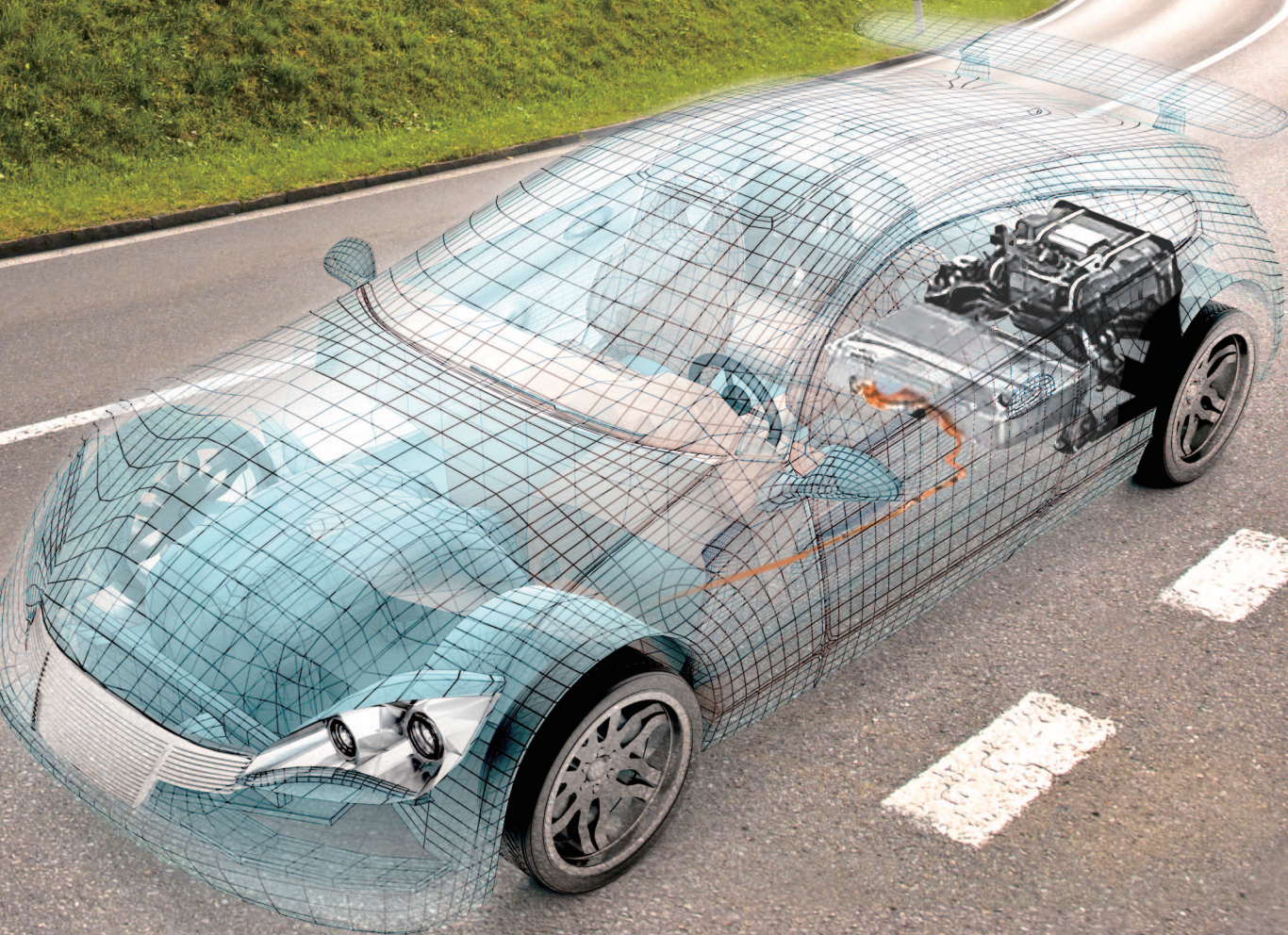




HONBRIDGE HOLDINGS LIMITED
洪橋集團有限公司
(Stock Code: 8137)

2016

HALF YEAR REPORT



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

GEM has been positioned as a market designed to accommodate companies to which a high 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.

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

UNAUDITED CONSOLIDATED HALF YEAR RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2016, together with the comparative unaudited figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — UNAUDITED

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Turnover	2	9,732	15,247	29,913	52,623
Cost of sales		(11,249)	(9,928)	(29,179)	(35,505)
Gross (loss)/profit		(1,517)	5,319	734	17,118
Other income	4	6,225	1,264	9,774	1,790
Selling and distribution costs		(324)	(676)	(690)	(1,120)
Administrative expenses		(16,116)	(24,146)	(38,458)	(45,883)
Share-based payment expenses	5	–	(10,812)	–	(10,812)
Impairment on exploration and evaluation assets	11	(1,248,080)	–	(1,248,080)	–
Fair value gain on contingent consideration payable	18	1,048,406	–	1,048,406	–
Finance costs	6	(17,765)	(14,682)	(35,050)	(30,986)
Loss before income tax	7	(229,171)	(43,733)	(263,364)	(69,893)
Income tax credit	8	424,505	963	426,003	928
Profit/(Loss) for the period		195,334	(42,770)	162,639	(68,965)
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss:					
Exchange gain/(loss) on translation of financial statements of foreign operations		315,668	165,535	419,401	(860,075)
Other comprehensive income, net of tax		315,668	165,535	419,401	(860,075)
Total comprehensive income for the period		511,002	122,765	582,040	(929,040)
Profit/(Loss) for the period attributable to:					
Owners of the Company		195,990	(41,890)	163,479	(67,831)
Non-controlling interests		(656)	(880)	(840)	(1,134)
		195,334	(42,770)	162,639	(68,965)
Total comprehensive income attributable to:					
Owners of the Company		512,333	123,561	583,654	(927,990)
Non-controlling interests		(1,331)	(796)	(1,614)	(1,050)
		511,002	122,765	582,040	(929,040)
Earnings/(loss) per share attributable to the owners of the Company during the period	10				
— Basic		HK2.49 cents	HK(0.57) cent (restated)	HK2.08 cents	HK(0.94) cent (restated)
— Diluted		HK2.16 cents	N/A	HK2.01 cents	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		108,402	109,551
Exploration and evaluation assets	11	2,095,200	2,716,000
Prepaid land lease payments		89,055	50,635
Other intangible assets		184,369	191,215
Loan receivable	12	540,000	–
Deposits for acquisition of land use rights		–	21,487
		3,017,026	3,088,888
Current assets			
Inventories		24,624	37,957
Trade and bill receivables	13	103,746	118,456
Prepayments, deposits and other receivables		32,801	11,491
Cash and cash equivalents		708,844	1,228,682
		870,015	1,396,586
Current liabilities			
Trade and bill payables	14	25,337	56,103
Other payables, accrued expenses, deposits received and receipts in advance		36,361	8,496
Borrowings	15	23,359	35,811
Derivative financial liabilities		–	68,189
Convertible bonds	16	–	552,386
Current tax liabilities		–	1,328
Total current liabilities		85,057	722,313
Net current assets		784,958	674,273
Total assets less current liabilities		3,801,984	3,763,161
Non-current liabilities			
Derivative financial liabilities		68,189	–
Convertible bonds	16	586,836	–
Borrowings	15	116,796	–
Deferred income		106,196	114,378
Deferred tax liabilities	17	646,348	881,478
Contingent consideration payable	18	144,103	1,215,829
		1,668,468	2,211,685
Net assets		2,133,516	1,551,476
EQUITY			
Equity attributable to the owners of the Company			
Share capital		7,862	7,862
Reserves		2,083,063	1,499,409
		2,090,925	1,507,271
Non-controlling interests		42,591	44,205
Total equity		2,133,516	1,551,476

