure | 13 | 11,409 | 11,422 |
| Impairment of exploration and evaluation assets | 3,305,838 | – | 3,305,838 |
| Impairment of goodwill | – | 176,370 | 176,370 |
| Impairment of other intangible assets | – | 93,037 | 93,037 |
| Impairment of property, plant and equipment | – | 20,688 | 20,688 |
| Interest income | (214) | (437) | (651) |
| Interest expense | – | 1,292 | 1,292 |
| Depreciation | 1,711 | 12,312 | 14,023 |
| Amortisation charge | – | 42,564 | 42,564 |
| Year ended 31 December 2014 | | | |
| Reportable segment turnover (external customers) | 3,504 | 69,977 | 73,481 |
| Reportable segment losses | (4,498,175) | (6,621) | (4,504,796) |
| Reportable segment assets | 9,191,473 | 922,975 | 10,114,448 |
| Reportable segment liabilities | 1,909,423 | 381,842 | 2,291,265 |
| Capital expenditure | 25,430 | 549 | 25,979 |
| Impairment of exploration and evaluation assets | 4,474,063 | – | 4,474,063 |
| Write-down of inventories | – | 1,266 | 1,266 |
| Interest income | (129) | (160) | (289) |
| Interest expense | – | 208 | 208 |
| Depreciation | 1,410 | 3,191 | 4,601 |
| Amortisation charge | – | 10,671 | 10,671 |

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION – 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:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|--------------------|------------------|
| Reportable segment turnover | 115,394 | 73,481 |
| Reportable segment loss | (3,641,581) | (4,504,796) |
| Other operating income | 662 | 703 |
| Administrative expenses | (18,870) | (25,744) |
| Other operating expenses | – | (1,742) |
| Fair value gain on derivative financial liabilities | 15,510 | 8,812 |
| Fair value gain/(loss) on contingent consideration payables | 564,740 | (190,295) |
| Share-base payment expenses | (10,812) | – |
| Gain on full settlement of loans from ultimate holding company | 3,358 | – |
| Gain on disposals of subsidiaries | 3,239 | 18,161 |
| Finance costs | (65,264) | (67,119) |
| Loss before income tax | (3,149,018) | (4,762,020) |
| Reportable segment assets | 3,330,119 | 10,114,448 |
| Property, plant and equipment | 1,288 | 679 |
| Prepayments and other receivables | 810 | 1,066 |
| Cash and cash equivalents | 1,153,257 | 30,545 |
| | 4,485,474 | 10,146,738 |
| Reportable segment liabilities | 1,428,145 | 2,291,265 |
| Other payables and accrued expenses | 3,800 | 4,545 |
| Derivative financial liabilities | 68,189 | 83,699 |
| Loans from ultimate holding company | – | 220,138 |
| Convertible bonds | 552,386 | 489,436 |
| Deferred tax liabilities | 881,478 | 2,985,150 |
| | 2,933,998 | 6,074,233 |

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION – CONTINUED

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| Turnover from external customers | | |
| PRC | 115,394 | 73,481 |
| Reportable segment turnover | 115,394 | 73,481 |
| Non-current assets (excluding deferred tax assets) | | |
| Hong Kong | 1,288 | 679 |
| PRC | 370,044 | 726,941 |
| Brazil | 2,717,556 | 8,904,188 |
| Reportable segment non-current assets | 3,088,888 | 9,631,808 |

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, other intangible assets and goodwill).

During the year ended 31 December 2015, over 99% (2014: 94%) of the Group's turnover was derived from 2 major customers (2014: 1) in lithium battery production segment and turnover generated from these customers are HK\$89,996,000 and HK\$23,852,000 respectively (2014: HK\$69,448,000).

7. OTHER OPERATING INCOME

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Bank Interest income | 714 | 292 |
| Government grant | 12,373 | 2,801 |
| Rental income | 600 | 700 |
| Net gain on trading of motor vehicles | 159 | – |
| Sundry income | 1,182 | 293 |
| | 15,028 | 4,086 |

Notes to the Financial Statements

For the year ended 31 December 2015

8. FINANCE COSTS

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| Interest charges on bank and other borrowings wholly repayable within five years | 1,292 | 208 |
| Imputed interest on convertible bonds (note 29) | 62,950 | 55,776 |
| Interests on loans from ultimate holding company | 2,314 | 11,343 |
| | 66,556 | 67,327 |

9. LOSS BEFORE INCOME TAX

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| Auditor's remuneration | 2,249 | 1,963 |
| Cost of inventories recognised as cost of sales | 91,723 | 51,996 |
| Depreciation | 14,581 | 5,036 |
| Amortisation of prepaid land lease payments | 1,117 | 328 |
| Amortisation of other intangible assets | 41,447 | 10,343 |
| Loss on disposals of property, plant and equipment | 119 | 142 |
| Minimum lease payments paid under operating leases in respect of rental premises | 4,321 | 6,787 |
| Net foreign exchange (gain)/loss | (171) | 13 |
| Research and development costs | 2,183 | 6,248 |
| Other operating expenses: | | |
| — Write-down of inventories | — | 1,266 |
| — Related costs for business combination during the year | — | 1,722 |
| — Others | — | 20 |
| | — | 3,008 |

Notes to the Financial Statements

For the year ended 31 December 2015

10. INCOME TAX CREDIT

| | 2015 HK\$'000 | 2014 HK\$'000 |
|------------------------|--------------------|------------------|
| Overseas tax | | |
| Current year | 4,796 | 183 |
| Deferred tax (note 30) | (1,158,807) | (1,520,408) |
| Income tax credit | (1,154,011) | (1,520,225) |

During the years ended 31 December 2015 and 31 December 2014, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit 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.

During the year, the PRC corporate income tax rate of 25% (2014: 25%) is applicable to Shanghai Hongying Trading Co. Limited ("Shanghai Hongying"), Shandong Forever New Energy Co., Ltd. ("Shandong Forever New Energy") and Zhejiang Forever New Energy Co., Ltd. ("Zhejiang Forever New Energy"), being the Group's subsidiaries established in the PRC.

During the year, corporate income tax rates in Brazil of 34% (2014: 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 loss at applicable tax rates:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|--------------------|------------------|
| Loss before income tax | (3,149,018) | (4,762,020) |
| Tax on loss before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned | (519,587) | (785,733) |
| Tax effect of different tax rates of subsidiaries | (601,615) | (787,449) |
| Tax effect of non-deductible expenses | 57,839 | 49,899 |
| Tax effect of non-taxable revenue | (97,086) | (5,178) |
| Tax effect of tax losses not recognised | 6,503 | 8,187 |
| Tax effect on temporary difference not recognised | (65) | 49 |
| Income tax credit | (1,154,011) | (1,520,225) |

Notes to the Financial Statements

For the year ended 31 December 2015

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK\$1,984,984,000 (2014: HK\$3,241,459,000) and weighted average of 7,475,894,000 (2014: 6,728,844,000 (restated)) ordinary shares in issue during the year, after adjusting for the bonus elements in the shares issued under the share subscription and share placing (note 31).

For the years ended 31 December 2015 and 2014, diluted losses per share attributable to owners of the Company were not presented because the impact of the exercise of share options and convertible bonds was anti-dilutive.

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| Wages and salaries | 25,376 | 27,681 |
| Contribution to defined contribution plans | 5,629 | 6,598 |
| Share-based payment expenses | 10,812 | – |
| | 41,817 | 34,279 |

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 7,698 | 8,958 |
| Contribution to defined contribution plans | 447 | 1,278 |
| Share-based payment expenses | 10,243 | – |
| | 18,388 | 10,236 |

Notes to the Financial Statements

For the year ended 31 December 2015

13. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

(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 2015 | | | | |
| Executive directors | | | | |
| HE Xuechu | 1,444 | – | 20 | 1,464 |
| LIU Wei, William | 1,333 | – | 20 | 1,353 |
| SHI Lixin | – | 1,032 | – | 1,032 |
| Non-executive directors | | | | |
| YAN Weimin | – | – | – | – |
| ANG Siu Lun, Lawrence | – | – | – | – |
| Independent non-executive directors | | | | |
| CHAN Chun Wai, Tony | 244 | – | – | 244 |
| FOK Hon (Resigned on 19 August 2015) | 142 | – | – | 142 |
| HA Chun (Appointed on 28 August 2015) | 86 | – | – | 86 |
| MA Gang | 244 | – | – | 244 |
| | 3,493 | 1,032 | 40 | 4,565 |
| Year ended 31 December 2014 | | | | |
| Executive directors | | | | |
| HE Xuechu | 1,463 | – | 34 | 1,497 |
| LIU Wei, William | 1,351 | – | 34 | 1,385 |
| SHI Lixin | – | 1,039 | – | 1,039 |
| Non-executive directors | | | | |
| YAN Weimin | – | – | – | – |
| ANG Siu Lun, Lawrence | – | – | – | – |
| Independent non-executive directors | | | | |
| CHAN Chun Wai, Tony | 207 | – | – | 207 |
| FOK Hon | 207 | – | – | 207 |
| MA Gang | 207 | – | – | 207 |
| | 3,435 | 1,039 | 68 | 4,542 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2014: Nil).

