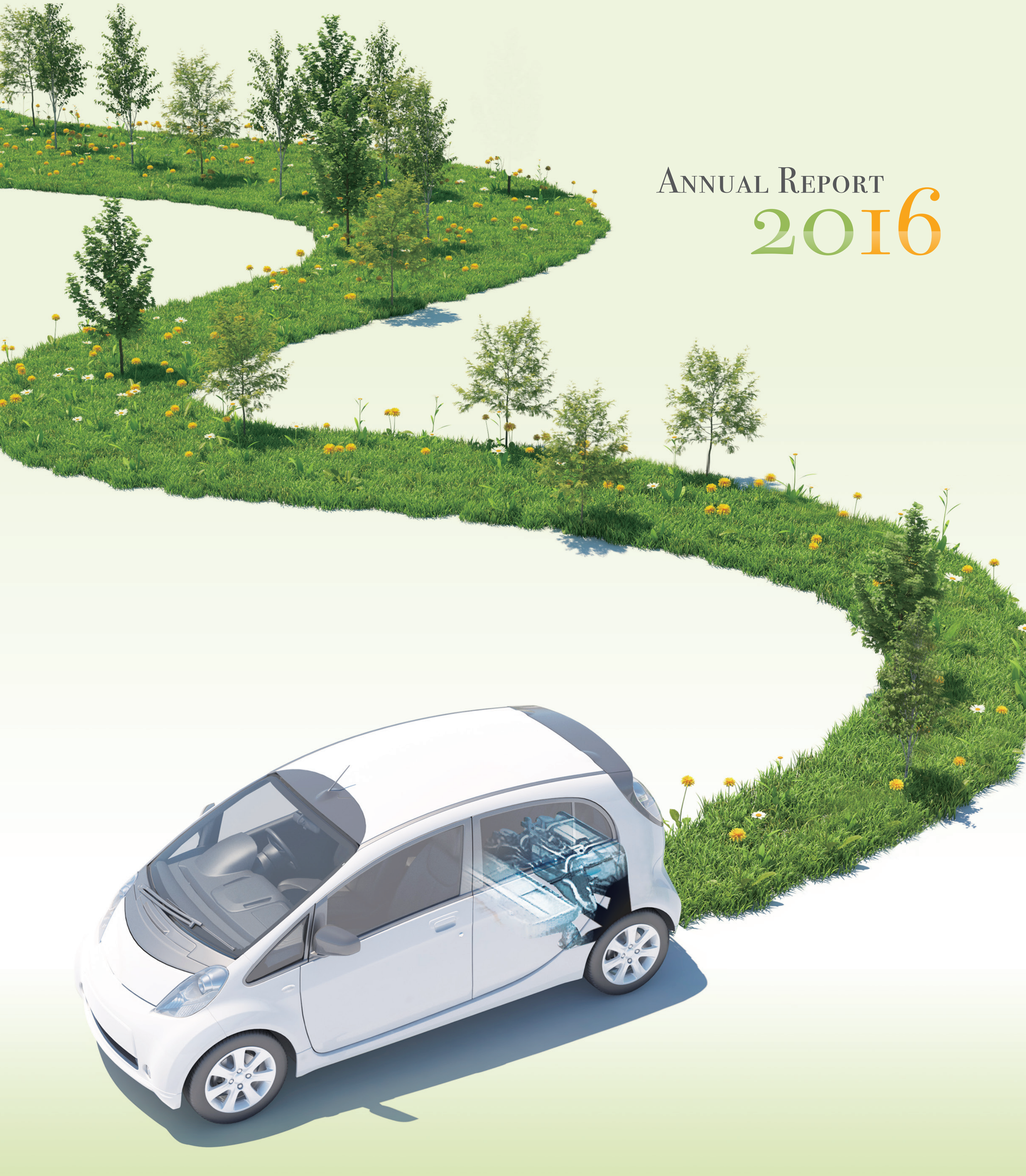
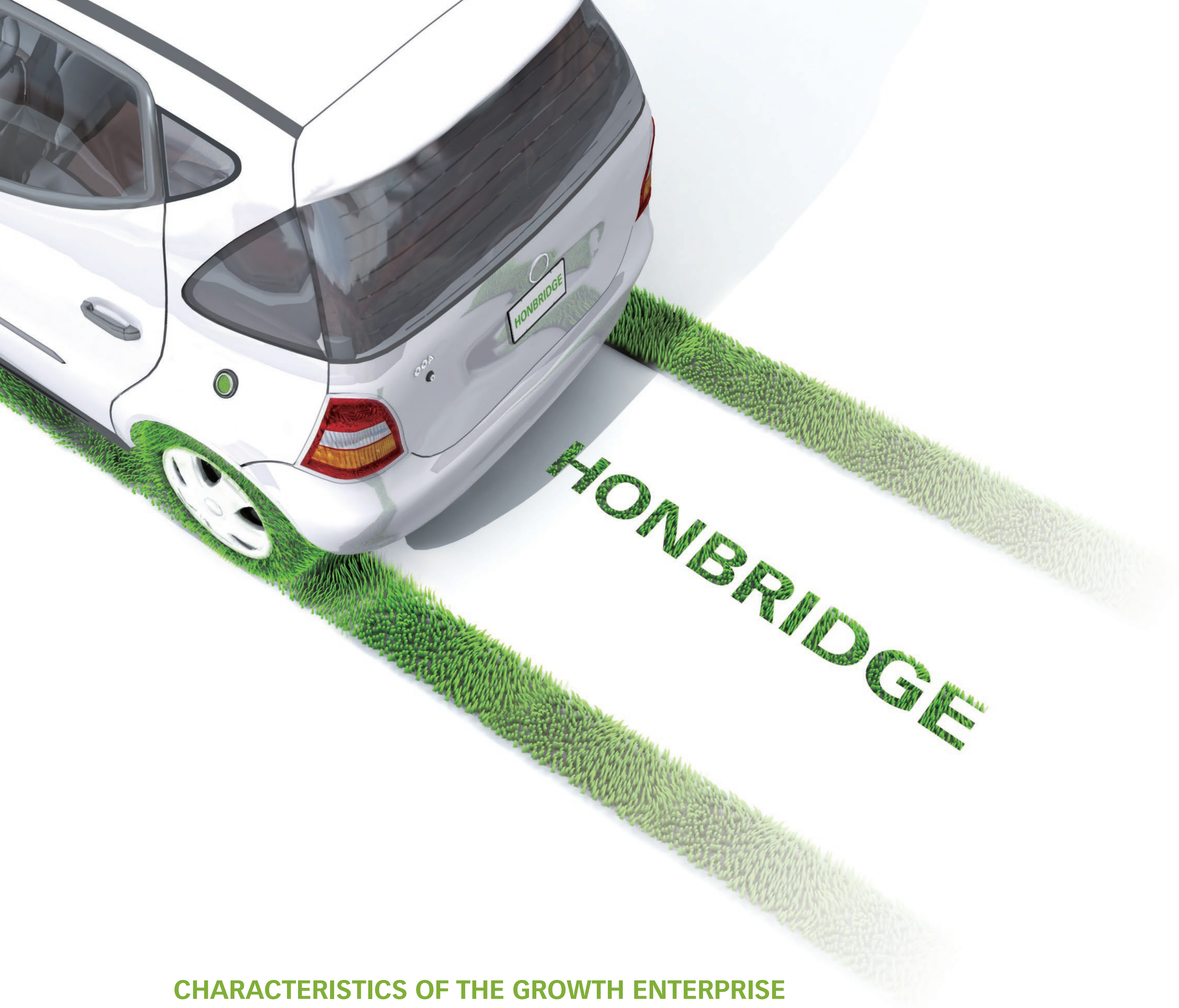
HONBRIDGE HOLDINGS LIMITED
洪橋集團有限公司
(Stock Code: 8137)

Annual Report 2016





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.