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Equity attributable to owners of the Company										
	Share capital	Share premium	Treasury shares reserve	Other reserve	Share-based payment reserve	Translation reserve	Convertible bonds equity reserve	Retained earnings	Total	Non-controlling interests	Total equity
2016											
At 1 January 2016	7,862	2,627,306	(142,864)	-	136,741	(4,869,117)	258,836	3,488,507	1,507,271	44,205	1,551,476
Profit/(Loss) for the period	-	-	-	-	-	-	-	163,479	163,479	(840)	162,639
Other comprehensive income											
Currency translation	-	-	-	-	-	420,175	-	-	420,175	(774)	419,401
Total comprehensive income	-	-	-	-	-	420,175	-	163,479	583,654	(1,614)	582,040
At 30 June 2016	7,862	2,627,306	(142,864)	-	136,741	(4,448,942)	258,836	3,651,986	2,090,925	42,591	2,133,516
2015											
At 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
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)
Shares issued under share option scheme	17	18,198	-	-	(7,379)	-	-	7,379	18,215	-	18,215
Equity-settled share-based transactions	-	-	-	-	10,812	-	-	-	10,812	-	10,812
Sales of treasury shares	-	-	60,490	-	-	-	-	-	60,490	-	60,490
Repayment of loans from ultimate holding company	-	-	-	(48,708)	-	-	-	48,708	-	-	-
Transaction with owners	1,217	1,353,095	60,490	(48,708)	3,433	-	-	56,087	1,425,614	-	1,425,614
Loss for the period	-	-	-	-	-	-	-	(67,831)	(67,831)	(1,134)	(68,965)
Other comprehensive income											
Currency translation	-	-	-	-	-	(860,159)	-	-	(860,159)	84	(860,075)
Total comprehensive income	-	-	-	-	-	(860,159)	-	(67,831)	(927,990)	(1,050)	(929,040)
At 30 June 2015	7,862	2,619,579	(142,642)	-	140,306	(3,747,917)	258,836	5,409,363	4,545,387	23,692	4,569,079

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS — UNAUDITED

	Note	Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Net cash used in operating activities		(48,538)	(48,635)
Net cash used in investing activities:			
Additions of prepaid land lease payments		(19,680)	–
Provision of loan to a borrower	12	(540,000)	–
Other investing cash flows		(16,332)	(10,101)
		(576,012)	(10,101)
Net cash from financing activities:			
Government loan received		119,048	–
Proceeds from placing of new shares		–	844,480
Proceeds from share subscription		–	499,520
Share issuance costs		–	(7,903)
Repayment of loans from ultimate holding company		–	(224,094)
Proceeds from sales of treasury shares		–	60,490
Proceeds from issue of new shares under share options scheme		–	18,215
Other financing cash flows		(13,052)	24,200
		105,996	1,214,908
Net (decrease)/increase in cash and cash equivalents		(518,554)	1,156,172
Cash and cash equivalents, at beginning of period		1,228,682	57,080
Effect of foreign exchange rate changes		(1,284)	328
Cash and cash equivalents, at end of period		708,844	1,213,580
Analysis of the balance of cash and cash equivalents			
Cash at banks and in hand		708,844	1,213,580

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months and six months ended 30 June 2016 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules.

These financial statements should be read, where relevant, in conjunction with the 2015 annual report.

The accounting policies adopted in the 2015 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2016. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

2. 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 period are as follows:

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Sale of lithium batteries	29,913	51,231
Revenue from trading commodity contracts	–	1,392
	29,913	52,623

3. 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.

3. 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
Six months ended 30 June 2016			
Reportable segment turnover (external customers)	–	29,913	29,913
Reportable segment losses	(1,256,467)	(9,053)	(1,265,520)
Reportable segment assets	2,098,717	687,347	2,786,064
Reportable segment liabilities	148,188	302,477	450,665
Capital expenditure	918	47,685	48,603
Depreciation	313	7,304	7,617
Amortisation of other intangible assets	–	6,847	6,847
Six months ended 30 June 2015			
Reportable segment turnover (external customers)	1,392	51,231	52,623
Reportable segment losses	(9,952)	(13,109)	(23,061)
Reportable segment assets	7,687,781	911,784	8,599,565
Reportable segment liabilities	2,072,932	230,314	2,303,246
Capital expenditure	4,900	5,201	10,101
Depreciation	398	7,282	7,680
Amortisation of other intangible assets	–	20,723	20,723

3. 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:

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Reportable segment turnover	29,913	52,623
Reportable segment loss	(1,265,520)	(23,061)
Other operating income	2,969	1,346
Fair value gain on contingent consideration payable	1,048,406	–
Administrative expenses	(14,769)	(5,097)
Other operating expenses	–	(1,746)
Share-based payment expenses	–	(10,812)
Finance costs	(34,450)	(30,523)
Loss before income tax	(263,364)	(69,893)