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For the year ended 31 December 2015

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 (2014: three) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining three (2014: two) individual during the year are as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 3,173 | 3,098 |
| Contribution to defined contribution plans | 408 | 1,153 |
| Share-based payment expenses | 10,243 | – |
| | 13,824 | 4,251 |

The emoluments fell within the following bands:

| | Number of individual | |
|-----------------------------|----------------------|------|
| | 2015 | 2014 |
| Emolument bands | | |
| HK\$6,500,001–HK\$7,000,000 | 1 | – |
| HK\$5,500,001–HK\$6,000,000 | 1 | – |
| HK\$2,500,001–HK\$3,000,000 | – | 1 |
| HK\$1,500,001–HK\$2,000,000 | 1 | – |
| HK\$1,000,001–HK\$1,500,000 | – | 1 |
| | 3 | 2 |

During the year, no emoluments were paid by the Group to the directors or the three (2014: two) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

For the year ended 31 December 2015

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 2014 | | | | | | | | | |
| Cost | 178 | 17,593 | 3,305 | 15,477 | 3,544 | 3,447 | 799 | 16,866 | 61,209 |
| Accumulated depreciation and impairment | – | (17,593) | (441) | (15,477) | (1,841) | (2,072) | (126) | (16,866) | (54,416) |
| Net book amount | 178 | – | 2,864 | – | 1,703 | 1,375 | 673 | – | 6,793 |
| Year ended 31 December 2014 | | | | | | | | | |
| Opening net book amount | 178 | – | 2,864 | – | 1,703 | 1,375 | 673 | – | 6,793 |
| Additions | – | 36 | – | 295 | 183 | 146 | 53 | – | 713 |
| Acquired through business combination (note 40) | – | 48,107 | – | 89,603 | 1,867 | 614 | 4 | – | 140,195 |
| Disposals | – | – | – | (2) | (29) | (489) | (21) | – | (541) |
| Depreciation | – | (500) | (899) | (2,541) | (459) | (458) | (179) | – | (5,036) |
| Exchange realignment | (22) | – | (172) | – | (170) | (83) | (62) | – | (509) |
| Closing net book amount | 156 | 47,643 | 1,793 | 87,355 | 3,095 | 1,105 | 468 | – | 141,615 |
| At 31 December 2014 | | | | | | | | | |
| Cost | 156 | 48,143 | 3,053 | 89,896 | 4,121 | 2,152 | 737 | – | 148,258 |
| Accumulated depreciation and impairment | – | (500) | (1,260) | (2,541) | (1,026) | (1,047) | (269) | – | (6,643) |
| Net book amount | 156 | 47,643 | 1,793 | 87,355 | 3,095 | 1,105 | 468 | – | 141,615 |
| Year ended 31 December 2015 | | | | | | | | | |
| Opening net book amount | 156 | 47,643 | 1,793 | 87,355 | 3,095 | 1,105 | 468 | – | 141,615 |
| Additions | – | 96 | – | 9,895 | 143 | 1,162 | 411 | – | 11,707 |
| Disposals | – | (154) | – | (30) | – | (440) | – | – | (624) |
| Disposal of subsidiaries (note 39) | – | – | – | – | (18) | (22) | – | – | (40) |
| Depreciation | – | (1,972) | (767) | (10,667) | (780) | (251) | (144) | – | (14,581) |
| Impairment | – | (20,688) | – | – | – | – | – | – | (20,688) |
| Exchange realignment | (51) | (1,606) | (327) | (5,159) | (431) | (129) | (135) | – | (7,838) |
| Closing net book amount | 105 | 23,319 | 699 | 81,394 | 2,009 | 1,425 | 600 | – | 109,551 |
| At 31 December 2015 | | | | | | | | | |
| Cost | 105 | 45,554 | 2,475 | 94,866 | 3,639 | 2,403 | 907 | – | 149,949 |
| Accumulated depreciation and impairment | – | (22,235) | (1,776) | (13,472) | (1,630) | (978) | (307) | – | (40,398) |
| Net book amount | 105 | 23,319 | 699 | 81,394 | 2,009 | 1,425 | 600 | – | 109,551 |

The Group's land held as at 31 December 2015 and 2014, was a freehold land situated in the Brazil whilst the Group's leasehold buildings as at 31 December 2015 are situated in the PRC and held under medium term leases.

During the year, the Directors reviewed the carrying amount of property, plant and equipment, impairment loss of HK\$20,688,000 had been identified and recognised in the consolidated statement of profit or loss and other comprehensive income. The details of the impairment assessment are stated in note 18.

Notes to the Financial Statements

For the year ended 31 December 2015

15. EXPLORATION AND EVALUATION ASSETS

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--------------------------------|--------------------|------------------|
| At 1 January | | |
| Cost | 13,374,783 | 15,140,419 |
| Accumulated impairment | (4,474,063) | – |
| Net book amount | 8,900,720 | 15,140,419 |
| For the year ended 31 December | | |
| Opening net book amount | 8,900,720 | 15,140,419 |
| Additions | 10,239 | 25,366 |
| Exchange realignments | (2,889,121) | (1,791,002) |
| Impairment losses | (3,305,838) | (4,474,063) |
| Net book amount | 2,716,000 | 8,900,720 |
| At 31 December | | |
| Cost | 9,044,536 | 13,374,783 |
| Accumulated impairment | (6,328,536) | (4,474,063) |
| Net book amount | 2,716,000 | 8,900,720 |

As at 31 December 2015 and 2014, 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, impairment loss of HK\$3,305,838,000 (2014: HK\$4,474,063,000) had been identified and recognised in the consolidated statement of profit or loss and other comprehensive income. The impairment is mainly due to (1) continuous drop in the selling price of iron ores for the year and (2) delay in the estimated commencement date of production by 3 years as more in-depth studies and work are required by the Brazil government on the application of licenses after dam disaster of mining project in the Brazil.

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.

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15. EXPLORATION AND EVALUATION ASSETS – CONTINUED

Assumptions and parameters of the valuation as at 31 December 2015 are as follows:

| | |
|-----------------------------------|---|
| Approval of all required licenses | The first half of 2019 (2014: The first half of 2016) |
| Commencement of production | 2022 (2014: 2019) |
| Annual production capacity | 27.5 million tonnes (2014: 25 million tonnes) of iron concentrate |
| Resource estimates | Measured resources of 1,135 million tonnes (2014: 1,135 million tonnes) (20.57%) Indicated resources of 1,479 million tonnes (2014: 1,479 million tonnes) (19.64%) |
| Dilution rate | 0% (2014: 0%) |
| Mining loss rate | 6.66% (2014: 6.66%) |
| Processing recovery | 87% (2014: 87%) |
| Average price of iron concentrate | US\$45 per tonnes (2014: US\$85 per tonnes) |
| Operating costs | US\$28.1 per tonnes (2014: US\$38.8 per tonnes) |
| Income tax rate | 11–15% for the first ten years of operation 34% afterwards (2014: same term) |
| Capital expenditures | US\$2,932 million (2014: US\$3,959 million) for the construction of infrastructure |
| Discount rate | 18.13% (2014: 19.26%) |

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. Same as prior years, Hong Bridge, the ultimate holding company of the Company, and its two shareholders continue to undertake that they will render adequate financial support to the Group for the operations of SAM.