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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

COMPLIANCE OFFICER
Mr. Liu Wei, William

COMPANY SECRETARY
Mr. Yeung Ho Ming, CPA (HK)

AUTHORISED REPRESENTATIVES
Mr. Liu Wei, William
Mr. Yeung Ho Ming

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

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

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

AUDITOR
BDO Limited

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

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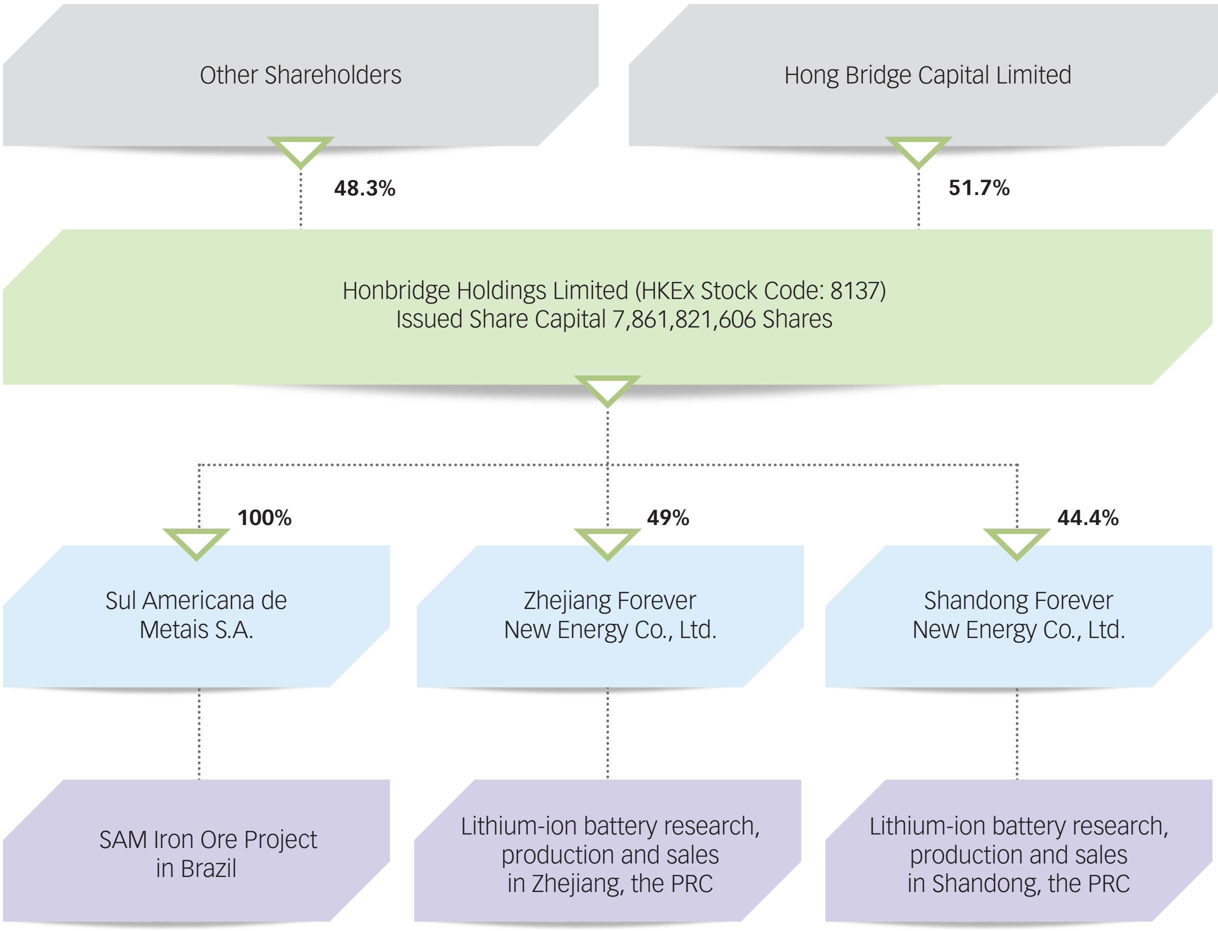
STOCK CODE
8137

COMPANY WEBSITE
www.8137.hk

Corporate Structure



Chairman's Statement

On behalf of the Board, I am pleased to present the 2016 annual report of Honbridge Holdings Limited to all shareholders.

BUSINESS REVIEW

For the year ended 31 December 2016, the Group recorded a HK$34.0 million turnover which decreased by approximately 70.5% when compared to HK$115.4 million revenue recognised in the last year. Group results changed from a loss of HK$1,995.0 million for the year ended 31 December 2015 to a profit of HK$633.2 million in current year.

Other than the decrease in trading income of HK$1.4 million due to the disposal of trading business in December 2015, the decrease in turnover is mainly 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. Since the investigation began in late 2015, the PRC Government has not distributed the subsidies to the automobile enterprises in a timely manner. Under these uncertainties, the production volume of the automobile enterprises decreased substantially. 康迪電動車 and 新大洋電動車, the major customers of Shandong Forever New Energy have taken a conservative approach to control their production plan, hence reducing their demand for lithium-ion batteries. The decrease in purchase order severely affected the performance of the lithium-battery business. Despite the unsatisfactory performance, new shareholders of Shandong Forever New Energy have committed to invest a total of USD44.77 million into Shandong Forever New Energy in July 2016 and Shandong Forever New Energy Limited was successfully 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)" on 13 July 2016. Using lithium batteries produced by the company in the Catalog is considered one of the pre-requisites for automobile enterprises to obtain government subsidies.

For the resource sector, in May 2016 a settlement agreement was entered into with VNN, the vendor of the SAM iron ore project. After the execution of the settlement agreement, 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. 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 in March 2016, declined SAM's request on LP issuance based on the current engineering design. Since then, the team in Brazil has been studying the opinion from IBAMA as well as reviewing the project design and eventually submitted a new licensing process in January 2017.

In early 2016, the cash and cash equivalent balance of the Group was more than HK$1,200 million. To better utilise its idle cash by making short-term investment to generate better returns to shareholders of the Company. 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 with an interest rate of 3% per annum. A loan interest income of approximately HK$10.9 million was recognised by the Company during the year ended 31 December 2016.

PROSPECTS

It is expected that the business environment in the lithium-ion batteries industry will remain difficult for a few months. First of all, the revised central government subsidies system for new energy vehicles was only released in late December 2016 and generally each vehicle sold this year will receive 20% less funding than it would have in 2016. This affects the sales strategies and pricing policy of new energy vehicles manufacturing enterprises. Moreover, the list of new energy vehicle models eligible for subsidies (新能源汽車推廣應用推薦車型目錄) (the "List") was re-examined in accordance with the new standards. Up to the date of this report, only two batches of List were

Chairman's Statement

released with fewer than 400 new energy vehicles models included in the revised List, which is only around 20% of the number of models included in the the superseded List. Since models not on the List are not eligible for subsidies, many new energy vehicles delayed their production plan and sales. Under this situation, along with the shortage of fund in the new energy vehicles manufacturing enterprises, it is expected that the sales performance of the lithium-ion batteries sector of the Group will continue to face a different level of impact for a few months.

In 2017, 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, Construction work has commenced in mid-2016 and the plant is designed to produce approximately 1,500,000 kWh lithium-ion battery for new energy vehicles annually. The construction work and installation of production facilities are scheduled to complete in the third quarter of 2017.

Shandong Forever New Energy and Zhejiang Forever New Energy will focus on the production and research and 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 travel range for their new energy vehicles. The Group will continue to make huge effort to achieve diversification of customers and obtain purchase orders from customers other than 康迪電動車 and 新大洋電動車.

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, the Brazilian team has been working on the new licensing process communicate pro-actively with consultants and relevant government authorities. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

The overall business strategy of the Group is the dual development of new energy and resources, creating value for our shareholders. The Group will continue to look for potential new energy vehicles related projects for co-operation and acquisition and other investment opportunities 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 business partners for their continued support during 2016 and all staff for their hard work.

He Xuechu
Chairman

Hong Kong
24 March 2017

Management Discussion and Analysis

NEW ENERGY VEHICLES-RELATED BUSINESS

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%. Shandong Forever New Energy was successfully listed in the Catalog on 13 July 2016.

Following the termination of the proposed acquisition of a North America based company which is engaged in the research and development, manufacture and sale of electric vehicle power system, the Group will focus on the expansion of the lithium-ion batteries business in the current stage. As a long term business strategy, the Group is still determined to further develop in 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 the integration of technology and innovation, ultimately, manufacture and sell new energy vehicles and following this direction to seek for merger and acquisition opportunities.

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 ("Shanghai Maple"), a subsidiary of Zhejiang Geely Holding Group Company Limited ("Zhejiang Geely") and Jiaxing Jiale Investment Partnership Corporation (limited partnership) ("Jiaxing Jiale") established a joint investment named Zhejiang Forever New Energy in Jinhua New Energy Automobile Industrial Park. 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.

Zhejiang Forever New Energy is owned as 49%, 48% and 3% by Honbridge Power Limited, Shanghai Maple and Jiaxing Jiale respectively. As the Company will be able to appoint the majority of the board of directors of Zhejiang Forever New Energy and the Board considers that the Group will be able to exercise control, Zhejiang Forever New Energy is an indirect non-wholly owned subsidiary of the Company and its financial performance and results are consolidated into the results of the Company.

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 the plant is designed to produce approximately 1,500,000 kWh ternary lithium-ion battery for new energy vehicles annually. The construction work and installation of production facilities are scheduled to complete in the third quarter of 2017. The total investment is approximately RMB1,500 million (including the cost of acquiring the land use rights for constructing production site, equipment and working capital) which will be funded by equity capital and loan.

Management Discussion and Analysis

Concept art of Zhejiang Forever New Energy Limited

Concept art of Zhejiang Forever New Energy Limited

The administrative building of Zhejiang Forever New Energy Limited is approaching completion

The plant of Zhejiang Forever New Energy Limited is under construction

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 production capacity of Shandong Forever New Energy amounts to 150,000 kWh of lithium iron phosphate battery or 225,000 kWh of ternary lithium battery annually.