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
	Reportable segment assets	2,786,064
Property, plant and equipment	951	1,288
Loan receivable	540,000	–
Prepayments and other receivables	3,254	810
Cash and cash equivalents	556,772	1,153,257
	3,887,041	4,485,474
Reportable segment liabilities	450,665	1,428,145
Other payables and accrued expenses	1,487	3,800
Derivative financial liabilities	68,189	68,189
Convertible bonds	586,836	552,386
Deferred tax liabilities	646,348	881,478
	1,753,525	2,933,998

3. SEGMENT INFORMATION — CONTINUED

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

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Turnover from external customers		
PRC	29,913	115,394
Reportable segment turnover	29,913	115,394
Non-current assets		
Hong Kong	540,951	1,288
PRC	379,256	370,044
Brazil	2,096,819	2,717,556
Reportable segment non-current assets	3,017,026	3,088,888

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

4. OTHER INCOME

		Six months ended 30 June	
	Note	2016 HK\$'000	2015 HK\$'000
Bank interest income		1,557	339
Loan interest income	12	2,624	–
Government grant		5,293	–
Rental income		300	300
Overprovision of interests on loans from ultimate holding company		–	1,044
Sundry income		–	107
		9,774	1,790

5. SHARE-BASED PAYMENT EXPENSES

On 14 May 2015, 9,500,000 share options were granted to the Company's employees at exercise price of HK\$2.61 per share 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. More details have been set out in note 32 of 2015 annual report. No share options were granted in the current period.

6. FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Interest charges on other borrowings wholly repayable within five years	600	463
Imputed interest on convertible bonds	34,450	30,523
	35,050	30,986

7. LOSS BEFORE INCOME TAX

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Loss before income tax are arrived at after charging:		
Rental expenses	2,389	2,839
Amortisation of other intangible assets	6,847	20,723
Cost of inventories recognised as expense	29,179	35,505
Depreciation and amortisation	7,954	7,901

8. INCOME TAX CREDIT

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Overseas tax		
Current period	(167)	(4,364)
Deferred tax (note 17)	426,170	5,292
Income tax credit	426,003	928

During the six months ended 30 June 2015 and 2016, 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 period at the rates of taxation prevailing in the countries in which the Group operates.

8. INCOME TAX CREDIT — CONTINUED

During the year, the PRC corporate income tax rate of 25% (2015: 25%) is applicable to Shanghai Hongying Trading Co. Limited (“Shanghai Hongying”), and Zhejiang Forever New Energy Co., Ltd. (“Zhejiang Forever New Energy”) while the PRC corporate income tax rate for Shandong Forever New Energy Co., Ltd. (“Shandong Forever New Energy”) is 15% (2015: 25%), being the Group’s subsidiaries established in the PRC.

During the period, corporate income tax rates in Brazil of 34% (2015: 34%) is applicable to Sul Americana de Metais S.A. (“SAM”), being the Group’s subsidiary established in Brazil.

9. DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share for the three months and six months ended 30 June 2016 are based on the profit attributable to the owners of the Company of approximately HK\$195,990,000 and HK\$163,479,000 respectively and on 7,861,821,606 weighted average number of shares respectively. (For the three months and six months ended 30 June 2015, loss attributable to the owners of the Company was HK\$41,890,000 and HK\$67,831,000 respectively and basic losses per share in the period was calculated based on 7,295,793,706 and on 7,235,807,808 weighted average number of shares respectively, after adjusting for the bonus elements in the shares issued under share subscription and share placing in June 2015).

The calculation of diluted earnings per share for the three months and six months ended 30 June 2016 are based on HK\$213,475,000 and HK\$197,928,000 profit attributable to the owners of the Company respectively. 9,861,821,606 weighted average number of shares was used after taking account into the convertible bonds which have a dilutive impact. No such figure was presented for the three months and six months ended 30 June 2015 because the impact of the share options and convertible bonds was anti-dilutive.

11. EXPLORATION AND EVALUATION ASSETS

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.

During the period, the Company reviewed the carrying amount of exploration and evaluation assets, impairment loss of approximately HK\$1,248 million had been identified and recognised. The impairment is mainly due to the increase in the estimated operating cost (“OPEX”) to US\$29.9/ton (31 December 2015: US\$24.8/ton) and capital expenditure (“CAPEX”) to US\$3,082 million (31 December 2015: US\$2,932 million) of the SAM iron ore project mainly because of the appreciation of Brazilian Reals against the US dollar.

The recoverable amount of exploration and evaluation assets were valued by an independent valuer at US\$270 million (31 December 2015: US\$ 350 million), based on the income based approach and the excess earning method.

12. LOAN RECEIVABLE

On 11 April 2016, the Company entered into an agreement with the Cloudrider Limited (the "Borrower"), pursuant to which the Company agreed to grant to the Borrower a loan in the principal amount of HK\$540,000,000 (the "Loan") at a fixed interest rate of 3% per annum (the "Loan Agreement"). HK\$251,100,000 and HK\$288,900,000 were lent to the Borrower on 22 April 2016 and 12 May 2016 respectively.

The Borrower shall pay the accrued interest semi-annually and repay the outstanding amount of the Loan and the unpaid interest accrued 12 months after the drawdown date. The Borrower may, at its option extend the repayment date for 12 months. The Loan is secured by the share charges provided by two of the shareholders of the Borrower over all of their shareholdings in the Borrower and a debenture consisting of a fixed and floating charge over all of the assets of the Borrower in favour of the Company.

During the period ended 30 June 2016, a loan interest income of approximately HK\$2,624,000 was recognised by the Company in accordance with the Loan Agreement.

13. TRADE AND BILL RECEIVABLES

The following is the breakdown and ageing analysis of net trade and bill receivables at the reporting date.

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade receivables	103,117	113,789
Bill receivables	629	4,667
Trade and bill receivables	103,746	118,456
0 to 30 days	25,228	60,289
31 to 90 days	2,334	13,864
91 to 180 days	2,047	7,803
Over 180 days	74,137	36,500
	103,746	118,456

14. TRADE AND BILL PAYABLES

The following is ageing analysis of trade and bills payables at the reporting dates:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade payables	21,844	43,211
Bill payables	3,493	12,892
	25,337	56,103
0–30 days	2,923	14,122
31–60 days	3,392	2,834
61–90 days	2,177	3,609
91–180 days	8,889	21,770
Over 180 days	7,956	13,768
	25,337	56,103

15. BORROWINGS

	Original currency	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Current:			
Bank loans — secured	RMB	23,359	35,811
Non-current:			
Government loan — unsecured	RMB	116,796	–

The bank loans bear interest at 5.6% per annum and were due within one year from the reporting date. The bank loans were secured by property, plant and equipment and land of the Company.