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16. PREPAID LAND LEASE PAYMENTS

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| At 1 January | | |
| Cost | 54,810 | 24,999 |
| Accumulated amortisation | (328) | (2,815) |
| Net book amount | 54,482 | 22,184 |
| For the year ended 31 December | | |
| Opening net book amount | 54,482 | 22,184 |
| Acquired through business combination (note 40) | – | 54,810 |
| Disposal of subsidiaries (note 39(b)) | – | (22,184) |
| Amortisation | (1,117) | (328) |
| Exchange realignment | (2,730) | – |
| Net book amount | 50,635 | 54,482 |
| At 31 December | | |
| Cost | 52,080 | 54,810 |
| Accumulated amortisation | (1,445) | (328) |
| Net book amount | 50,635 | 54,482 |

Prepaid land lease payments represented up-front payments to acquire long-term interest in the usage of land situated in the PRC, which are held under medium term leases.

As at 31 December 2015, the Group's entire prepaid land lease payments were pledged to secure the bank borrowings (note 25) and facilities granted to the Group.

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17. OTHER INTANGIBLE ASSETS

| | Patents HK\$'000 | Customers relationship HK\$'000 | Total HK\$'000 |
|---|---------------------|---------------------------------------|-------------------|
| Year ended 31 December 2014 | | | |
| Acquired through business combination (note 40) | 348,085 | 11,083 | 359,168 |
| Amortisation | (9,650) | (693) | (10,343) |
| Closing net book amount | 338,435 | 10,390 | 348,825 |
| At 31 December 2014 | | | |
| Cost | 348,085 | 11,083 | 359,168 |
| Accumulated amortisation | (9,650) | (693) | (10,343) |
| Net book amount | 338,435 | 10,390 | 348,825 |
| Year ended 31 December 2015 | | | |
| Opening net book amount | 338,435 | 10,390 | 348,825 |
| Amortisation | (38,676) | (2,771) | (41,447) |
| Exchange realignment | (22,438) | (688) | (23,126) |
| Impairment losses | (90,644) | (2,393) | (93,037) |
| Closing net book amount | 186,677 | 4,538 | 191,215 |
| At 31 December 2015 | | | |
| Cost | 325,647 | 10,395 | 336,042 |
| Accumulated amortisation and impairment | (138,970) | (5,857) | (144,827) |
| Net book amount | 186,677 | 4,538 | 191,215 |

Patents and customers relationship acquired in a business combination are recognised at fair value at the acquisition date (note 40). The fair values of other intangible assets as at the date of acquisition were valued by an independent valuer, Greater China Appraisal Limited. Their fair values are determined using multi-period excess earnings method, whereby the asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows. Patent and customers relationship have finite useful life and are carried at cost less accumulated amortisation and impairment losses, if any. Amortisation is calculated using straight-line method over their expected lives.

During the year, the Directors reviewed the carrying amount of other intangible assets, impairment loss of HK\$93,037,000 had been identified and recognised in the consolidated statement of profit or loss and other comprehensive income. The details of the impairment assessment are stated in note 18.

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For the year ended 31 December 2015

18. GOODWILL

As at 31 December 2015 and 2014, the balance represented goodwill arose from the acquisition of Triumphant Glory Investment Limited and its subsidiary, namely Shandong Forever New Energy, which are engaged in the production and sales of lithium batteries during the year ended 31 December 2014. Details please refer to note 40. The net carrying amount of goodwill can be analysed as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| At 1 January | | |
| Gross carrying amount | 186,166 | 35,686 |
| Accumulated impairment | – | (35,686) |
| Net carrying amount | 186,166 | – |
| Carrying amount at 1 January | 186,166 | – |
| De-recognition upon disposals of subsidiaries | – | (35,686) |
| Accumulated impairment written back upon disposals of subsidiaries | – | 35,686 |
| Acquired through business combination (note 40) | – | 186,166 |
| Exchange realignment | (9,796) | – |
| Impairment losses | (176,370) | – |
| Net carrying amount at 31 December | – | 186,166 |
| At 31 December | | |
| Gross carrying amount | 176,370 | 186,166 |
| Accumulated impairment | (176,370) | – |
| Net carrying amount | – | 186,166 |

As at 31 December 2015 and 2014, goodwill is allocated to CGUs of lithium battery production segment.

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

As at 31 December 2015, the relevant assets of CGU of lithium battery production segment included property, plant and equipment of HK\$119,823,000 (2014: HK\$137,233,000), prepaid land lease payments of HK\$50,635,000 (2014: HK\$54,482,000), other intangible assets of HK\$284,252,000 (2014: HK\$348,825,000) and goodwill of HK\$176,370,000 (2014: HK\$186,166,000).

The recoverable amount for this CGU is determined based on fair value less cost of disposal calculation using discounted cash flow technique, covering detailed five-year budget plans, followed by an extrapolation of expected cash flows with growth rate of 3% (2014: 3%). The post-tax discount rate used for fair value less cost of disposal calculation is 16.44% (2014: 18.46%) per annum, which reflects specific risks relating to the relevant CGU.

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For the year ended 31 December 2015

18. GOODWILL – CONTINUED

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

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

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

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

Based on the assessment, the recoverable amount of the CGU is HK\$309,837,000 as at 31 December 2015, which exceeds the total carrying amounts of the relevant assets of the CGU. Accordingly, goodwill has been written down to zero as at 31 December 2015 and impairment losses of HK\$20,688,000 and HK\$93,037,000 on property, plant and equipment and other intangible assets that relates to this CGU, respectively, have been recognised in the profit or loss for the year. The impairment is mainly due to the change of various factors such as technology, crafts, investment, sales of products, which adversely impacted the production expansion possibilities for this CGU by the management during the year.

As at 31 December 2014, as the recoverable amount of this CGU exceeded the carrying amounts of the relevant assets of the CGU, there was no impairment recognised in the profit or loss.

19. INVENTORIES

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---------------------------------|------------------|------------------|
| Raw materials | 7,105 | 8,699 |
| Work-in-progress | 30,239 | 2,141 |
| Finished goods | 613 | 21,694 |
| | 37,957 | 32,534 |
| Less: Write-down of inventories | – | (1,266) |
| | 37,957 | 31,268 |

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20. TRADE AND BILL RECEIVABLES

| | 2015 HK\$'000 | 2014 HK\$'000 |
|----------------------------|------------------|------------------|
| Trade receivables, gross | 113,789 | 367,010 |
| Less: Impairment | – | (12,570) |
| Trade receivables, net | 113,789 | 354,440 |
| Bill receivables | 4,667 | 5,040 |
| Trade and bill receivables | 118,456 | 359,480 |

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

The Group allows a credit period from 0 day to 180 days (2014: 0 days to 180 days) to its trade customers. The following is ageing analysis of net trade and bill receivables at the reporting date:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|----------------|------------------|------------------|
| 0–30 days | 60,289 | 180,140 |
| 31–90 days | 13,864 | 97,276 |
| 91 to 180 days | 7,803 | 29,608 |
| Over 180 days | 36,500 | 52,456 |
| | 118,456 | 359,480 |

The below table reconciled the impairment of trade receivables for the year:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---------------------------|------------------|------------------|
| At 1 January | 12,570 | 12,820 |
| Disposals of subsidiaries | (11,908) | (38) |
| Exchange realignment | (662) | (212) |
| At 31 December | – | 12,570 |

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

As at 31 December 2014, the Group determined trade receivables of HK\$12,570,000 were impaired. The impaired trade receivables in prior years are due from the customer experiencing financial difficulties.

Notes to the Financial Statements

For the year ended 31 December 2015

20. TRADE AND BILL RECEIVABLES – CONTINUED

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|-------------------------------|------------------|------------------|
| Neither past due nor impaired | 81,956 | 307,024 |
| Over 180 days past due | 36,500 | 52,456 |
| | 118,456 | 359,480 |

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

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

21. DEPOSITS FOR ACQUISITION OF LAND USE RIGHTS/PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2015, the Group paid deposits of HK\$21,487,000 (2014: Nil) to acquire the land use rights in the PRC.