During the year ended 31 December 2016, Shandong Forever New Energy, recorded a revenue of approximately HK$34.0 million (equivalent to approximately RMB29.1 million), which decreased by 70.2% when compared to HK$114.0 million (equivalent to approximately RMB91.7 million) revenue recognised in last year. 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 only listed in the Catalog on 13 July 2016 which negatively affected the performance of the company. The decrease was also due to the investigation

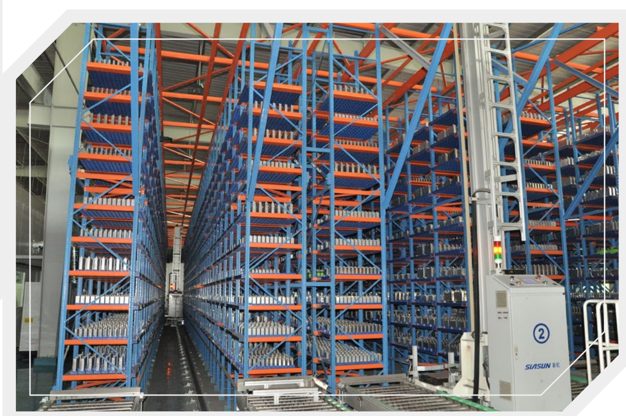
Management Discussion and Analysis

carried out by the PRC Government on the misappropriation of the government subsidies by the automobile enterprises for new energy vehicle. Since the investigation began in late 2015, the PRC Government has not distributed subsidies to the automobile enterprises in a timely manner. The automobile enterprises have occupied a large amount of their own working capital as they are unable to receive the government subsidies. This also reduced working capital of the batteries manufacturing enterprise as the automobile enterprises may delay their payment to suppliers. Under these uncertainties, the production volume of the automobile enterprises decreased substantially. 康迪電動車 and 新大洋電動車, the major customers of Shandong Forever New Energy have also taken a conservative approach and control their production plan, hence reducing their demand for lithium-ion batteries. The Company also takes a more cautious approach before accepting new orders in order to mitigate the potential credit risk. The overall gross profit percentage of the Group has changed from last year's 20.5% to 2.6%mainly because of the decrease in production in the current year, results in a higher average unit cost of products.

During the year ended 31 December 2016, the lithium-ion batteries business loss before impairment, depreciation and amortisation was approximately HK$4.5 million (equivalent to approximately RMB3.8 million). However, the net loss for the lithium-ion batteries business was approximately HK$167.3 million (equivalent to approximately RMB143.0 million) during the year mainly due to the non-cash amortisation and depreciation expenses of HK$39.2 million (equivalent to approximately RMB33.5 million) charged. In addition, an HK$123.6 million (equivalent to approximately RMB105.6 million) impairment loss on other intangible assets and property, plant and equipment was recognised in the current year. The significant impairment loss recognised was mainly due to downward adjustment in forecast sales amount after a disappointing performance of Shandong Forever New Energy for the year ended 31 December 2016. Details of impairment assessment have been set out in note 18 of the financial statements in this report.

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.

The appearance of the new ternary lithium battery cell



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

Management Discussion and Analysis

LITHIUM-ION BATTERIES BUSINESS – CONTINUED

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

	Year ended		
	2016	2015	2014
	RMB	RMB	RMB
	Unaudited	Audited	Audited
Revenue	**30,469,187.67**	101,744,903.90	137,274,477.83
Cost of sales	**(29,544,683.25)**	(82,998,002.92)	(113,000,695.82)
Gross profit	**924,504.42**	18,746,900.98	24,273,782.01
Selling and distribution costs	**(2,953,799.58)**	(1,850,484.72)	(1,270,764.10)
Administrative expenses	**(9,577,892.58)**	(11,621,263.23)	(10,753,655.24)
Finance income	**(825,226.58)**	(597,443.16)	(943,941.69)
Write-down of inventories	**(24,360.00)**	–	(1,004,723.48)
Operating (loss) profit	**(12,456,774.32)**	4,677,709.87	10,300,697.50
other income	**9,877,278.32**	10,599,774.72	9,181,371.69
other expenses	**–**	(566,743.85)	(113,112.30)
(Loss) profit before tax	**(2,579,496.00)**	14,710,740.74	19,368,956.89
Income tax expenses	**–**	(4,508,100.11)	(4,842,239.23)
Net (Loss) profit	**(2,579,496.00)**	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.)

Sophisticated integration and combination of battery pack battery cells into a battery pack

Checking and quality control on battery cells

Management Discussion and Analysis

SHANDONG FOREVER NEW ENERGY 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. ("Zhejiang Geely Auto") and Jiaxing Jiale, whereby Zhejiang Geely Auto and Jiaxing Jiale have conditionally agreed to contribute capital into Shandong Forever New Energy, which was a direct wholly-owned subsidiary of Triumphant Glory (the "Capital Contribution Agreement"). According to the terms of the Capital Contribution Agreement, Zhejiang Geely Auto and Jiaxing Jiale shall contribute approximately US$42.15 million and US$2.62 million into Shandong Forever New Energy respectively. Geely Auto has paid the 10% of its capital contribution amount (i.e. US$4.215 million) according to the Capital Contribution Agreement and up to the date of this report, no further capital contribution has been paid by Geely Auto and Jiaxing Jiale. 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. After the Capital Contribution Agreement became effective, Triumphant Glory, Zhejiang Geely Auto and Jiaxing Jiale hold 49.0%, 48.0% and 3.0% equity interest in Shandong Forever New Energy, respectively.

Joint Investment Agreement

Triumphant Glory appointed the majority of the directors to the board of directors of Shandong Forever New Energy pursuant to the joint investment agreement dated 9 May 2016 (the "Joint Investment Agreement"), and the Group is able to exercise control over Shandong Forever New Energy, Shandong Forever New Energy remains as a subsidiary of the Company and its financial performance and results will continue to be consolidated into the financial results of the Group. 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 on 26 July 2016.

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 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 the parties could not reach consensus on certain trading conditions, the negotiation has been terminated during the year.

Management Discussion and Analysis

CONTINUING CONNECTED TRANSACTIONS

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

Ninghai Zhidou

Ninghai Zhidou is a limited liability company incorporated in the PRC. It is principally engaged in the research and production of automobile parts, components and engines, electric vehicles and the provision of related after-sale services in the PRC.

Zhejiang Geely Auto is a substantial shareholder of Shandong Forever New Energy as it holds 48% equity interest in Shandong Forever New Energy, and therefore it is a connected person of the Company at the subsidiary level. Zhejiang Geely Auto is held as to 90% by Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely", 浙江吉利控股集團有限公司), and Zhejiang Geely holds 45% interest in Ninghai Zhidou. As such, both Zhejiang Geely and Ninghai Zhidou are associates of Zhejiang Geely Auto in accordance with Rule 20.11 of the GEM Listing Rules, and each of them is therefore a connected person of the Company at the subsidiary level.

Sales of lithium-ion battery modules from Shandong Forever New Energy to Ninghai Zhidou under the Sales Agreement constitute continuing connected transactions of the Company pursuant to Chapter 20 of the GEM Listing Rules.

Proposed annual caps

The total proposed Annual Caps in respect of the Sales Agreement for the financial years ending 31 December 2016 and 31 December 2017 are RMB35,000,000 and RMB40,000,000 respectively and the proposed cap for six months ending 30 June 2018 is RMB25,000,000.

PROGRESS OF SAM

As of the date of this report, the Group has provided funding with principal amount of approximately USD66.6 million to SAM through shareholders' loans and increase of registered capital in SAM.

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. Environmental Licensing Progress of the Project

The environmental licensing process in Brazil has three distinct steps: Preliminary License ("LP"), Installation License ("LI") and Operation License ("LO").

LP is the most important license for a project in the preliminary stage as it confirms the environmental feasibility of the project and authorizes its location and engineering design. It is also the prerequisite for LI, LO and other necessary licenses or permits for the implementation of a project.

Management Discussion and Analysis

PROGRESS OF SAM – CONTINUED

1. Environmental Licensing Progress of the Project – Continued

To obtain LP, Environmental Impact Study ("EIA") and an Environmental Impact Report ("RIMA") are the two key documents required by the Brazilian Institute of Environment and Renewable Natural Resources ("IBAMA") for analysing the environmental feasibility. EIA/RIMA should be prepared in compliance with Terms of Reference ("TR") approved by IBAMA. If IBAMA's technical team issues a positive conclusive technical opinion, then IBAMA will issue the LP for the project.

In July 2012, SAM submitted the EIA/RIMA, which was officially accepted by IBAMA in August 2012. Three public hearings were held in January 2013 in different cities. In 2014, further development of studies and engineering about waste and tailings disposal shows the original concept of backfill technology in the EIA/RIMA was infeasible. SAM soon 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. In 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. Since SAM always sees social communications and relations as an important part of the project, SAM had procured all the 22 Compliance Certificates in around one month time. 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.