The government loan is unsecured, non-interest bearing and not due within one year from the reporting date.

16. CONVERTIBLE BONDS

On 4 June 2013, the Company issued a convertible bonds in the principal amount of HK\$740,000,000 to Geely International (Hong Kong) Limited (“Geely International”). The convertible bonds are interest-free and convertible into 2,000,000,000 ordinary shares of the Company and not redeemable by the Company. Geely International has the discretion on redemption after the second anniversary of the date of issue of the convertible bonds. Geely International had given its written confirmation that it would not call for repayment until September 2017. Accordingly, as at 30 June 2016, the derivative and liability component of the convertible bonds were classified as non-current liabilities.

The liability component of the convertible bonds is initially recognised at its fair value and is subsequently measured at amortised cost. The imputed interest expenses recognised for the six months ended 30 June 2016 were HK\$34,450,000 (2015: HK\$30,523,000).

17. DEFERRED TAX LIABILITIES

Deferred taxation is calculated in full on temporary differences under liability method using the tax rates applicable in the tax jurisdiction concerned. The amount was mainly arising from the fair value adjustment of exploration and evaluation assets and other intangible assets.

18. CONTINGENT CONSIDERATION PAYABLE

After the completion of the acquisition of SAM on 28 March 2013, the Group is committed to pay Votorantim, the vendor of SAM, the consideration outstanding i.e. 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. The HK\$1,215,829,000 contingent consideration payables represent the fair value of the outstanding consideration payable in accordance with the SAM share purchase agreement (the “SAM SPA”).

On 12 May 2016 (Brazil time), the Company, Infinite Sky Investments Limited, New Trinity Holdings Limited, SAM, Votorantim entered into a settlement agreement (the “Settlement Agreement”).

Pursuant to the Settlement Agreement, the Company paid Votorantim a settlement payment of US\$3,000,000 (equivalent to approximately HK\$23,320,000) (the “Settlement Payment”) and Votorantim has executed SAM’s share transfer book and transferred the preferred shares to Infinite Sky. After the transfer of the preferred shares, SAM become a wholly owned subsidiary of the Company. Other terms of the Settlement Agreement has been disclosed in the management discussion and analysis section in this report.

Under the Settlement Agreement, the Company is no longer liable to pay the third, fourth and fifth instalment payment with the total amount of US\$315 million under the SAM SPA but the Company is committed to pay a maximum aggregate amount of US\$60,000,000 contingent additional payment and conditional mining production payment to Votorantim upon occurrence of certain events.

The US\$18,600,000 (equivalent to approximately HK\$144,103,000) contingent consideration payables represent the fair value of the obligation for the contingent additional payment and conditional mining production payment in accordance with the Settlement Agreement and are estimated by independent professional valuers. After debiting the HK\$23,320,000 Settlement Payment, the remaining HK\$1,048,406,000 difference between the fair value of contingent consideration payables was recognised as a fair value gain on contingent consideration payable for the period ended 30 June 2016.

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group use the following hierarchy for determining and disclosing the fair value of financial instruments that are measured at fair value in the statements of financial position:

- Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial assets or liabilities are categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

Financial liabilities measured at fair value through profit or loss

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
As at 30 June 2016				
Derivative financial liabilities	–	–	68,189	68,189
Contingent consideration payables	–	–	144,103	144,103
	–	–	212,292	212,292
As at 31 December 2015				
Derivative financial liabilities	–	–	68,189	68,189
Contingent consideration payables	–	–	1,215,829	1,215,829
	–	–	1,284,018	1,284,018

During the six months ended 30 June 2016, there was no transfer between different levels of fair value hierarchy.

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. (“Shandong Forever New Energy”) in September 2014 and established Zhejiang Forever New Energy Company Limited (“Zhejiang Forever New Energy”) in December 2015. In order to fulfill one of the pre-requisite (i.e. foreign shareholding should not be higher than 50%) to be listed in the catalog according to the Vehicle Power Battery Industry Standard Conditions (汽車動力蓄電池行業規範條件) (the “Catalog”), a shareholding change has been completed in July 2016 which the shareholding of Triumphant Glory Investments Limited (“Triumphant Glory”), a British Virgin Islands (BVI) incorporated and a 90.68% owned subsidiary of the Company, in Shandong Forever New Energy was diluted from 100% to 49%.

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. Except the development in the lithium-ion batteries business, there were no material progress in the other fields.

Formation of the Zhejiang Forever New Energy

On 16 December 2015, Honbridge Power Limited, a wholly owned subsidiary of the Company, Shanghai Maple Automobile Company Limited, a subsidiary of Zhejiang Geely Holding Group Company Limited (“Zhejiang Geely”) and Jiaxing Jiale established a joint investment named Zhejiang Forever New Energy in Jinhua New Energy Automobile Industrial Park. The total investment is approximately 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.

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 130,000 square meters. Construction work has been commenced in mid-2016 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 the third quarter of 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. 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.

Lithium-ion Batteries Business

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Lithium-ion Batteries Business — continued

During the period ended 30 June 2016, Shandong Forever New Energy, recorded a revenue of approximately HK\$29.9 million (equivalent to approximately RMB25.1 million), which decreased by 41.6% when compared to HK\$51.2 million (equivalent to approximately RMB40.0 million) revenue recognised in the last corresponding period. The decrease is mainly due to the policy change of the PRC government. In around April 2016, there was news reported that only new energy vehicle models using vehicle power battery listed in the Catalog according to the “Vehicle Power Battery Industry Standard Conditions (汽車動力蓄電池行業規範條件)” will be approved to list in the Car Catalog and enjoy the relevant government subsidies. Shandong Forever New Energy was not listed in the Catalog until 17 June 2016 which negatively affected the performance of the company. The decrease was also due to the investigation carried out by the PRC Government on the misappropriation of the government subsidies by the automobile enterprises for new energy vehicle. Moreover, the automobile enterprises occupy a large amount of their funding as they are unable to obtain the government subsidies in a timely manner, and they even further occupy the funding of the batteries manufacturing enterprise. Under these uncertainties, the production volume of the automobile enterprises in this quarter decreased substantially. 康迪電動車 and 新大洋電動車, the major customers of Shandong Forever New Energy has also reduced their production volume, hence reducing their demand for lithium-ion batteries. The overall gross profit percentage has changed from last corresponding period’s 30.7% to 2.5% mainly because of the decrease in production in the current period, results in higher average unit cost of products. During the period ended 30 June 2016, Shandong Forever New Energy’s earnings before interests, taxes, depreciation and amortisation (“EBITDA”) was approximately HK\$4.1 million (equivalent to approximately RMB3.5 million). However, the net loss for the lithium-ion batteries business was approximately HK\$8.9 million (equivalent to approximately RMB7.4 million) during the period ended 30 June 2016 mainly due to the non-cash amortisation expenses of patents and customers relationship of HK\$6.8 million (equivalent to approximately RMB5.8 million) charged.