The breakdown of prepayments, deposits and other receivables is as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|-----------------------|------------------|------------------|
| Deposits | 644 | 673 |
| Prepayments | 4,683 | 3,943 |
| Other receivables | 5,052 | 17,922 |
| Advances to suppliers | 1,112 | 28,374 |
| | 11,491 | 50,912 |

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For the year ended 31 December 2015

22. RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

All restricted bank deposits as at 31 December 2014 represented guaranteed deposits placed in the banks in the PRC as securities for the Group's bill payables and banking facilities. There were no restricted bank deposits as at 31 December 2015.

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

As at 31 December 2015, the Group had cash and bank balances denominated in Renminbi ("RMB") amounting to approximately HK\$70,877,000 (2014: HK\$24,749,000), 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.

23. TRADE AND BILL PAYABLES

| | 2015 HK\$'000 | 2014 HK\$'000 |
|----------------|------------------|------------------|
| Trade payables | 43,211 | 308,882 |
| Bill payables | 12,892 | 15,294 |
| | 56,103 | 324,176 |

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---------------|------------------|------------------|
| 0–30 days | 14,122 | 34,344 |
| 31–60 days | 2,834 | 46,562 |
| 61–90 days | 3,609 | 32,678 |
| 91–180 days | 21,770 | 110,249 |
| Over 180 days | 13,768 | 100,343 |
| | 56,103 | 324,176 |

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For the year ended 31 December 2015

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

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---------------------|------------------|------------------|
| Other payables | 2,282 | 18,046 |
| Accrued expenses | 5,448 | 5,442 |
| Receipts in advance | 611 | 33,721 |
| Deposits received | 155 | 510 |
| | 8,496 | 57,719 |

25. BORROWINGS

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| Bank borrowings — secured, due for repayment within one year | 35,811 | — |

As at 31 December 2015, the bank borrowings were secured by the Group's prepaid land lease payments with the carrying amount of HK\$50,635,000.

Effective interest rate of the bank borrowings ranged from 3.84% to 5.60% per annum for the year.

26. DERIVATIVE FINANCIAL LIABILITIES

The balance represented embedded derivatives in convertible bonds (note 29). It is stated at fair value and is determined by the Directors with reference to the valuation performed by an independent firm of professional valuers on Trinomial option pricing model basis. The balance related to early redemption option for the convertible bonds issued on 4 June 2013.

27. LOANS FROM ULTIMATE HOLDING COMPANY

The balances as at 31 December 2014 were unsecured and not repayable within three years from the drawdown dates. The loans were interest-free in the first two years from drawdown dates and bear interest at prime rate minus 1.25% per annum in the third year. As Hong Bridge had confirmed that it would not demand for loan repayments from the Company at least 12 months from the financial statements approval date, the loans were classified as non-current liabilities.

For the year ended 31 December 2014, the amortised cost of the liability was calculated using effective interest method by applying effective interest rate of 5%.

During the year ended 31 December 2015, the Company has fully repaid the outstanding loans and related interests to Hong Bridge. There is a gain on full settlement of loans from ultimate holding company of HK\$3,358,000, which represented the difference between the principal and interest amounts paid and the carrying amount of loans from ultimate holding company at the date of full settlement, recognised in the profit or loss during the year.

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28. DEFERRED INCOME

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| At 1 January | 133,279 | – |
| Acquisition of subsidiaries (note 40) | – | 136,080 |
| Exchange realignment | (7,849) | – |
| Government grant income recognised for the year | (11,052) | (2,801) |
| At 31 December | 114,378 | 133,279 |

Deferred income represents government grants received by Shandong Forever New Energy in relation to its construction of the factory building and purchases of production facilities of lithium batteries in Shandong Province, the PRC. These production facilities with net book amount of HK\$106,546,000 (2014: HK\$143,249,000) 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.

29. CONVERTIBLE BONDS

On 5 March 2013, the Company and Zhejiang Geely Holdings Group Company Limited ("Zhejiang Geely") entered into the subscription agreement pursuant to which the Company has conditionally agreed to issue to Zhejiang Geely convertible bonds in the principal amount of HK\$740,000,000. The convertible bonds are interest-free, convertible into 2,000,000,000 ordinary shares of the Company and not redeemable by the Company. Zhejiang Geely has the discretion on redemption/repayment after the second anniversary of the date of issue of the convertible bonds, which is 4 June 2013.

Zhejiang Geely had given its written confirmation in 2014 that it would not call for redemption/repayment until 2016. Accordingly, as at 31 December 2014, the derivative and liability component of the convertible bonds were classified as non-current liabilities. As at 31 December 2015, Zhejiang Geely has the discretion on redemption/repayment within one year from the reporting date, accordingly, the derivative and liability component of the convertible bonds are classified as current liabilities.

The conversion option embedded in the convertible bonds meets the definition of equity instrument of the Company, and is classified as equity and presented separately from the convertible bonds liability components. Other embedded derivative (i.e. the convertible bonds holder's early redemption option) is separated from the host debt because its economic characteristics and risks are not closely related to those of the host debt and is accounted for as financial liabilities at fair value through profit or loss.

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29. CONVERTIBLE BONDS – CONTINUED

The convertible bonds liability component is initially recognised at its fair value and is subsequently measured at amortised cost. Movements of the convertible bonds liability component in the consolidated statement of financial position for the years ended of 31 December 2015 and 31 December 2014 are as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|------------------------------------|------------------|------------------|
| At 1 January | 489,436 | 433,660 |
| Imputed interest expenses (note 8) | 62,950 | 55,776 |
| At 31 December | 552,386 | 489,436 |
| Represented by: | | |
| Current liabilities | 552,386 | – |
| Non-current liabilities | – | 489,436 |
| | 552,386 | 489,436 |

For the years ended 31 December 2015 and 2014, interest expense on the convertible bonds is calculated using effective interest method at a rate of 12.86% per annum to the liability component.

Fair value movements in the derivative financial liabilities embedded in the convertible bonds, the holder's early redemption option, for the year ended of 31 December 2015 and 31 December 2014 are as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| At 1 January | 83,699 | 92,511 |
| Fair value gain recognised in profit or loss | (15,510) | (8,812) |
| At 31 December | 68,189 | 83,699 |
| Represented by: | | |
| Current liabilities | 68,189 | – |
| Non-current liabilities | – | 83,699 |
| | 68,189 | 83,699 |

Notes to the Financial Statements

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30. 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 (assets)/liabilities recognised by the Group and movements thereon during the current and prior reporting years.

| | Fair value adjustments arising from | | | | Tax losses HK\$'000 | Total HK\$'000 |
|--|--|---|---|---|------------------------|--------------------|
| | Exploration and evaluation assets HK\$'000 | Prepaid land lease payments HK\$'000 | Other intangible assets HK\$'000 | Property, plant and equipment HK\$'000 | | |
| At 1 January 2014 | 5,044,068 | 693 | – | – | – | 5,044,761 |
| Acquired through business combination (note 40) | – | 449 | 89,617 | 2,231 | (4,277) | 88,020 |
| Disposal of subsidiaries (note 39(b)) | – | (693) | – | – | – | (693) |
| (Credited)/Charged to profit or loss | (1,521,183) | – | (2,590) | (16) | 3,381 | (1,520,408) |
| Exchange realignment | (627,426) | – | – | – | – | (627,426) |
| At 31 December 2014 and 1 January 2015 | 2,895,459 | 449 | 87,027 | 2,215 | (896) | 2,984,254 |
| (Credited)/Charged to profit or loss | (1,123,984) | – | (33,621) | (2,098) | 896 | (1,158,807) |
| Exchange realignment | (939,273) | – | (4,579) | (117) | – | (943,969) |
| At 31 December 2015 | 832,202 | 449 | 48,827 | – | – | 881,478 |

The following is the analysis of deferred tax balances for financial reporting purposes:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax assets | – | (896) |
| Deferred tax liabilities | 881,478 | 2,985,150 |
| | 881,478 | 2,984,254 |

As at 31 December 2015, the Group has unused tax losses of HK\$82,033,000 (2014: HK\$63,530,000) 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 2015. This tax loss has no expiry date.