However, 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. It raised unprecedented serious safety concern on tailing dams from the public and soon paralysed the environmental licensing in the entire mining sector of Brazil. Although this most serious accident in Brazilian mining history was not related to the SAM project, but SAM was indirectly affected by the disaster.

On 29 March 2016, IBAMA issued a negative conclusive technical opinion: "based on the current engineering design mode, IBAMA technical staff are not allowed to certify environmental viability".

On 7 April 2016, SAM made an administrative appeal with a robust technical defense to IBAMA, requesting IBAMA to reconsider the conclusion and declare the environmental feasibility of the Project and issue LP with conditions. On 26 April 2016, IBAMA agreed with SAM's administrative appeal and keep the licensing administrative process open for a period of four months, which could be extended later with justification. After the consolidation of all proposals from consultant companies, SAM estimated that the necessary complementary studies would take around 12 months.

On 13 July 2016, SAM made a presentation to IBAMA regarding the working plan with details of technical studies to be done, and then applied for an extension of 12 months.

However, on 5 October 2016, IBAMA distributed an official letter to SAM concluding that the complementary studies proposed by SAM is a reformulation of design of the Project. According to the applicable law and rules, in case that there are changes in the original concept of the project which was used for environmental licensing, the applicant has to open a new licensing administrative process in the competent environmental institution (herein refers to IBAMA) for the project to be redesigned.

PROGRESS OF SAM – CONTINUED

1. Environmental Licensing Progress of the Project – Continued

During the environmental licensing process of the Vale do Rio Pardo Project, important authorizations and favorable opinions were granted to SAM, which also demonstrate the interest of the States, Municipalities, communities and diverse institutions in the viability of the Project, highlighting:

- Conformity Certificates of the 22 Municipal cities whose territories will be influenced by the project;
- Authorization of Water Use Right granted by ANA — National Water Agency;
- Favorable manifestation of IPHAN — Institute of National Historical and Artistic Heritage;
- Consent of the Palmares Cultural Foundation (the project is not in areas with the presence of recognized traditional communities);
- Favorable manifestation of IBAMA regarding the issues of protection of the Speleological Heritage.

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

Considering the above achievements and the history of the Project, the Company believe that the Project will be environmental feasible through making some complementary studies and engineering adjustments, especially regarding to the disposal of waste and tailings.

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

2. Others

On 12 May 2016, SAM's golden share was transferred from VNN to Infinite Sky Investments Limited, a subsidiary of the Company and SAM became an indirect wholly-owned subsidiary of the Company.

On 5 August 2016, the court of second instance of Minas Gerais Federal Courts made a decision to extinguish the Civil Action against SAM and IBAMA, which was filed by a prosecutor of Minas Gerais State Public Ministry in 2013 (details refers to previous reports). The Civil Action was now archived and completely terminated in favor of SAM and IBAMA.

Management Discussion and Analysis

PROGRESS OF SAM – CONTINUED

2. Others – Continued

In September 2016, SAM renewed the MOU with Bahia State government of Brazil, in which Bahia State committed to declare DUP (Decree of Public Utility) for SAM's pipeline within Bahia State after LP is obtained. DUP will declare the land that SAM's pipeline which 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. To be mentioned, SAM already had a DUP issued by Minas Gerais state government of Brazil for SAM's pipeline within Minas Gerais State on 22 January 2014.

To apply for Mining License ("PL") of the Project, Economic Development Plan report ("PAE") was first submitted to The National Department of Mineral Production ("DNPM") in 2013 and supplementary documents have been submitted in November 2014 and January 2015, which all submissions are currently under review by DNPM. To be mentioned, The LI issued by IBAMA and approval of PAE by DNPM are prerequisites to the PL.

Porto Sul, the port that SAM plans to use for export of iron ore in future has already obtained its LP, LI, DUP and ASV. Porto Sul is an important part of the Vale do Rio Pardo Project so SAM has been presence in the Porto Sul project since the very early stage, the Porto Sul team also sees SAM as one of the most important stakeholders of the port. Besides mutual status update, the Porto Sul team also invited SAM to join their functions such as China visit. By the date of this report, the Bahia Government is negotiating with a Chinese company to build and operate the port. 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.

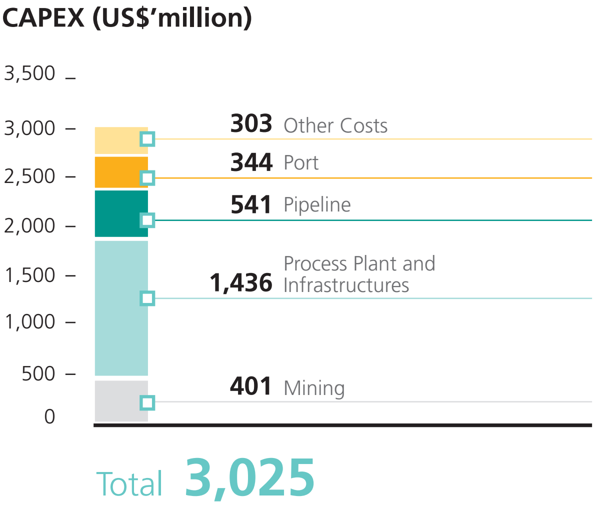
In January 2017, SAM finished the conceptual engineering of power supply line from Irape Dam substation to the mine site. The environmental licensing of the power line will be processed together with the Project. To be mentioned, on 21 October 2014, the Ministry of Mines and Energy of Brazil (MME) issued a permit that allow SAM to connect to the national power grid at the Irape Dam.

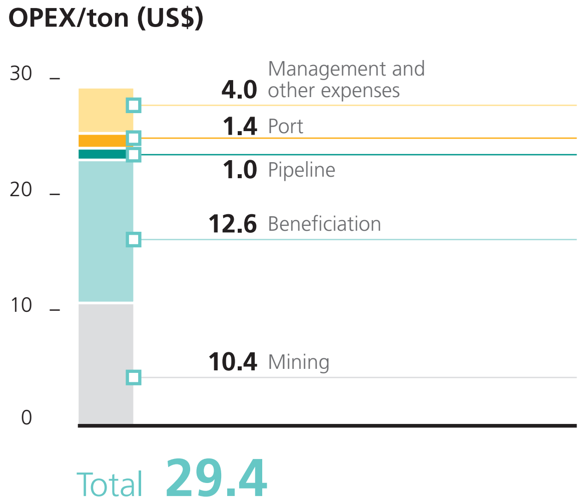
Management Discussion and Analysis

PROGRESS OF SAM – CONTINUED

3. CAPEX and OPEX

For the year ended 31 December 2016, the estimated capital expenditure ("CAPEX") was approximately USD3.03 billion (2015: USD2.93 billion) while F.O.B. operating cost ("OPEX") (per ton of iron concentrate) was approximately USD29.4 (2015: USD24.8) for Vale do Rio Pardo. The estimated OPEX of the Vale do Rio Pardo project increased when compared to the year ended 31 December 2015 mainly because of the appreciation of the Brazilian Reais against the US Dollar in 2016. There was no material difference in CAPEX when compared to the year ended 31 December 2015.





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.

IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS

During the period ended 30 June 2016, the Company reviewed the carrying amount of exploration and evaluation assets and the recoverable amount was valued by an independent valuer at US$270 million. Impairment loss of HK$1,248 million was identified and recognised. Despite the average price of iron concentrate increased to US$51 per tonnes (31 December 2015: US$45 per tonnes), the recoverable amount decreased 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) mainly because of the appreciation of Brazilian Reais against the US dollar.

The recoverable amount of exploration and evaluation assets were assessed again as at 31 December 2016. During the year, the average price of iron concentrate was on an upward trend and an average price of US$56 per tonnes iron concentrate was adopted for the year end revaluation, so the recoverable amount of the exploration and evaluation assets as at 31 December 2016 was higher and valued at US$380 million. After take into account the significant appreciation of Brazilian Reais against the US Dollar, an impairment loss of approximately HK$270.8 million (equivalent to approximately US$34.9 million) was recognised in the financial statements of the Company for the year ended 31 December 2016. Other major assumptions for the revaluation have been set out in note 15 of the financial statements in this annual report.

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 (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.

The Settlement Agreement are entered into having considered the following:

(i) under the Settlement Agreement, Votorantim shall effect transfer of the Golden Share to Infinite Sky free and clear of any encumbrance. After such transfer, the Group shall own 100% of the issued share capital and equity interests of SAM;

(ii) under the Settlement Agreement, the Group and the Votorantim Parties would terminate and withdraw all claims and cross-claims asserted in the Arbitration, which would reduce the time and financial costs as well as other uncertainties associated with the Arbitration to the Group. Otherwise in the event the Group did not succeed in the Arbitration, the remaining instalments of Consideration would need to be paid;

(iii) the total payment under the Settlement Agreement, the maximum amount of which is US$63,000,000, is less than the aggregate amount of the remaining instalments of Consideration under the Amended Share Purchase Agreement (namely the Approvals Payment, the Port Operation Payment and the Mining Production Payment, amounting to US$315,000,000 in aggregate) which will be payable by the Group should the Group fail to succeed in the Arbitration in its entirety; and

(iv) the Company may at its discretion decide the pace of the Project's development according to the circumstances and may dispose of the relevant assets when opportunities arise.