Capital Contribution Agreement and Joint Investment Agreement

Capital Contribution Agreement

On 9 May 2016, Triumphant Glory, a 90.68% owned subsidiary of the Company, entered into the capital contribution agreement with Zhejiang Geely Automobile Co., Ltd. (“Geely Auto”) and Jiaying Jiale Investment Partnership Corporation (limited partnership) (“Jiaying Jiale”), whereby Geely Auto and Jiaying Jiale have conditionally agreed to contribute capital into Shandong Forever New Energy, which is a direct wholly-owned subsidiary of Triumphant Glory (the “Capital Contribution Agreement”). According to the terms of the Capital Contribution Agreement, Geely Auto and Jiaying Jiale shall contribute approximately US\$42.15 million and US\$2.62 million into Shandong Forever New Energy respectively. After the completion of the capital contribution, the registered capital of Shandong Forever New Energy will be increased from US\$10 million to approximately US\$20.41 million. Triumphant Glory, Geely Auto and Jiaying Jiale will hold 49.0%, 48.0% and 3.0% equity interest in Shandong Forever New Energy, respectively.

Payment terms

Pursuant to the Capital Contribution Agreement, Geely Auto is required to paid 10% of its capital contribution within 30 days after the registration of increase in share capital of Shandong Forever New Energy is completed. Such deadline was extended in a supplemental agreement signed on 14 June 2016 (the “Supplemental Agreement”), pursuant to which Geely Auto is required to pay the 10% of its Capital Contribution Amount within 30 days after all the conditions precedent set out in the Capital Contribution Agreement have been fulfilled. Geely Auto and Jiaying Jiale shall make the Capital Contribution Amount in full to Shandong Forever New Energy no later than 31 October 2022. While the entire capital injections may be fully paid by Geely Auto and Jiaying Jiale before 31 October 2022 without a concrete capital injection date, pursuant to the Supplemental Agreement, if needed, Geely Auto and Jiaying Jiale shall pay their respective outstanding capital contribution amounts in full or by instalments in accordance to the payment schedule as approved by the board of directors of Shandong Forever New Energy in order to satisfy the financial requirement of Shandong Forever New Energy. Moreover, Geely Auto and Jiaying Jiale undertake that, pending full payment of their respective capital contribution under the Capital Contribution Agreement, they shall use all dividend, distribution and payment received from Shandong Forever New Energy (if any) to satisfy their capital contribution obligation. Up to the date of this report, no capital contribution has been paid by Geely Auto and Jiaying Jiale.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Capital Contribution Agreement and Joint Investment Agreement — continued

Joint Investment Agreement

Also on 9 May 2016, Triumphant Glory, Geely Auto and Jiaying Jiale also entered into the joint investment agreement to govern the operation and management, and the rights and obligations of the shareholders of Shandong Forever New Energy (the "Joint Investment Agreement"). As Triumphant Glory will be able to appoint the majority of the directors to the board of directors of Shandong Forever New Energy pursuant to the Joint Investment Agreement, and the Board considers that the Group will be able to exercise significant influence over Shandong Forever New Energy, Shandong Forever New Energy will remain as an indirect non-wholly owned subsidiary of the Company and its financial performance and results will continue to be consolidated into the financial results of the Group after the completion of the Capital Contribution. More details on the Capital Contribution Agreement, Supplement Agreement and Joint Investment Agreement has been disclosed in the circular of the Company dated 11 July 2016. They have been approved by the independent shareholders of the Company in the extraordinary general meeting dated 26 July 2016.

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

	Six months ended 30 June		Year ended	
	2016 RMB Unaudited	2015 RMB Unaudited	2015 RMB Audited	2014 RMB Audited
Revenue	25,126,631.62	40,024,506.93	101,744,903.90	137,274,477.83
Cost of sales	(24,510,761.65)	(27,738,021.45)	(82,998,002.92)	(113,000,695.82)
Gross profit	615,869.97	12,286,485.48	18,746,900.98	24,273,782.01
Selling and distribution costs	(579,291.06)	(844,927.36)	(1,850,484.72)	(1,270,764.10)
Administrative expenses	(5,478,562.64)	(4,997,330.21)	(11,621,263.23)	(10,753,655.24)
Finance costs	(489,172.42)	(154,132.81)	(597,443.16)	(943,941.69)
Write-down of inventories	–	–	–	(1,004,723.48)
Operating profit (loss)	(5,931,156.15)	6,290,095.10	4,677,709.87	10,300,697.50
other income	4,757,427.13	4,614,168.05	10,599,774.72	9,181,371.69
other expenses	–	(165,659.68)	(566,743.95)	(113,112.30)
Profit (loss) before tax	(1,173,729.02)	10,738,603.47	14,710,740.64	19,368,956.89
Income tax expenses	(140,224.81)	(3,395,493.99)	(4,508,100.11)	(4,842,239.23)
Net Profit (loss)	(1,313,953.83)	7,343,109.48	10,202,640.53	14,526,717.66

(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 — CONTINUED

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 expected to determine whether the negotiation will be terminated in the third quarter this year.

Loan agreement entered into with Cloudrider Limited

Upon completion of the Placing and the Subscription in June 2015, the Company received an aggregate of HK\$1,336 million of net proceeds, HK\$950 million of which was then intended to be applied to in the new energy vehicle related field, 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 11 April 2016, the Company entered into a loan agreement with the Cloudrider Limited (the “Borrower”), pursuant to which the Company granted to the Borrower the loan with principal amount of HK\$540 million (the “Loan”) with an interest rate of 3% per annum (the “Loan Agreement”) for funding Borrowers merger and acquisitions. HK\$251,100,000 and HK\$288,900,000 were lent to the Borrower on 22 April 2016 and 12 May 2016 respectively. The Borrower shall repay the outstanding amount of the Loan and the unpaid interest accrued 12 months after the drawdown date. The Borrower may, at its option extend the repayment date by 12 months. The Loan is secured by the share charges provided by two of the shareholders of the Borrower over all of their shareholdings in the Borrower and a debenture consisting of a fixed and floating charge over all of the assets of the Borrower in favour of the Company. During the period ended 30 June 2016, a loan interest income of approximately HK\$2.6 million was recognised by the Company in accordance with the Loan Agreement. Other major terms and details of the Loan Agreement have been disclosed in the circular of the Company dated 24 May 2016.