Notes to the Financial Statements

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31. SHARE CAPITAL

| | Number of shares '000 | Total HK\$'000 |
|--|-----------------------------|-------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.001 each at 31 December 2014 and 2015 | 1,000,000,000 | 1,000,000 |
| Issued and fully paid: | | |
| At 1 January 2014 | 6,215,680 | 6,216 |
| Shares issued for acquisition of subsidiaries (note 40) | 428,892 | 429 |
| At 31 December 2014 and 1 January 2015 | 6,644,572 | 6,645 |
| Share capital issued under subscription agreement | 446,000 | 446 |
| Share capital issued under placing | 754,000 | 754 |
| Exercise of share option under share option scheme (note 32) | 17,250 | 17 |
| At 31 December 2015 | 7,861,822 | 7,862 |

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 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.

On 26 September 2014, the Company issued 428,892,000 ordinary shares of the Company as the consideration for the acquisition of 90.68% equity interests in Triumphant Glory. Details of the acquisition are set out in note 40 to the financial statements.

On 19 June 2015, an aggregate of 446,000,000 new shares have been issued to Shagang International Hong Kong Co., Limited at the subscription price of HK\$1.12 per subscription share.

On 30 June 2015, an aggregate of 754,000,000 placing shares have been successfully placed by ABCI Securities Company Limited, the Placing Agent, to not less than six placees at the placing price of HK\$1.12 per placing share pursuant to the terms and conditions of the Placing Agreement.

All ordinary shares issued as at 31 December 2015 have the same rights.

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32. 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 2015, an aggregate of 118,750,000 (2014: 130,000,000) shares of the Company were issuable pursuant to share options granted under the Share Option Scheme, representing 1.5% (2014: 2.0%) of the shares of the Company in issue at that date.

As at 31 December 2015, total number of shares available for issue pursuant to the grant of further options under the Share Option Scheme was 594,567,971 (2014: 600,567,971), representing 7.6% (2014: 9.0%) of the issued share capital of the Company as at 31 December 2015.

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.

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32. SHARE OPTIONS – CONTINUED

The following tables set out the movement in share options:

| Name or category of participant | Share option type | Outstanding at 1 January 2014 and 2015 | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at 31 December 2015 |
|---|-------------------|--|-------------------------|---------------------------|------------------------|---------------------------------|
| Share Option Schemes | | | | | | |
| <i>Share option for directors and employees</i> | | | | | | |
| Directors | | | | | | |
| <i>Executive directors</i> | | | | | | |
| LIU Wei, William | 2010 | 30,000,000 | - | - | - | 30,000,000 |
| | 2012 | 10,000,000 | - | (10,000,000) | - | - |
| SHI Lixin | 2010 | 20,000,000 | - | - | - | 20,000,000 |
| | 2012 | 10,000,000 | - | (5,000,000) | - | 5,000,000 |
| <i>Non-executive directors</i> | | | | | | |
| Mr. Yan Wei Min | 2010 | 30,000,000 | - | - | - | 30,000,000 |
| Mr. Ang Siu Lun, Lawrence | 2010 | 15,000,000 | - | - | - | 15,000,000 |
| <i>Independent non-executive directors</i> | | | | | | |
| Mr. Chan Chun Wai, Tony | 2010 | 3,000,000 | - | (1,000,000) | - | 2,000,000 |
| Mr. Fok Hon (resigned on 19 August 2015) | 2010 | 3,000,000 | - | - | (3,000,000) | - |
| Mr. Ma Gang | 2010 | 3,000,000 | - | - | - | 3,000,000 |
| Sub-total | | 124,000,000 | - | (16,000,000) | (3,000,000) | 105,000,000 |
| Employees | | | | | | |
| In aggregate | 2010 | 5,000,000 | - | - | - | 5,000,000 |
| In aggregate | 2012 | 1,000,000 | - | (1,000,000) | - | - |
| In aggregate | 2015 | - | 9,500,000 | (250,000) | (500,000) | 8,750,000 |
| Sub-total | | 6,000,000 | 9,500,000 | (1,250,000) | (500,000) | 13,750,000 |
| Total — Share Option Scheme | | 130,000,000 | 9,500,000 | (17,250,000) | (3,500,000) | 118,750,000 |

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 |

Notes to the Financial Statements

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32. 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) 17,250,000 of share options were exercised for the years ended 31 December 2015 (2014: Nil), resulted in an equal number of issued ordinary shares (note 31).
- (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) During the year, share-based payments of HK\$10,812,000 (2014: 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 option 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:

| | 2015 | | 2014 | |
|----------------------------|----------------------------|--|----------------------------|--|
| | Number of share options | Weighted average exercise price HK\$ | Number of share options | Weighted average exercise price HK\$ |
| Outstanding at 1 January | 130,000,000 | 2.33 | 130,000,000 | 2.33 |
| Granted | 9,500,000 | 2.61 | – | – |
| Exercised | (17,250,000) | 1.07 | – | – |
| Lapsed | (3,500,000) | 2.60 | – | – |
| Outstanding at 31 December | 118,750,000 | 2.53 | 130,000,000 | 2.33 |

The share options outstanding at 31 December 2015 had exercise price of HK\$0.95, HK\$2.60 or HK\$2.61 (2014: HK\$0.95 or HK\$2.60) and a weighted average remaining contractual life of 3.2 years (2014: 4 years). There are 118,750,000 (2014: 130,000,000) share options exercisable as at 31 December 2015.

- (ix) For the year ended 31 December 2015, share options lapsed were due to the lapse of with 3,500,000 share options issued to an independent non-executive director and an employee who resigned during the year. As a result of the lapse of share options during the year, an amount of HK\$3,454,000 were debited from the share-based payment reserve and credited to retained earnings/accumulated losses.

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For the year ended 31 December 2015

33. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

| | Notes | 2015 HK\$'000 | 2014 HK\$'000 |
|--|-------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,288 | 679 |
| Investments in subsidiaries | 34 | 309,992 | 431,239 |
| | | 311,280 | 431,918 |
| Current assets | | | |
| Deposits and other receivables | | 810 | 1,066 |
| Amounts due from subsidiaries | 34 | 597,745 | 1,212,342 |
| Cash and cash equivalents | | 1,153,257 | 30,545 |
| | | 1,751,812 | 1,243,953 |
| Current liabilities | | | |
| Other payables and accrued expenses | | 3,800 | 4,545 |
| Derivative financial liabilities | 26 | 68,189 | – |
| Convertible bonds | 29 | 552,386 | – |
| | | 624,375 | 4,545 |
| Net current assets | | 1,127,437 | 1,239,408 |
| Total assets less current liabilities | | 1,438,717 | 1,671,326 |
| Non-current liabilities | | | |
| Derivative financial liabilities | 26 | – | 83,699 |
| Loans from ultimate holding company | 27 | – | 220,138 |
| Convertible bonds | 29 | – | 489,436 |
| | | – | 793,273 |
| Net assets | | 1,438,717 | 878,053 |
| EQUITY | | | |
| Share capital | 31 | 7,862 | 6,645 |
| Reserves | 35 | 1,430,855 | 871,408 |
| Total equity | | 1,438,717 | 878,053 |

On behalf of directors

He Xuechu
Chairman

Liu Wei, William
Director

Notes to the Financial Statements

For the year ended 31 December 2015

34. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2015 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 | – | 99.99% | Research and exploration of iron ores, Brazil |
| Shandong Forever New Energy | PRC, limited liability company | Registered capital of US\$10,000,000 | – | 90.68% | Research, production and sales of lithium battery, PRC |
| Zhejiang Forever New Energy | PRC, limited liability company | Registered capital of US\$80,000,000 | – | 49%* | Research and development, production, sales of lithium-ion battery and battery system, PRC |

* During the year, Zhejiang Forever New Energy was established in the PRC with registered capital of US\$80,000,000 which the Group held 49% of its equity interests. As at 31 December 2015, the Group injected US\$3,920,000 (approximately to HK\$30,419,000) as capital to Zhejiang Forever New Energy and the remaining balance of US\$35,280,000 (approximately to HK\$273,773,000) to be injected on or before 31 December 2025. The adoption of HKFRS10 has resulted in the consolidation of Zhejiang Forever New Energy 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 Zhejiang Forever New Energy.

The financial statements of the above subsidiaries have been examined by BDO Limited or other member firm of BDO global network for statutory purpose or Group consolidation purpose.

The amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

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For the year ended 31 December 2015

34. INTERESTS IN SUBSIDIARIES – CONTINUED

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

As at 31 December 2015, non-controlling interests (“NCI”) of the Group is represented by 9.32% equity interests in Triumphant Glory Investments Limited (which wholly owns Shandong Forever New Energy) (collectively known as “TG Group”) and 51% equity interests in Zhejiang Forever New Energy held by non-controlling shareholders (2014: 9.32% equity interests in Triumphant Glory Investments Limited).

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

| | TG Group | | Zhejiang Forever New Energy | |
|--|------------------|------------------|-----------------------------|------------------|
| | 2015 HK\$'000 | 2014 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 |
| For the year ended 31 December | | | | |
| Revenue | 113,989 | 69,977 | – | – |
| Loss for the year | (109,233) | (3,796) | – | – |
| Total comprehensive income | (129,110) | (3,796) | – | – |
| Loss allocated to NCI | (10,023) | (336) | – | – |
| Cash flows (used in)/generated from operating activities | (27,994) | 13,759 | – | – |
| Cash flows generated from/(used in) investing activities | 5,005 | 8,437 | (21,487) | – |
| Cash flows generated from/(used in) financing activities | 35,811 | (25,200) | 62,076 | – |
| Net cash inflows/(outflows) | 12,822 | (3,004) | 40,589 | – |
| As at 31 December | | | | |
| Current assets | 200,998 | 195,262 | 40,589 | – |
| Non-current assets | 348,445 | 541,436 | 21,487 | – |
| Current liabilities | (98,424) | (91,144) | – | – |
| Non-current liabilities | (317,005) | (380,387) | – | – |
| Net assets | 134,014 | 265,167 | 62,076 | – |
| Accumulated non-controlling interests | 13,001 | 24,742 | 31,204 | – |

Notes to the Financial Statements

For the year ended 31 December 2015

35. RESERVES

Other reserve of the Company and the Group represented to recognise the difference between the fair value and the nominal value of the loans from ultimate holding company on initial recognition.

Share-based payment reserve of the Company and the Group represented to recognise 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") 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. During the year, 49,400,000 (2014: 60,000,000) ordinary shares of the Company were sold at the consideration of HK\$60,490,000 (2014: HK\$58,028,000). As at 31 December 2015, the Company held 117,100,000 (2014: 166,500,000) ordinary shares as treasury shares.

Exchange fluctuation reserve represented gains/losses arising on retranslating the net assets of overseas operations into HK\$. The significant exchange loss on translation of approximately HK\$1,982,118,000 (2014: HK\$1,165,934,000) was mainly due to (1) the depreciation of Brazilian currency and (2) the translation of the significant net assets of SAM during the year.

Notes to the Financial Statements

For the year ended 31 December 2015

35. RESERVES – CONTINUED

Movements of the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 44 of the consolidated financial statements.

COMPANY

| | Share premium HK\$'000 | Treasury shares reserve HK\$'000 | Other reserve HK\$'000 | Share-based payment reserve HK\$'000 | Convertible bond equity reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|---|---------------------------|-------------------------------------|---------------------------|---|---|--------------------------------|-------------------|
| At 1 January 2014 | 679,331 | (276,332) | 48,708 | 136,873 | 258,836 | (529,964) | 317,452 |
| Share issued for acquisition of subsidiaries (note 40) | 587,153 | - | - | - | - | - | 587,153 |
| Sales of treasury shares | - | 73,200 | - | - | - | (15,172) | 58,028 |
| Transactions with owners | 587,153 | 73,200 | - | - | - | (15,172) | 645,181 |
| Loss for the year and total comprehensive income for the year | - | - | - | - | - | (91,225) | (91,225) |
| At 31 December 2014 and 1 January 2015 | 1,266,484 | (203,132) | 48,708 | 136,873 | 258,836 | (636,361) | 871,408 |
| Sales of treasury shares | - | 60,268 | - | - | - | 222 | 60,490 |
| Proceeds from issue of share capital | 1,342,800 | - | - | - | - | - | 1,342,800 |
| Share issuance costs | (7,903) | - | - | - | - | - | (7,903) |
| Shares issued under share option scheme | 25,925 | - | - | (7,490) | - | - | 18,435 |
| Equity-settled share-based transactions | - | - | - | 10,812 | - | - | 10,812 |
| Lapse of share options | - | - | - | (3,454) | - | 3,454 | - |
| Repayment of loans from ultimate holding company | - | - | (48,708) | - | - | 48,708 | - |
| Transactions with owners | 1,360,822 | 60,268 | (48,708) | (132) | - | 52,384 | 1,424,634 |
| Loss for the year and total comprehensive income for the year | - | - | - | - | - | (865,187) | (865,187) |
| At 31 December 2015 | 2,627,306 | (142,864) | - | 136,741 | 258,836 | (1,449,164) | 1,430,855 |

Notes to the Financial Statements

For the year ended 31 December 2015

36. OPERATING LEASE COMMITMENTS

Operating leases – lessee

At 31 December 2015, total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---------------------------------------|------------------|------------------|
| Within one year | 3,536 | 4,971 |
| In the second to fifth year inclusive | 6,114 | 1,844 |
| | 9,650 | 6,815 |

The Group leases a number of rented premises under operating leases. The leases run for an initial period of one to three years (2014: one to three years). None of the leases include contingent rentals.

Operating leases – lessor

At 31 December 2015, total future minimum lease receivables under non-cancellable operating leases are as follows:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|-----------------|------------------|------------------|
| Within one year | 600 | 600 |

37. CAPITAL COMMITMENTS

| | 2015 HK\$'000 | 2014 HK\$'000 |
|--|------------------|------------------|
| Contracted but not provided for Property, plant and equipment | 14,505 | 3,164 |

As at 31 December 2015, the estimated capital expenditures for the mineral resources exploration business in Brazil, which is operated by SAM, are stated in note 15.

38. CONTINGENT CONSIDERATION PAYABLES

| | 2015 HK\$'000 | 2014 HK\$'000 |
|------------------------|------------------|------------------|
| At 1 January | 1,780,569 | 1,590,274 |
| Fair value (gain)/loss | (564,740) | 190,295 |
| At 31 December | 1,215,829 | 1,780,569 |

Since the completion of the acquisition of SAM on 28 March 2013, the Group is committed to pay the consideration outstandings of third instalment of US\$115 million, fourth instalment of US\$100 million and fifth instalment of US\$100 million upon completion of approvals of required licenses and permits, commencement of port operation and commencement of mining production respectively.

Notes to the Financial Statements

For the year ended 31 December 2015

38. CONTINGENT CONSIDERATION PAYABLES – CONTINUED

The contingent consideration payables represent the fair value of the obligation for the consideration payable in accordance with the share purchase agreement for the acquisition of SAM ("SAM Agreement") and are estimated by independent professional valuers. As at 31 December 2015, the fair value of the contingent consideration payables was estimated by applying income approach at a discount rate of 13.81% (2014: 10.62%) and the expected repayment schedules of SAM Agreement (expected repayment date of third, fourth and fifth instalments: 30 June 2019, 30 September 2022 and 30 September 2022 (2014: 30 June 2016, 30 September 2019 and 30 September 2019)). The higher the discount rate, the lower the fair value. The longer the expected repayment dates, the lower the fair value.

For illustrative purpose, should there be increase of discount rate by 1% or increase of the expected repayment dates for third, fourth and fifth instalments by 1 year, there will be a decrease of fair value of contingent consideration payables by 4% or 12% respectively, assuming there are no changes in other parameters.