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

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.

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

CONTINGENT CONSIDERATION AND LIABILITIES – CONTINUED

Conditional additional payment – continued

(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$2,400,000.

Conditional mining production payment to Votorantim

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

The contingent consideration payables of US$19,700,000 (equivalent to approximately HK$153,087,000) 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 31 December 2016, saved as disclosed above the Group did not have any significant contingent liabilities.

Management Discussion and Analysis

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, but 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 Cloudrider Limited (the "Borrower"), pursuant to which the Company granted to the Borrower the loan with principal amount of HK$540 million (the "Loan") with an interest rate of 3% per annum (the "Loan Agreement") for funding Borrower's merger and acquisitions. HK$251,100,000 and HK$288,900,000 were lent to the Borrower on 22 April 2016 and 12 May 2016 respectively. The Borrower shall repay the outstanding amount of the Loan and the unpaid interest accrued 12 months after the drawdown date unless the Borrower exercise its option to extend the Loan for 12 months. The Borrower has exercised its option to 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 year ended 31 December 2016, the Borrower has settled HK$8.1 million loan interest in accordance with the Loan Agreement and a loan interest income of approximately HK$10.9 million was recognised by the Company in accordance with the Loan Agreement. Other details of the Loan Agreement have been disclosed in the circular of the Company dated 24 May 2016.

Business review

For the year ended 31 December 2016, the Group recorded a HK$34.0 million turnover which decreased by approximately 70.5% when compared to HK$115.4 million revenue recognised last year. Group results changed from loss of HK$1,995.0 million for the year ended 31 December 2015 to profit of HK$633.2 million in current year.

Other than the decrease in trading income of HK$1.4 million due to the disposal of trading business in December 2015, the decrease in turnover in lithium-ion batteries business was 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 only listed in the Catalog on 13 July 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. Since the investigation began in late 2015, the PRC Government has not distributed the subsidies to the automobile enterprises in a timely manner. The automobile enterprises have occupied a large amount of their own working capital as they are unable to receive the government subsidies. This also reduced the working capital of the batteries manufacturing enterprise as the automobile enterprises delayed their payment to suppliers. Under these uncertainties, the production volume of the automobile enterprises in this year decreased substantially. 康迪電動車 and 新大洋電動車, the major customers of Shandong Forever New Energy have also taken a conservative approach and control their production plan, hence reducing their demand for lithium-ion batteries. The Company also takes a more cautious approach before accepting new orders in order to mitigate the potential credit risk.

Management Discussion and Analysis

Business review – continued

Despite the weak performance in the lithium-ion batteries sector, the Company recorded a HK$633.2 million profit for the year. This was mainly due to the Settlement Agreement entered into with Votorantim during the year which made the Company no longer be liable to pay the third, fourth and fifth instalment payment with a total amount 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$1,039 million non-cash fair value gain to the Company during the year. But the gain was substantially decreased by the impairment loss of HK$270.8 million on exploration and evaluation assets recognised during the year. After netting HK$92 million deferred tax credit associated with the impairment, the impairment in relation to the exploration and evaluation assets decreased the profit for the year for approximately HK$178.8 million. In addition, an impairment loss of HK$123.6 million in relation to lithium-ion business was recognised in the current year. The significant impairment loss recognized was mainly due to downward adjustment in forecast sales amount after a disappointing performance of Shandong Forever New Energy for the year ended 31 December 2016.

The loss for the Group before depreciation, amortisation, impairment, fair value gain, sharebased payment expenses and income tax was approximately HK$100.3 million (31 December 2015: HK$65.4 million) for the year ended 31 December 2016. The difference was mainly due to the increase in research and development expenses, decrease in sales and profit of lithiumion batteries business and increase in imputed interest expense on convertible bonds during the year ended 31 December 2016.

During the year ended 31 December 2016, the operation of the Group was mainly financed by the proceeds received from Placing and Share Subscription completed in June 2015 as well as by the loan interests received from Cloudrider Limited.

As at 31 December 2016, the gearing ratio of the Group which is measured by total loans and borrowings (including convertible bonds) to total equity was 0.27 (31 December 2015: 0.38).

LIQUIDITY AND THE USE OF PROCEEDS FROM PLACING AND SHARE SUBSCRIPTION

Upon completion of the placing of 754,000,000 new shares (the "Placing") and the subscription of 446,000,000 new shares (the "Share Subscription") 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 31 December 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$36.2 million has been used for general working capital and approximately HK$57.9 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK$592.8 million, HK$410 million will be invested into the new energy vehicle related business, HK$142.1 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK$40.7 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

LIQUIDITY AND THE USE OF PROCEEDS FROM PLACING AND SHARE SUBSCRIPTION – CONTINUED

As at 31 December 2016, the Group had net current assets of HK$66.0 million (31 December 2015: HK$674.3 million). Current assets mainly comprised of bank balances and cash of HK$669.1 million, trade and bill receivables of HK$101.1 million, prepayments, deposits and other receivables of HK$21.7 million and inventories of HK$36.7 million. Current liabilities mainly comprised of convertible bonds liabilities of HK$623.4 million and derivative financial liabilities of HK$58.3 million, trade and bill payables of HK$35.9 million, other payables and accrued expenses and receipts in advance of HK$40.9 million.

The net current assets of the Group decreased from HK$674.3 million to HK$66.0 million mainly due to the Loan of HK$540 million granted to Cloudrider Limited during the year ended 31 December 2016. The Loan was repayable in year 2018 and it was classified as non-current asset. The increase in convertible bonds liabilities by HK$71.0 million to HK$623.4 million during the year also had a significant impact on the amount of net current assets.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group has contracted but not provided for capital commitments in relation to property, plant and equipment amounted to approximately HK$90.5 million.

EMPLOYEES

As at 31 December 2016, the total number of employees of the Group was 352 (2015: 375). Employee benefit expenses (including directors' emoluments) amounted to HK$35.2 million for the year (2015: HK$41.8 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.

LITIGATION

On 22 June 2016, the Company received a writ of summons (the "Writ") dated 18 June 2016 filed by Zhi Charles as the plaintiff (the "Plaintiff") (under High Court Action No. 1618 of 2016 ("HCA 1618 Action")) against 16 defendants which include the Company and 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 another legal action in Hong Kong on 20 June 2016. Although the Company did not understand the legal grounds of the Plaintiff to commence the HCA 1618 Action, the Company appointed a legal representative and attend several hearings to fulfill its legal responsibility.

Finally on 7 October 2016, the Plaintiff wholly withdrew his action against the Company in the HCA 1618 Action. The Plaintiff also agreed that after the withdrawal of the said claims against the Company, there shall be no claims whatsoever arising out of or in connection with any matter or issue raised in this action against the Company, all or any of the Company's directors and/or servants or agents whatsoever.

Other detail of the HCA 1618 Action has been disclosed in the 2016 interim report.

As at the date of this report, 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.

Management Discussion and Analysis

PROSPECT

It is expected that the business environment in the lithium-ion batteries industry will remain difficult for a few months. First of all, the revised central government subsidies system for new energy vehicles was only released in late December 2016 and generally each vehicle sold this year will receive 20% less funding than it would have in 2016. This affect the sales strategies and pricing policy of new energy vehicles manufacturing enterprises. Moreover, the list of new energy vehicle models eligible for subsidies (新能源汽車推廣應用推薦車型目錄) (the"List") was re-examined in accordance to the new standards. Up to the date of this report, only two batches of List were released with fewer than 400 new energy vehicles models included in the revised List, which is only around 20% of the number of models included in the superseded List. Since models not on the List are not eligible for subsidies, many new energy vehicles delayed their production plan and sales. Under this situation, along with the shortage of fund in the new energy vehicles manufacturing enterprises, it is expected that the sales performance of the lithium-ion batteries sector of the Group will continue to face a different level of impact for a few months.

In 2017, 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. Construction work has commenced in mid-2016 and the plant is designed to produce approximately 1,500,000 kWh lithium-ion battery for new energy vehicles annually. The construction work and installation of production facilities are scheduled to complete in the third quarter of 2017.

Shandong Forever New Energy and Zhejiang Forever New Energy will focus on the research and 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 travel range for their new energy vehicles.

After Shandong Forever New Energy was listed in the Catalog for Batteries Manufacturing Enterprises on 13 July 2016, the Group will continue to make huge effort to achieve diversification of customers and obtain purchase order from customers other than 康迪電動車 and 新大洋電動車.