Progress of SAM

As of the date of this report, the Group has provided funding with principal amount of approximately USD65.3 million to SAM through shareholders’ loans and increase of registered capital in SAM.

Although the Group has been working diligently aiming to get the Preliminary License (“LP”) as early as possible, Brazilian Institute of Environment and Renewable Natural Resources (“IBAMA”), the Brazilian Federal Environmental agency issued a technical opinion to SAM on 29 March 2016, declined SAM’s request on LP issuance saying that “based on the current engineering design, IBAMA technical staff are not allowed to certify environmental viability.”

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — continued

On 26 April 2016, IBAMA agreed to open the licensing process for a period of four months, which could be extended later with justification. After consolidation of all proposals from consultant companies, SAM estimated that the necessary complementary studies will take around 12 months. On 13 July 2016, SAM made a presentation to IBAMA on SAM's next step working plan, and then applied for an extension of 12 months. The application is pending for IBAMA's official approval.

On 29 June 2016, the Institute of Environment and Water Resources ("INEMA") responsible for the management of conservation units of Bahia State in Brazil issued a preliminary consent to SAM for the project activities in the Environmental Protection Area ("APA") of Encantada Lake and Almada River, which is the only conservation unit to be impacted by the SAM project. By now, SAM already had all institutions' and municipal consents, certificates necessary for LP.

Other details related to the SAM iron ore project have been disclosed in 2015 annual report.

Impairment of exploration and evaluation assets for the period ended 30 June 2016

During the period, the Company reviewed the carrying amount of exploration and evaluation assets, impairment loss of HK\$1,248 million had been identified and recognised. The impairment is mainly due to the increase in the estimated operating cost ("OPEX") to US\$29.9/ton (31 December 2015: US\$24.8/ton) and capital expenditure ("CAPEX") to US\$3,082 million (31 December 2015: US\$2,932 million) of the SAM iron ore project mainly because of the appreciation of Brazilian Reais against the US dollar.

The recoverable amount of exploration and evaluation assets were valued by an independent valuer at US\$270 million (31 December 2015: US\$350 million), based on the income based approach and the excess earning method.

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"), Infinite Sky, a subsidiary of the Company, has the right to terminate the SPA (as amended by the Supplemental SPA).

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 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.

Infinite Sky had received correspondence from VNN that the latter rejected the said termination and since 6 September 2014, Infinite Sky and the Company had exchanged various correspondence with VNN and Lit Mining with a view of arriving at a commercial resolution. 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"). After that, the Group has put various efforts to discuss a commercial resolution with VNN which is beneficial for both sides.

On 12 May 2016 (Brazil time), the Company, Infinite Sky, New Trinity, SAM, Votorantim (for itself and as successor in interest to VNN, Lit Mining, Lit Quad, Esperento and Mineral Ventures) entered into the settlement agreement to settle and resolve the disputes presented in the arbitration dated 10 June 2015 (the "Settlement Agreement") and otherwise arising under the Share Purchase Agreement and related agreements between the parties, without any admission of wrongdoing by any party.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Termination of the Share Purchase Agreement in Relation to Acquisition of SAM (The “SPA”) — continued

Major terms of the Settlement Agreement are as follows:

- (i) the Company shall pay to Votorantim a settlement payment of US\$3,000,000 (the “Settlement Payment”);
- (ii) Votorantim and Infinite Sky shall execute SAM’s share transfer book to effect transfer of the preferred share (the “Golden Share”) to Infinite Sky free and clear of any encumbrance;
- (iii) SAM shall execute SAM’s share register to record Infinite Sky as owner of the Golden Share;
- (iv) Votorantim and Infinite Sky shall execute a joint notice to the Custodian directing it to release and deliver the New Trinity Certificate to Infinite Sky; and
- (v) Votorantim as successor to VNN and Lit Mining shall execute a release to effectuate and evidence the termination of the Brazilian Security Agreement.

The Company has settled the Settlement Payment on 13 May 2016 and terms (ii) to (v) have been executed before mid-June 2016. After that, SAM become a wholly-owned subsidiary of the Group. The Group may at its discretion decide the pace of the SAM iron ore project’s development according to the circumstances and may dispose of the relevant assets when opportunities arise.

The Settlement Agreement also has a conditional additional payment clause and a conditional mining production payment clause to Votorantim. Their details have been set out in the “Contingent Consideration and Liabilities” section.

Contingent Consideration and Liabilities

On 5 March 2010, Lit Mining Cooperatief U.A. (“Lit Mining”) (as the seller), Votorantim Novos Negocios (“VNN”) (also as the seller), Esperento S.a.r.l. (“Esperento”), Mineral Ventures Participacoes Ltda. (“Mineral Ventures”), Infinite Sky Investments Limited (“Infinite Sky”) (as the buyer and a subsidiary of the Company), New Trinity Holdings Limited (“New Trinity”) (a subsidiary of the Company), and the Company entered into the SPA. Pursuant to the SPA, the total consideration of US\$390.0 million for the acquisition of SAM was to be satisfied in cash in five instalment payments.

The first and the second instalment payment amount to US\$75.0 million were settled. The third, fourth and fifth instalment payment amount to US\$115.0 million, US\$100.0 million and US\$100.0 million were required to be settled according to certain milestones.