39. DISPOSALS OF SUBSIDIARIES

(a) HIT

On 23 December 2015, the Company disposed its equity interests and shareholder's loan in HIT, a 100% owned subsidiary of the Company (the "Disposal"), to an independent third party for a cash consideration of HK\$100,000. HIT beneficially owned 100% of Shanghai Hongying Trading Co. Limited (collectively referred as to the "HIT Group"). HIT Group engaged in the trading of copper and steel products in the PRC. Net liabilities of the HIT Group at the date of Disposal were as follows:

| | HK\$'000 |
|--|-----------|
| Property, plant and equipment | 40 |
| Trade and other receivables | 266,012 |
| Cash and cash equivalents | 114 |
| Trade and other payables | (268,346) |
| Shareholder's loan | (6,839) |
| | (9,019) |
| Release of translation reserve upon disposals of HIT Group to profit or loss | (959) |
| Shareholder's loan assigned | 6,839 |
| Gain on disposals of subsidiaries | 3,239 |
| Total consideration | 100 |
| Satisfied by: | |
| Cash consideration | 100 |

An analysis of net inflow of cash and cash equivalents in respect of the Disposal was as follows:

| | HK\$'000 |
|--|----------|
| Cash consideration received | 100 |
| Cash and cash equivalents disposed of | (114) |
| Net outflow of cash and cash equivalents in respect of the disposal of HIT Group | (14) |

Notes to the Financial Statements

For the year ended 31 December 2015

39. DISPOSALS OF SUBSIDIARIES – CONTINUED

(b) Divine Mission

On 17 January 2014, the Company disposed its equity interests in Divine Mission, a 60% owned subsidiary of the Group (the “Disposal”), to an independent third party for a cash consideration of HK\$3,600,000. Divine Mission beneficially owned 100% of Kailun Photovoltaic Materials Investments Limited, which indirectly owns 100% of the issued share capital of Jining Kailun SogSi Materials Co., Ltd. (collectively referred as to the “Divine Mission Group”). The Divine Mission Group engaged in the production and sale of silicon products in the PRC. Net liabilities of the Divine Mission Group at the date of Disposal were as follows:

| | HK\$'000 |
|--|----------|
| Prepaid land lease payments | 22,184 |
| Cash and cash equivalents | 35 |
| Trade payables | (10,917) |
| Other payables and receipts in advance | (23,064) |
| Loans from non-controlling interest of a subsidiary | (6,800) |
| Borrowings | (2,691) |
| Deferred tax liabilities | (693) |
| | (21,946) |
| Non-controlling interests | 9,305 |
| Release of translation reserve upon disposals of Divine Mission Group to profit or loss | (1,920) |
| Gain on disposals of subsidiaries | 18,161 |
| Total consideration | 3,600 |
| Satisfied by: | |
| Cash consideration | 3,600 |

An analysis of net inflow of cash and cash equivalents in respect of the Disposal was as follows:

| | HK\$'000 |
|---|----------|
| Cash consideration received | 3,600 |
| Cash and cash equivalents disposed of | (35) |
| Net inflow of cash and cash equivalents in respect of the disposal of the Divine Mission Group | 3,565 |

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40. BUSINESS COMBINATION

On 2 July 2014, the Company entered into an acquisition agreement with Geely International (Hong Kong) Limited, Good Cheer Holdings Limited ("Good Cheer") (Mr. He Xuechu, a director and controlling shareholder of the Company, held 35% equity interests in Good Cheer) and Leads Top Limited ("Vendors") to acquire 90.68% of the equity interests in Triumphant Glory and amounts due to Vendors of HK\$157,922,000 for a total consideration of HK\$634,760,000 (the "Acquisition"). The consideration was settled by the issue of 428,891,890 shares of the Company. Triumphant Glory beneficially owned 100% of the equity interest in Shandong Forever New Energy (collectively referred as to the "Triumphant Glory Group"). The Triumphant Glory Group is principally engaged in the production and sale of lithium batteries in the PRC. The Acquisition was completed on 26 September 2014. Details of the Acquisition were set out in the Company's circulars dated 1 September 2014. The Acquisition was made with the aims to explore the Group's new investment and cooperation opportunities in the new energy and resources section for electric vehicles in the PRC.

The fair value of identifiable assets and liabilities of the Triumphant Glory Group as at the date of Acquisition were:

| | HK\$'000 | HK\$'000 |
|---|-----------|----------|
| Property, plant and equipment | 140,195 | |
| Other intangible assets | 359,168 | |
| Prepaid land lease payments | 54,810 | |
| Deferred tax assets | 4,277 | |
| Inventories | 42,589 | |
| Trade receivables | 71,817 | |
| Prepayments, deposits and other receivables | 19,938 | |
| Restricted bank deposits | 24,279 | |
| Cash and cash equivalents | 47,353 | |
| Bank borrowings | (25,200) | |
| Trade and bill payables | (75,073) | |
| Other payables, accrued expenses, deposits received and receipts in advance | (9,282) | |
| Amounts due to Vendors | (157,420) | |
| Deferred income | (136,080) | |
| Deferred tax liabilities recognised upon fair value | | |
| Adjustments | (92,297) | 269,074 |
| Less: Non-controlling interests | | (25,078) |
| | | 243,996 |
| Amounts due to Vendors assigned | | 157,420 |
| Goodwill (note 18) | | 186,166 |
| Consideration satisfied by shares of the Company | | 587,582 |
| Cash and cash equivalents acquired | | 47,353 |
| Cash inflow arising from the acquisition of the Triumphant Glory Group | | 47,353 |

Notes to the Financial Statements

For the year ended 31 December 2015

40. BUSINESS COMBINATION – CONTINUED

The goodwill is attributable to the significant future prospect and the business value of the acquired production and sale of lithium battery business.

Since the acquisition date, the Triumphant Glory Group has contributed revenue of approximately HK\$69,977,000 to the Group's turnover and loss of approximately HK\$6,621,000 to the Group's loss for the year ended 31 December 2014. Had the Acquisition been completed on 1 January 2014, total Group's turnover for the year would have been increased by approximately HK\$102,842,000 and loss for the year would have been decreased by approximately HK\$10,882,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results. The Acquisition's related costs of approximately HK\$1,722,000 have been expensed and are included in other operating expenses (note 9).

The fair value of trade receivables, prepayments, deposits and other receivables at the date of acquisition amounted to HK\$91,755,000 which was also the gross contractual amounts of these receivables acquired. None of the contractual cash flows of the above amount was estimated to be uncollectible.

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.

(i) Financial assets

| | 2015 HK\$'000 | 2014 HK\$'000 |
|----------------------------|------------------|------------------|
| Loans and receivables: | | |
| Current assets | | |
| Trade and bill receivables | 118,456 | 359,480 |
| Other receivables | 6,808 | 8,275 |
| Restricted bank deposits | – | 15,294 |
| Cash and bank balances | 1,228,682 | 57,080 |
| | 1,353,946 | 440,129 |

Notes to the Financial Statements

For the year ended 31 December 2015

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY – CONTINUED

(ii) Financial liabilities

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|------------------|------------------|
| Financial liabilities at fair value through profit or loss: | | |
| Current liabilities | | |
| Derivative financial liabilities | 68,189 | – |
| Non-current liabilities | | |
| Derivative financial liabilities | – | 83,699 |
| Contingent consideration payables | 1,215,829 | 1,780,569 |
| | 1,284,018 | 1,864,268 |
| Financial liabilities at amortised cost: | | |
| Current liabilities | | |
| Trade and bill payables | 56,103 | 324,176 |
| Other payables, accrued expenses and deposits received | 7,730 | 23,998 |
| Borrowings | 35,811 | – |
| Convertible bonds | 552,386 | – |
| | 652,030 | 348,174 |
| Non-current liabilities | | |
| Loans from ultimate holding company | – | 220,138 |
| Convertible bonds | – | 489,436 |
| | – | 709,574 |
| | 1,936,048 | 2,922,016 |

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.

Notes to the Financial Statements

For the year ended 31 December 2015

41. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY – CONTINUED

Financial liabilities measured at fair value through profit or loss

| As at 31 December 2015 | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------|
| Derivative financial liabilities | – | – | 68,189 | 68,189 |
| Contingent consideration payables | – | – | 1,215,829 | 1,215,829 |
| | – | – | 1,284,018 | 1,284,018 |

| As at 31 December 2014 | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
|-----------------------------------|---------------------|---------------------|---------------------|-------------------|
| Derivative financial liabilities | – | – | 83,699 | 83,699 |
| Contingent consideration payables | – | – | 1,780,569 | 1,780,569 |
| | – | – | 1,864,268 | 1,864,268 |

Information about level 3 fair value measurements

The fair value of the derivative financial liabilities, which is early redemption option embedded in the convertible bond, is estimated using the Black-Scholes model with Trinomial Tree method. The only significant unobservable input is historical volatility of share price of the Company. As at 31 December 2015, the historical volatility is 75.25% (2014: 80.64%). The higher the historical volatility, the higher the fair value.

The details of the valuation of the fair value of contingent consideration payables were disclosed in note 38.

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.