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 previously stated, the Group is experiencing difficulty in obtaining one of the licenses and approvals, i.e. the LP. The Brazilian team has been working on the new licensing process and will continue to evaluate the details, including how many studies and works finished in the old process could be reused, and time and costs required for the new licensing administrative process. The Group has also been keeping close contact with IBAMA, and has taken initiatives to meet the new requirements and guidances issued by the government. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. He Xuechu, aged 54, is the Chairman of the Company. Mr. He has extensive experience in financial management and in the investment field, is principally responsible for the Group's strategic planning and positioning. Mr. He graduated from 安徽財貿學院 (Anhui Finance and Trade College), the PRC in 1983. Since then, he has worked in 中華人民共和國商業部 (the Domestic Trade Ministry of the PRC), and China Resources (Holdings) Co. Ltd. During the period from 2001 to 2005, Mr. He was a director and shareholder of a number of companies, the shares of which are listed on the Stock Exchange, including Shanghai Zendai Property Limited (stock code: 0755) and Geely Automobile Holdings Limited (stock code: 0175). Mr. He is also director of Infinite Sky Investments Limited, New Trinity Holdings Limited, Honbridge Technology Limited, Triumphant Glory Investments Limited and Shandong Forever New Energy Co., Ltd., all being subsidiaries of the Company.

Mr. Liu Wei, William, aged 52, 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, Honbridge Technology 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 49, 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).

NON-EXECUTIVE DIRECTORS

Mr. Ang Siu Lun, Lawrence, aged 56, holds a Bachelor of Science degree in physics and computer science and a Master Business Administration degree from the Chinese University of Hong Kong. Prior to joining the Group, Mr. Ang worked in a number of major international investment banks for seventeen years with extensive experience in equity research, investment banking and financial analysis, focusing on China asset market, automobile industry and investment banking business. Mr. Ang is an executive director of Geely Automobile Holdings Limited (Stock Code: 175). Mr. Ang assists the Group's capital market activities and investor relations.

Mr. Yan Weimin, aged 50, 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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chun Wai, Tony, aged 45, is a Certified Public Accountant and owns a CPA practice. He has extensive experience in audit assurance and business advisory services in both Hong Kong and the PRC. Moreover, Mr. Chan has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisitions as well as corporate finance. He holds a Master degree in Business Administration from the Manchester Business School. Mr. Chan is now the independent non-executive director of Hans Energy Company Limited and Wai Chun Mining Industry Group Company Limited, the shares of which are listed on the Hong Kong Stock Exchange.

Mr. Ma Gang, aged 60, 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 47, graduated from the University of Hong Kong in 1994 with a bachelor degree in law and was admitted as the solicitor of the High Court of the Hong Kong Special Administrative Region and the Supreme Court of England and Wales. He has extensive experience in corporate finance, cross-border merger and acquisitions as well as general commercial transactions. Mr. Ha is one of the founding partners of Messrs. Ha and Ho Solicitors and also the China-Appointed Attesting Officer.

SENIOR MANAGEMENT

Mr. Yeung Ho Ming, aged 33, 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 64, 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 Zhejiang Forever New Energy Co., Ltd..

Mr. Zhang Lei, aged 37, 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 is currently the director and general manager of Shandong Forever New Energy Co., Ltd. and Zhejiang Forever New Energy Co., Ltd..

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT – CONTINUED

Dr. Eder de Silvio, aged 54, graduated from The Polytechnic School of the University of Sao Paulo with an Engineering degree in 1984 and awarded a Doctorate degree on Mineral Engineering in 2001, based on a process research and engineering for a heavy mineral project (tin, tantalum, niobium, and rare earth).

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

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

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

Mr. Jin Yongshi, aged 37, 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 2016.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

BUSINESS REVIEW

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 62 of this annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years is set out on page 126 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 32 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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

As at 31 December 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

	Number of shares in the Company					
Name of director	Beneficial owner	Interest of spouse	Interest of controlled corporation	Number of Share option[2]	Total	Approximate percentage of shareholding (%)
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 31 December 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' 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 2016, an aggregate of 118,750,000 Shares were issuable pursuant to share options granted.

As at 31 December 2016, the total number of Shares available for issue pursuant to the grant of further options under the Scheme was 591,567,971, representing approximately 7.5% of the issued share capital of the Company as at 31 December 2016.

SHARE OPTION SCHEME – CONTINUED

(i) Summary of the Scheme – continued

4. Maximum entitlement of each participant

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

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

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

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

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

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

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

8. Basis of determining the exercise price of the option

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

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

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

(c) the nominal value of a Share.

9. Remaining life of the Scheme

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

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

SHARE OPTION SCHEME – CONTINUED

(ii) Details of options granted

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

Name or category of participant	Number of share options: Outstanding as at 01/01/2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31/12/2016	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$
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					

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 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 31 December 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

	Number of Shares in the Company				
Name of Shareholder	Beneficial owner	Interest of spouse	Interests of controlled corporation	Total number of shares held	Approximate percentage of shareholding (%)
Hong Bridge	4,065,000,000 (Note 1)	–	–	4,065,000,000	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 (Note 9)	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 9)	–	–	694,000,000	694,000,000	8.83
Yue Xiu Securities Holdings Limited (Note 9)	–	–	694,000,000	694,000,000	8.83
Yue Xiu Enterprises (Holdings) Limited (Note 9)	–	–	694,000,000	694,000,000	8.83
Guangzhou Yuexiu Holdings Limited (Note 9)	–	–	694,000,000	694,000,000	8.83
Pan Shangcong (Note 10)	–	–	694,000,000	694,000,000	8.83
Jifu Financial Investment Company Limited (Note 10)	–	–	694,000,000	694,000,000	8.83
Maxwealth Investment Management Limited (Note 10)	–	–	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 Great China Fixed Income Fund II LP was wholly owned by Yue Xiu Investment Management Limited, which was a wholly-owned subsidiary of Yue Xiu Investment Consultants Limited, which was in turn wholly owned by Yue Xiu Securities Holdings Limited. Yue Xiu Securities Holdings Limited was wholly owned by Yue Xiu Enterprises (Holdings) Limited, which was in turn wholly owned by Guangzhou Yuexiu Holdings Limited. Yue Xiu Investment Management Limited ceased to have interest in Yue Xiu Great China Fixed Income Fund II LP on 13 January 2017.

10. Maxwealth Investment Management Limited was wholly owned by Jifu Financial Investment Company Limited, which is in turn wholly owned by Mr. Pan Shangcong. Maxwealth Investment Management Limited has indirect interest of 694,000,000 shares through its interest in Yue Xiu Great China Fixed Income Fund II LP on 31 December 2016.

Save as disclosed above, as at 31 December 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.

Directors' Report

CONNECTED TRANSACTIONS

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 and completed on 26 July 2016.

For the year ended 31 December 2016, the Group has sold approximately HK$24.9 million of lithium-ion batteries to Ninghai Zhidou. Ninghai Zhidou is a limited liability company incorporated in the PRC. It is principally engaged in the research and production of automobile parts, components and engines, electric vehicles and the provision of related after-sale services in the PRC.

Zhejiang Geely Auto is a substantial shareholder of Shandong Forever New Energy as it holds 48% equity interest in Shandong Forever New Energy, and therefore it is a connected person of the Company at the subsidiary level. Zhejiang Geely Auto is held as to 90% by Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely", 浙江吉利控股集團有限公司), and Zhejiang Geely holds 45% interest in Ninghai Zhidou. As such, both Zhejiang Geely and Ninghai Zhidou are associates of Zhejiang Geely Auto in accordance with Rule 20.11 of the GEM Listing Rules, and each of them is therefore a connected person of the Company at the subsidiary level.

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

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

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

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

(2) on normal commercial terms or better;

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

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

CONNECTED TRANSACTIONS – CONTINUED

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

There was no other connected transaction entered into by the Company during the year ended 31 December 2016.

RESERVES

Details of movements in the reserves of the Company and of the Group during the Year are set out in Note 36 to the consolidated financial statements.

DISTRIBUTABLE RESERVE OF THE COMPANY

The share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend payment the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Memorandum and Articles of Association, dividends can be distributed out of the profits and share premium of the Company. The Company's reserve available for distribution to shareholders as at 31 December 2016 amounted to approximately HK$884,123,000 (2015: HK$1,178,142,000).

INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the year ended 31 December 2016.

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 2016, the five largest customers of the Group accounted for 97.2% of the Group's total turnover and the five largest suppliers of the Group accounted for 59.1% 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 2016.

Directors' Report

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

During the year ended 31 December 2016, 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 2016 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
24 March 2017

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 2016 with the exception of code Provision A.2.7, A.6.7 and C.2.5. Code Provisions A.2.7 requires that the Chairman should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Although the Chairman did not hold any formal meeting with the non-executive Directors without the presence of executive Directors during the year, he had frequent communications with the non-executive Directors. In addition, he delegated the Company Secretary to gather any opinions/questions that the non-executive Directors might have and report to him for follow up. As such, the non-executive Directors of the Company were given opportunities to voice their concerns to the Chairman directly. Code Provision A.6.7 stipulates that the Independent Non-Executive Directors and the Non-executive Directors should attend general meetings of the Company. However, due to other business commitments of other Independent Non-Executive Directors and Non-executive Directors, only Chan Chun Wai, Tony, who is also the chairman of the Audit Committee, was able to attend the AGM held on 18 May 2016. Chan Chun Wai, Tony communicated the views of the shareholders of the Company with the other Directors who are unable to attend in person whenever necessary. Views of the shareholders of the Company is communicated to the Board as a whole. For deviation in relation to Code Provision C.2.5, the details have been set out in the "Risk Management and Internal Control" section in this Corporate Governance Report.