After execution of the Settlement Agreement (details set out in the “Termination of the Share Purchase Agreement in Relation to Acquisition of SAM”), the Group shall no longer be liable to pay third, fourth and fifth instalment payment with the total amount of US\$315.0 million under the SPA mentioned above.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Contingent Consideration and Liabilities — continued

Conditional additional payment

If, however:

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

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

- (1) the amount of US\$75,000,000, being part of the Consideration and US\$420,000, an incentive payment previously paid to VNN;
- (2) the Settlement Payment of US\$3,000,000 under the Settlement Agreement;
- (3) an amount of US\$1,500,000, paid to a third party as fees for preparation of SAM’s feasibility study report;
- (4) the amount of US\$64,175,000, representing the funds loaned to SAM and capital invested by the Company, Infinite Sky and/or New Trinity in SAM as of the date of the Settlement Agreement; and
- (5) the total sum of any additional loans and capital invested (and not repaid, reduced or returned) by the Company, Infinite Sky and/or New Trinity in SAM or the Project, in each case which is related to the development of the Project, between the date of the Settlement Agreement and the date of any Disposal Event (“Honbridge’s Investment”), provided that the Group shall present documentation reasonably satisfactory to Votorantim of such additional loans and capital contributions, with the aggregate of items (1) to (5) above in no event exceeding US\$250,000,000, then the net proceeds from the Disposal Event that exceed 120% of Honbridge’s Investment shall be shared equally by the Company and Votorantim, with payment to Votorantim in no event to exceed US\$60,000,000 (the “Additional Payment”). As at the date of this report, the additional loans and capital invested was approximately US\$1,100,000.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Contingent Consideration and Liabilities — continued

Conditional mining production payment to Votorantim

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

The US\$18,600,000 (equivalent to approximately HK\$144,103,000) contingent consideration payables represent the fair value of the obligation for the contingent additional payment and conditional mining production payment in accordance with the Settlement Agreement and are estimated by independent professional valuers.

As at 30 June 2016, saved as disclosed above the Group did not have any significant contingent liabilities.

Use of proceeds from placing and share subscription

Upon completion of the placing of 754,000,000 new shares (the “Placing”) and the subscription of 446,000,000 new shares (the “Share Subscription”) under the Company’s circular dated 29 May 2015, the Company received an aggregate of HK\$1,336 million of net proceeds, HK\$950 million of which was then intended to be applied to increase the Group’s production capacity of lithium-ion battery business and potential investment and acquisition opportunities in the new energy vehicle related field, HK\$200 million of which was intended to be used in the Brazilian iron ore project and HK\$186 million of which was intended to be used for general working capital of the Company. However, the Company has yet to identify suitable investment and acquisition targets in the new energy vehicle-related field and the Company 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. In April 2016, the Company has entered into a Loan Agreement with Cloudrider Limited (the “Borrower”) and a loan with principal amount of HK\$540 million has been granted.

As at 30 June 2016, out of the total net proceeds that have been raised from the Placing and the Share Subscription, HK\$540.0 million has been lent to the Borrower, HK\$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK\$29.8 million has been used for general working capital and approximately HK\$47.5 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$609.6 million, HK\$410 million will be invested into the new energy vehicle related business, HK\$152.5 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$47.1 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business review and liquidity

For the period ended 30 June 2016, the Group recorded a HK\$29.9 million turnover from the sale of lithium-ion batteries which decreased by 43.2% when compared to HK\$52.6 million revenue recognised in the last corresponding period. Group results changed from loss of HK\$69.0 million for the period ended 30 June 2016 to profit of HK\$162.6 million in current period.

The decrease in revenue was mainly due to the policy change in the PRC that only new energy vehicle models using vehicle power battery listed in the Catalog according to the “Vehicle Power Battery Industry Standard Conditions (汽車動力蓄電池行業規範條件)” (the “Catalog”) will be approved to list in the Car Catalog and enjoy the relevant government subsidies. Shandong Forever New Energy was not listed in the Catalog until 17 June 2016 which negatively affected the performance of the company. The decrease was also due to the investigation carried out by the PRC Government on the misappropriation of the government subsidies by the automobile enterprises for new energy vehicle. Moreover, the automobile enterprises occupy a large amount of their funding as they are unable to obtain the government subsidies in a timely manner, and they even further occupy the funding of the batteries manufacturing enterprise. Under these uncertainties, the production volume of the automobile enterprises in this period decreased substantially. After listed in the Catalog, the performance of the lithium-ion batteries business is expected to improve in the second half of the year.

Despite the weak performance in the lithium-ion batteries sector, the Company recorded a HK\$162.6 million profit for the period. This was mainly due to the Settlement Agreement entered into with Votorantim during the period which made the Company no longer be liable to pay third, fourth and fifth instalment payment with a total of US\$315 million. Instead, the Company has committed to pay a maximum of US\$60 million conditional contingent payment. The decrease in the contingent payment generated a HK\$1,048 million non-cash fair value gain to the Company during the period. But the profit was substantially decreased by the impairment loss of HK\$1,248 million on exploration and evaluation assets recognised during the period, due to the increase in OPEX and CAPEX of the SAM iron ore project in Brazil. After netting HK\$424 million deferred tax impact, the impairment decreased the profit for the period for approximately HK\$824 million. Excluding the fair value gain and impairment loss in current period and the share-based payment expenses in the last corresponding period, the loss for the current period and last corresponding period were approximately HK\$61.2 million and HK\$58.2 million respectively.

During the period ended 30 June 2016, the operation of the Group was mainly financed by the proceeds received from Placing and Share Subscription completed in June 2015. As at 30 June 2016, the Group had net current assets of HK\$785.0 million (31 December 2015: HK\$674.3 million). Current assets mainly comprised of bank balances and cash of HK\$708.8 million, trade and bill receivables of HK\$103.7 million, prepayments, deposits and other receivables of HK\$32.8 million and inventories of HK\$24.6 million. Current liabilities mainly comprised of trade and bill payables of HK\$25.3 million, bank borrowing of HK\$23.4 million, other payables and accrued expenses and receipts in advance of HK\$36.4 million.

As at 30 June 2016, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.34 (31 December 2015: 0.10).

Capital Commitments

As at 30 June 2016, the Group has capital commitments amounted to approximately HK\$3.8 million for the acquisition of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Litigation

On 22 June 2016, the Company received a Writ of Summons (the “Writ”) dated 18 June 2016 issued by Zhi Charles (the “Plaintiff”) (under High Court Action No. 1618 of 2016 (“HCA 1618 Action”)) against 16 defendants (collectively, the “Defendants”) including the Company, the Company’s auditor, some other companies listed on the Stock Exchange and their respective auditors.

The Plaintiff has been adjudicated a “vexatious litigant” in HCMP 443 of 2015 on 20 June 2016.

In the HCA 1618 Action, the Plaintiff disputes the validity of technical and valuation reports signed by Mr. Herman Tso (who was disqualified by the Australasian Institute of Mining and Metallurgy on 12 April 2016 (the “Disqualification”) for and on behalf of Roma Appraisals Limited (“ROMA”).