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For the year ended 31 December 2015

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – CONTINUED

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 interest rate is minimal as the Group has no financial assets or liabilities of material amounts with floating interest rates except for deposits held in banks and bank borrowings as at 31 December 2015. The exposure to interest rates for the Group's bank deposits is considered immaterial. The terms of bank borrowings are set out in note 25.

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 loss 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.

42.3 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 99% (2014: 94%) of the Group's turnover for the year was derived from 2 major customers (2014:1) and as at reporting date, 99% (2014: 29%) of the Group's trade and bill receivables was due from these customers. The Group continuously and actively evaluates the credit risk of this debtor.

The Group's management considers that the Group's financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

Approximately 94% of the bank balances as at 31 December 2015 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.

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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 detailed in note 3.1, these financial statements have been prepared on the assumption that the Group will continue as a going concern. On the basis that (1) the Group obtained certain funding from placing and subscription of shares of approximately HK\$1,336 million and (2), the Company has signed certain MOU and framework agreement with its strategic partners for the development of SAM if all licences were obtained, additional funding will be obtained for the capital expenditure and the payment for the coming twelve months, the Directors are satisfied that the Group will be able to meet in full their financial obligations as they fall due in the foreseeable future without significant curtailment of operations. Accordingly, the financial statements have been prepared on a going concern basis.

As at 31 December 2015 and 2014, the Group's financial liabilities have contractual maturities which are summarised below:

| | Within 1 year or on demand HK\$'000 | 1–5 years HK\$'000 | Over 5 years HK\$'000 | Total undiscounted amount HK\$'000 | Total carrying amount HK\$'000 |
|---|--|--------------------------|--------------------------|---|---|
| At 31 December 2015 | | | | | |
| Non-derivatives: | | | | | |
| Trade and bill payables | 56,103 | – | – | 56,103 | 56,103 |
| Other payables, accrued expenses and deposits received | 7,730 | – | – | 7,730 | 7,730 |
| Borrowings | 36,513 | – | – | 36,513 | 35,811 |
| Contingent consideration payables | – | 892,400 | 1,551,969 | 2,444,369 | 1,215,829 |
| Convertible bonds | 740,000 | – | – | 740,000 | 552,386 |
| | 840,376 | 892,400 | 1,551,969 | 3,284,715 | 1,867,859 |
| At 31 December 2014 | | | | | |
| Non-derivatives: | | | | | |
| Trade and bills payables | 324,176 | – | – | 324,176 | 324,176 |
| Other payables and accrued expenses | 23,998 | – | – | 23,998 | 23,998 |
| Loans from ultimate holding company | – | 231,554 | – | 231,554 | 220,138 |
| Contingent consideration payables | – | 2,444,369 | – | 2,444,369 | 1,780,569 |
| Convertible bonds | – | 740,000 | – | 740,000 | 489,436 |
| | 348,174 | 3,415,923 | – | 3,744,097 | 2,838,317 |

Notes to the Financial Statements

For the year ended 31 December 2015

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:

| | 2015 HK\$'000 | 2014 HK\$'000 |
|---|-------------------|------------------|
| Capital | | |
| Total equity | 1,551,476 | 4,072,505 |
| Loans from ultimate holding company | – | (48,708) |
| Convertible bonds — equity components | (258,836) | (258,836) |
| | 1,292,640 | 3,764,961 |
| Overall financing | | |
| Borrowings | 35,811 | – |
| Loans from ultimate holding company | – | 268,846 |
| Convertible bonds — equity and liability components | 811,222 | 748,272 |
| | 847,033 | 1,017,118 |
| Capital-to-overall financing ratio | 1.53 times | 3.70 times |

44. RELATED PARTY TRANSACTIONS

Save as disclosed in note 40 for the acquisition of subsidiaries from a related party and note 12 for compensation of key management personnel, there are no other significant related party transactions during the year ended 31 December 2015 and 31 December 2014.

Notes to the Financial Statements

For the year ended 31 December 2015

45. EVENT AFTER THE REPORTING DATE

On 25 March 2016, the Company and Cloudmatrix, a Cayman Islands exempted company with limited liability, entered into a term sheet (the "Term Sheet") which was non-legal binding in nature. Pursuant to the Term Sheet, the Company agreed to invest at least US\$10,000,000 (equivalent to HK\$78,000,000) as a limited partner in the limited partnership (the "Limited Partnership") to be managed by Cloudmatrix. The Company intends to invest an amount no more than US\$70,000,000 (equivalent to HK\$546,000,000) in the Limited Partnership.

The investment objective of the Limited Partnership is to seek to generate guaranteed return by investing, either directly or indirectly, in entities within the telecommunication media and technology industry. As at the date of this report, no definitive agreement has been entered into between the Company and Cloudmatrix.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2015 were approved for issue by the Board of Directors on 29 March 2016.

Financial Summary

FINANCIAL RESULTS

| | Year ended 31 December | | | | |
|---|------------------------|------------------|------------------|------------------|--------------------|
| | 2011 HK\$'000 | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2015 HK\$'000 |
| CONTINUING OPERATIONS | | | | | |
| Turnover | 1,756,598 | 415,306 | 10,365 | 73,481 | 115,394 |
| Direct operating expenses | (1,740,781) | (412,442) | (2,778) | (51,996) | (91,723) |
| Other operating revenue | 9,678 | 8,190 | 6,971 | 4,086 | 15,028 |
| Selling and distribution costs | (851) | (1,180) | (432) | (959) | (2,323) |
| Administrative expenses | (32,036) | (27,284) | (60,143) | (78,912) | (98,940) |
| Other operating expenses, net | (50,029) | (55,069) | (54,924) | (3,008) | – |
| Share-based payment expenses | (51,861) | (23,980) | – | – | (10,812) |
| Impairment of exploration and evaluation assets | (298,247) | (171,398) | – | (4,474,063) | (3,305,838) |
| Impairment of other intangible assets | – | – | – | – | (93,037) |
| Impairment of property, plant and equipment | – | – | – | – | (20,688) |
| Gain on disposal of subsidiaries | – | – | 73,188 | 18,161 | 3,239 |
| Gain on bargain purchase | – | – | 9,277,141 | – | – |
| Gain on full settlement of shareholder's loan | – | – | – | – | 3,358 |
| Fair value gain on derivative financial liabilities | – | – | – | 8,812 | 15,510 |
| Fair value gain/(loss) on contingent consideration payables | – | – | – | (190,295) | 564,740 |
| Impairment of goodwill | (31,051) | – | – | – | (176,370) |
| Finance costs | (52,373) | (61,200) | (69,539) | (67,327) | (66,556) |
| (Loss)/Profit before income tax | (490,953) | (329,057) | 9,179,849 | (4,762,020) | (3,149,018) |
| Income tax credit | 101,404 | 58,767 | – | 1,520,225 | 1,154,011 |
| (Loss)/Profit for the year from continuing operations | (389,549) | (270,290) | 9,179,849 | (3,241,795) | (1,995,007) |
| DISCONTINUED OPERATIONS | | | | | |
| Profit for the year from discontinued operations | 3,001 | – | – | – | – |
| (Loss)/Profit for the year | (386,548) | (270,290) | 9,179,849 | (3,241,795) | (1,995,007) |
| Attributable to: | | | | | |
| Owners of the Company | (304,839) | (221,699) | 9,182,596 | (3,241,459) | (1,984,984) |
| Non-controlling interests | (81,709) | (48,591) | (2,747) | (336) | (10,023) |
| (Loss)/Profit for the year | (386,548) | (270,290) | 9,179,849 | (3,241,795) | (1,995,007) |

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|--|-------------------|------------------|------------------|------------------|--------------------|
| | 2011 HK\$'000 | 2012 HK\$'000 | 2013 HK\$'000 | 2014 HK\$'000 | 2015 HK\$'000 |
| Total assets | 3,013,559 | 2,047,332 | 15,513,979 | 10,146,738 | 4,485,474 |
| Total liabilities | (2,095,943) | (1,463,405) | (7,711,818) | (6,074,233) | (2,933,998) |
| Non-controlling interests | (360,419) | (279,188) | 9,305 | (24,742) | (44,205) |
| Equity attributable to owners of the Company | 557,197 | 304,739 | 7,811,466 | 4,047,763 | 1,507,271 |