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 of this annual report.

DIRECTORS' RESPONSIBILITIES

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Corporate Governance Report

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 Directors along with other senior executives. They report periodically to the Board their work and business decisions.

BOARD MEETINGS AND ANNUAL GENERAL MEETING ("AGM")

Four Board meetings and an AGM were held during the financial year ended 31 December 2016 and the attendance records of the Directors are as follows:

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

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

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

BOARD DIVERSITY POLICY

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

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

TRAINING

During the year ended 31 December 2016, the Company provides briefings and other training to develop and refresh the Directors' knowledge and skills, and updates all Directors on the latest developments regarding the GEM Listing Rules and other applicable regulatory requirements to ensure compliance and to enhance their awareness of good corporate governance practices.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 December 2016.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Corporate Governance Report

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

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

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

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

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

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

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

A review on the internal control systems of the Company, including financial, operational and compliance controls and risk management functions has been carried out in 2016 by an independent consultancy company with staff in possession of relevant expertise to conduct an independent review.

Corporate Governance Report

The Company's audit committee reviewed the internal control review report issued by the independent consultancy company and the Company's risk management and internal control systems in respect of the year ended 31 December 2016 and considered that they are effective and adequate. The Board assessed the effectiveness of internal control systems by considering the internal control review report and reviews performed by the audit committee and concurred the same.

Under Code Provision C.2.5, the Group should have an internal audit function. The Company has no internal audit function because the Company has maintained an internal control system and its implementation has been considered effective by the audit committee and the Board. In addition, the audit committee has communicated with external auditor of the Company to understand if there is any material control deficiency. Nevertheless, the Company will review the need for one on an annual basis.

DISCLOSURE OF INSIDE INFORMATION

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

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

Key procedures in place include:

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

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

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

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

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

COMPANY SECRETARY

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

Corporate Governance Report

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 57 to 61 of this annual report.

AUDITORS' REMUNERATION

For the year ended 31 December 2016, the Auditors of the Company received approximately HK$2,280,000 for audit services and HK$257,000 non-audit services.

AUDIT COMMITTEE

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

During the year, the audit committee held four meetings to review and comment on the Company's 2015 annual report, 2016 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 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

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 2016 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 2016 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.

EMOLUMENT POLICY

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

REMUNERATION OF THE SENIOR MANAGEMENT

The remuneration (including the value of the share options granted) of the senior management of our Group for the year ended 31 December 2016 and 2015 falls within the following band:

	Number of individuals	
	2016	2015
HK$6,500,001 to HK$7,000,000	–	1
HK$5,500,001 to HK$6,000,000	–	1
HK$1,500,001 to HK$2,000,000	1	1
HK$1,000,001 to HK$1,500,000	–	–
Below HK$1,000,001	4	2

SHAREHOLDERS AND INVESTORS RELATIONS

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

SHAREHOLDERS' RIGHTS

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

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

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

CONSTITUTIONAL DOCUMENTS

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

THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG") POLICIES

The Company has complied with the "comply or explain" provision set out in the ESG Reporting Guide in Appendix 20 of the GEM Listing Rules. Information about the Company's ESG policies in 2016 is set out in the ESG report section in this annual report.

Environmental, Social and Governance Report

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

This Environmental, Social and Governance Report (the "ESG Report") is primarily prepared in accordance with Appendix 20 of GEM Listing Rules and summarises the performance in sustainable development of the Group in aspects such as environment, employment and labour affairs practices, operation practices and community engagement for the year ended 31 December 2016.

EMPLOYMENT AND LABOUR PRACTICES

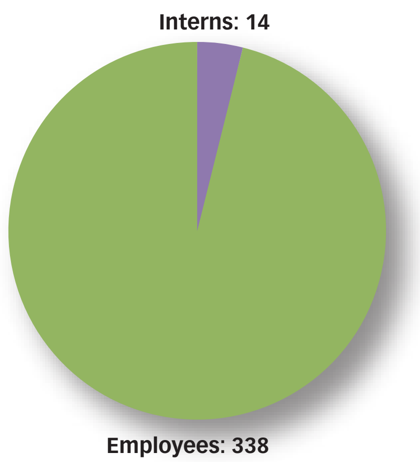
The Group believes that talent is one of the most important assets, as well as the basis of sustainable development of an enterprise. While employees contribute time and wisdom to the Company, we also endeavour to build a fair and proper workplace for employees to demonstrate their talent. The Group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

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

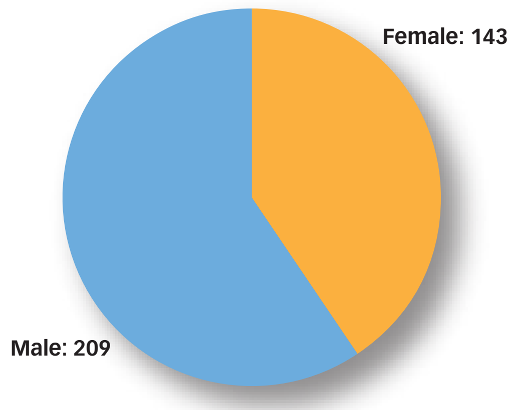
LABOUR STRUCTURE

Business units of the Group are physically located in Shandong and Zhejiang provinces of the PRC and in Brazil, while its headquarters is in Hong Kong. As at 31 December 2016, the total number of employees of the Group was 352 (2015: 375) with labour structures set out below:

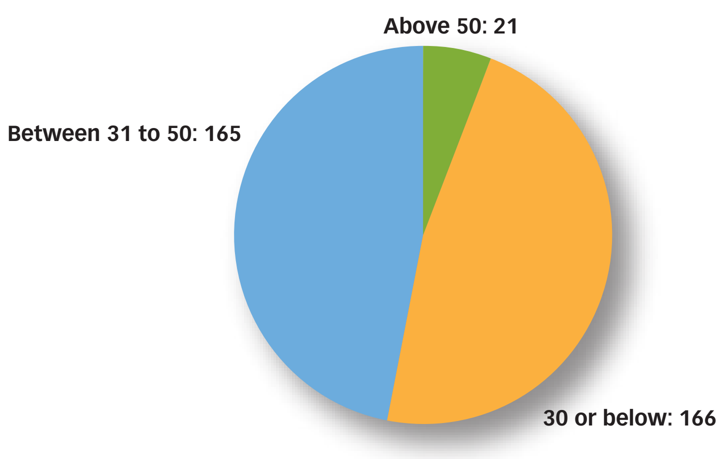
EMPLOYMENT CATEGORY



EMPLOYEES BY GENDER



EMPLOYEES AGE GROUP



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

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

RECRUITMENT PROCESS

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

Apart from recruitment advertisements targeting fresh graduates of 2016, the Group initiated "2016 campus recruitment" in the PRC. Since January 2016, we have participated in campus recruitment fairs in ten tertiary institutions, including Shandong University, University of Jinan, Ocean University of China, Yanshan University, etc.

REMUNERATION AND BENEFITS

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

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

Employees in other regions would also enjoy medical insurance, work-related injury insurance and retirement coverage (such as mandatory provident fund in Hong Kong) of statutory standards or higher.

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

WORKING HOURS

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

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

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

TERMINATION OF EMPLOYMENT

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

EMPLOYEE DEVELOPMENT AND TRAINING

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

In 2016, our Shandong subsidiary organised "Zhixiang Lecture Hall" (智享大講堂) programme and invited experts and lecturers from different sectors to hold seminars and bring opportunities for growth and learning to employees in different posts with different needs.

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

2016 Intensive training for Rising Stars

On graduation

Frontline training

In 2016, our PRC subsidiary organised training for multiple skills for assemblers in the PRC. Staff members learned and adapted to the knowledge and skills of other positions, which increased the work values and competitiveness of employees and successfully diversified their skillset.

On-site assessment of multiple skills

Graduation certificate

On graduation

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

HEALTH AND SAFETY

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

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

Major safety measures implemented in plants in the PRC:

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

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

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

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

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

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

Environmental, Social and Governance Report

INDUSTRIAL ACCIDENT

The Group did not experience major industrial incident or hazard in 2016.

COMMUNITY INVESTMENT

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

On 11 June 2016, our subsidiary, Shandong Forever, sponsored the event "Run for Energy" (節能領跑　綠色發展), which was organised by various departments including Commission of Economy and Informatization and the Energy-saving Office of Zoucheng, Shandong province. With a theme of "promoting eco-culture, contribute to a wonderful Zoucheng" (推進生態文明•助力幸福鄒城), the event aimed to instil concepts of energy-saving and environmental protection among citizens through activities and live speech from enterprises. The event attracted more than 300 cyclists to take part in the voluntary energy-saving promotion.