The Plaintiffs claim various reliefs against the Defendants (including the Company) for, amongst others, the following orders:

- (i) an order against the listed companies named in the Writ (together, the “Listed Companies”) to the effect that (a) whether the issue of securities based on the technical reports signed by Mr. Herman Tso was valid and whether the mining assets have been properly recognised in the financial statements (the “Investigation”); (b) the results of the Investigation be disclosed and their implications to the Listed Companies’ operational and financial position be assessed (the “Disclosure”); and (c) appropriate remedial actions be taken to address any material issues identified in the Investigation (the “Remedial Actions”); and
- (ii) an order against the Listed Companies compelling them to halt trading of their shares until the Investigation has been completed.

On 20 June 2016, the Plaintiff also issued an injunction application for, amongst others, the following orders (the “Injunction Application”):

- (i) the Stock Exchange be restrained from allowing the shares of the Company, amongst other Listed Companies, to be traded on the Stock Exchange until their audit reports are restated to reflect the Disqualification; and
- (ii) the Company, amongst other Listed Companies, their auditors and the Company’s auditor, be restrained from using the reports or opinions of Mr. Herman Tso, or any secondary opinions on Mr. Herman Tso’s reports, for any purposes.

On 30 June 2016, the Court dismissed the Injunction Application against, amongst others, the Company, and awarded costs to, amongst others, the Company on an indemnity basis. The Plaintiff has lodged an appeal which is fixed to be heard on 5 September 2016.

As at the date of this report, the Company cannot understand the legal grounds of the Plaintiff commencing the HCA 1618 Action and the Injunction Application.

The Company appointed ROMA to perform a valuation after the Company had conducted a preliminary review for the acquisition of SAM in 2010. Mr. Herman Tso was one of the signing persons of the valuation report dated 5 November 2010 (which is the Company’s only valuation report involving Mr. Herman Tso) (the “Report”) and the Report was included as an appendix in the circular of the Company dated 5 November 2010.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Litigation — continued

The Company is seeking legal advice and considering whether the Company should establish an Independent Committee to review and assess, amongst others, the impact of the valuation report on the financial statements of the Company, if any.

As at the date of this report, save as disclosed above, no member of the Group was engaged in any litigation of material importance and no litigation or claim of material importance was known against any member of the Group.

Prospect

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 including hybrid electric vehicle and pure 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 130,000 square meters, 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 the third quarter of 2017.

The Group will focus on the development of ternary lithium battery as most of the sedan car manufacturing enterprises in China mostly prefer ternary lithium battery so as to achieve a better endurance of their vehicles.

Before 17 June 2016, since Shandong Forever New Energy was not listed in the Catalog for Batteries Manufacturing Enterprises, orders from new customer could not be materialised. After completion of the deemed disposal and listed in the Catalog, the Group will continue to make huge effort to achieve diversification of customers and obtain purchase order from customers other than 康迪 and 新大洋.

For the resource sector, after execution of the Settlement Agreement, SAM became a wholly-owned subsidiary of the Group. The Group may at its discretion decide the pace of the SAM iron ore project's development according to the circumstances and may dispose of the relevant assets when opportunities arise. On the other hand, there were still no breakthrough in the progress of the Group's efforts in obtaining necessary approvals for starting the construction in respect of the SAM iron ore project. As previous stated, the Group is experiencing difficulty in obtaining one of the licenses and approvals, i.e. the LP. The Group has been keeping close contact with IBAMA, and has taken initiatives to meet the new requirements and guidances issued by the government. However, this obstacle makes the future prospect of the whole project be uncertain. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

Corporate Governance

Throughout the six months ended 30 June 2016, the Company complied with all Code Provisions set out in Appendix 15 of the GEM Listing Rules.

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

As at 30 June 2016, 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				Total	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interest of controlled corporation	Number of Share option ²		
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:

1. The 4,065,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"). Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.
2. 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 30 June 2016, 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES — CONTINUED

(2) Long positions in the underlying shares of the Company

Details of options granted

The Company's existing share option scheme (the "Scheme") was adopted on 21 May 2012 and became effective on the same date. Particulars and movements of the outstanding share options granted under the Scheme during the six months ended 30 June 2016 were as follows:

Name or category of participant	Number of share options					Outstanding as at 30/06/2016	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 01/01/2016	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period						
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
SHI Lixin	20,000,000	-	-	-	-	20,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
	5,000,000	-	-	-	-	5,000,000	28/05/2012	28/05/2012 – 27/05/2020	0.95	0.91	N/A
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	2,000,000	-	-	-	-	2,000,000	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	105,000,000	-	-	-	-	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
	8,750,000	-	-	-	-	8,750,000	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55	N/A
Total	118,750,000	-	-	-	-	118,750,000					

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.

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

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 June 2016, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 30 June 2016, 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 Yatyan (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

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 30 June 2016, 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

There was no connected transaction entered into by the Company during the period ended 30 June 2016.

The connected transaction as set out in the “Capital Contribution Agreement and Joint Investment Agreement” section in the management discussion and analysis was entered into on 9 May 2016 but the transaction was only completed on 26 July 2016, after independent shareholders of the Company approved the transaction on the same date.

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 six months ended 30 June 2016.

COMPLIANCE WITH THE MODEL CODE

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 six months ended 30 June 2016.

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.

The Group's unaudited results for the six months ended 30 June 2016 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

Current Remuneration Committee members are 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 meets at least once every year. Additional meetings shall be held as the work of the Committee demands. The Committee formulates remuneration policy for approval by the Board, which takes into consideration factors such as salaries paid by comparable companies, employment conditions, and responsibilities, and individual performance of the directors, senior management, and the general staff. Performance is measured against corporate goals and objectives resolved by the Board from time to time; and implement the remuneration laid down by the Board.

NOMINATION COMMITTEE

Current Nomination 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. Additional meetings shall be held as the work of the Committee demands. The Committee formulates nomination policy for the Board's consideration and implement the Board's approved nomination policy.

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

During the six months ended 30 June 2016, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

As at the date of this report, the Board comprises (1) Mr. HE Xuechu, Mr. LIU Wei, William and Mr. SHI Lixin as Executive Directors; (2) Mr. YAN Weimin and Mr. ANG Siu Lun Lawrence as Non-Executive Directors and (3) Mr. CHAN Chun Wai, Tony, Mr. MA Gang and Mr. HA Chun as Independent Non-Executive Directors.

On behalf of the Board

LIU Wei, William

Director and Chief Executive Officer

Hong Kong, 9 August 2016