Group photos for Run for Energy

In addition, Shandong Forever regularly organised family days for employees with the motto “lead a low-carbon lifestyle to build a green community” (踐行低碳生活，共建綠色家園). It promoted the concepts of ecology and environmental protection to raise the awareness among employees and their family towards environmental protection and ecological balance. It also conveyed knowledge of preservation and environmental protection to residents nearby and advocated a prudent, healthy and civilized lifestyle.

Family activity in Shandong Forever New Energy Co., Ltd.

Shandong Forever focuses on its future development and nurtures creative talent to boost technical breakthroughs and renovation. At the same time, it facilitates talent and technology exchange in new energy vehicle industry in Shandong to extensively drive the development of talent pool in the local new energy vehicle industry. Shandong Forever initiated the “Zhixiang Lecture Hall” project and invited leading experts and scholars in the industry to offer guidance and training for an extended period. In 2016, 10 sessions of programme were hosted at Zhixiang Lecture Hall and more than 300 local participants were trained to promote communication and cooperation among them.

第一期培训开讲

讲师介绍

吴 辉（赛迪顾问研究总监）

专注于新能源汽车、动力电池及材料、电机电控系统、充电站、能源互联、新能源储能技术等相关产业的研究和咨询，在企业战略咨询、市场研究、投融资与并购咨询、政府及园区产业研究与规划等方面具备超过6年的经验。

赛迪顾问股份有限公司

中国首家在香港创业板上市，并在业内率先通过国际、国家质量管理与体系（ISO9001）标准认证的现代咨询企业(股票代码：HK08235)，直属于中华人民共和国工业和信息化部中国电子信息产业发展研究院。赛迪顾问凭借强大的国家部委资源支撑、丰富的行业资源和高端专业化人才竞争优势，面向政府、园区和企业，提供发展战略与规划、政策研究、转型升级规划、招商引资策略研究、信息化咨询、智慧城市规划、市场投资机会与策略分析、投资可行性研究、运营模式研究、 企业兼并重组、企业战略咨询、人力资源管理等现代咨询服务。

赛迪股份有限公司吴辉先生通过产业政策、市场分析及地方政府发展新能源方向，为在场的政府领导、新能源行业知名专家及衡远、智远的员工讲解新能源未来的发展趋势。

提问环节

学员张铁俊提问：**2020年国家取消补贴政策后，纯电动车和混合动力车的发展趋势。**

吴辉先生解答：2020年国家取消政策补贴，锂电池行业提高技术降低成本后，纯电动汽车在市场上发展趋势较为乐观；混合动力车在没有补贴的情况下发展趋势较为稳定。

智远.衡远-智享大讲堂

学习感想-记录墙

产品质量是一个企业生命力的保证，而有序的生产是产品质量的保证。想提高产品的质量，就需要有可控的生产过程，即生产过程控制。而想做好生产过程控制需要大量数据支持。而在得到、分析这些数据时，我们首先要得到确保这些数据的有效性，尽可能的减少人为因素的影响。这其中包括设备、工艺、生产及过程检测等各个部门的共同作用。首先，我们要确保设备的有效性，尽量减少因设备运转波动而影响数据稳定，还要能够得到更多可测量的数值。接下来是工艺，工艺工程师协同设备部及生产部应当制定一系列的标准化参数来控制生产。接下来是生产，在生产的过程中要严格按照工艺的要求进行，并完成基本的设备保养工作。可以根据经验提出自己的见解，与工艺工程师进行讨论协商，改进生产方案。过程检测部门也要严格把关，避免人为原因造成次品流出并确定测量数据的有效性。只有各个部门相互协调，相互支持，才能做好生产过程控制，用数据来分析问题，解决问题，从而使我们的质量更加有保证，企业更加有竞争力！

曾凡博

质量是企业的生命，统计过程控制是质量管理的最重要的方法之一。通过讲师多年丰富的实战经验的分享，对统计过程控制有了一定的认知，在日常工作中，对遇到的问题进行原因统计分析，揪出主要矛盾并设法纠正，往往可以解决绝大部分，以达到事半功倍的效果。

2016届大雁-杨冬生

质量管理是产品合格的关键，统计过程控制是质量管理的重要工具。只有充分利用统计过程控制，才能将产品做好。

王次强

Experts and scholars of Zhixiang Lecture Hall shared their experience and offered guidance and training

Environmental, Social and Governance Report

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

Visited villagers and distributed gifts

ANTI-CORRUPTION

To ensure and promote business integrity at each level of the Company, facilitate sustainable and healthy development, and build an honourable and upright culture, the Group has published integrity and self-discipline requirements. It enthusiastically spreads the corporate culture of "compliance" and continues to strengthen supervision and inspection to strive for healthy and rapid development. It prevents corruption at source and expressly sets out the regulations on "gifts and entertainment". Furthermore, it requires employees to comply with relevant regulatory requirements on anti-money laundering and ensures the Company or individual employees to strictly follow the reporting requirements in the event of participation in activities and transactions with potential receipt of illicit funds or involving illicit funds.

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

SUPPLY CHAIN MANAGEMENT

For the lithium-ion power battery business, there are 60 suppliers on the list of qualified suppliers, primarily located in the coastal region. There are 23 suppliers in northern China, 36 in southern China and one in Taiwan.

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

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

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

It takes a comprehensive management system of supplier quality to achieve sound quality assurance. Shandong Forever passed the certification for ISO/TS-16949 in 2015 and clarified the process of supplier admission. In 2016, Shandong Forever strengthened its efforts on the inspection of suppliers of major raw materials and visited leading material manufacturers and processing plants to develop all-round knowledge on the production techniques of its suppliers and the quality control of processing. At the same time, physical examination project was conducted at the processing plant of individual major suppliers to assess the quality control capability of suppliers on its production process. Thus, the quality of raw materials and major components procured was further enhanced.

PRODUCT LIABILITY

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

The battery products of Shandong Forever New Energy passed the national standards of GB/T31484-2015 "Cycle Life Requirements and Test Methods for Automobile Power Battery of Electric Vehicle", GB/T31485-2015 "Safety Requirements and Test Methods for Automobile Power Battery of Electric Vehicle" and GB/T31486-2015 "Electrical Performance Requirements and Test Methods for Automobile Power Battery of Electric Vehicle" in the PRC and Shandong Forever New Energy were admitted to the fourth enterprise list of the "Standardised Conditions for the Automobile Power Battery Industry" published by Ministry of Industry and Information Technology of the PRC in July 2016. By this time, only 57 power battery enterprises have been granted such admission.

Shandong Forever New Energy has passed the ISO/TS16949 certification of quality system and applies the core tools of ISO/TS16949 in the quality control of production and manufacture process.

SELF-OWNED INTELLECTUAL PROPERTY RIGHT

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

AFTER-SALES SERVICE COMMITMENT

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

ENVIRONMENTAL PROTECTION

The Group has strictly observed all relevant laws and regulations regarding regulation and protection of environment during the course of its performance of such work. Our mission statement on environmental regulation is "To protect the natural environment, to build green factories and to provide green energy". Controlling measures have been imposed on activities that are likely to have impact on the environment. The Group would continue to seek improvement and keep itself in compliance with China's requirements on products with environmental certification mark.

Environmental, Social and Governance Report

EMISSIONS

Major emissions from our plants in China included wastewater, gases, noise and other solid wastes. We have engaged qualified entities to inspect onsite and handle the emission processes of our plants in China. Emission-related data are being closely monitored and under strict control to ensure that the emission readings are in line with the requirements of national and regional laws and regulations and are within the stipulated levels of industry.

Control on wastewater discharge

During the year, Shandong Forever New Energy had engaged Zoucheng Municipal Environmental Monitoring Station (鄒城市環境保護監測站) to conduct an examination on its wastewater discharge and issue a report thereafter, which stated that effluents being discharged by the company was in compliance with the PRC Emission Standard of Pollutants for Battery Industry, and had been transferred through industrial wastewater pipeline to the municipal sewage treatment plant for treatment.

Gas emission control

In 2016, Shandong Forever New Energy engaged Shandong Provincial Analysis and Measurement Centre (山東省分析測試中心) to conduct an examination on gas emission and issue a report thereafter, which stated that gas emission of the company was in compliance with the PRC Emission Standard of Pollutants for Battery Industry. Air pollutants undergone the adsorption process by the activated carbon purification system were emitted into the atmosphere. The activated carbon, when done and expired, would be returned to the manufacturer for recycle and reuse.

Noise emission control

Zoucheng Municipal Environmental Monitoring Station was commissioned by the plant to carry out a noise inspection of the plant in 2016. The inspection results confirmed that the actual testing data met the requirement of the Emission Standard for Industrial Enterprises Noise at Boundary.

USE OF RESOURCES

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

EFFECTIVE ENERGY CONSUMPTION PLAN

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

New Energy Automobile and photovoltaic solar energy power panels

WATER EFFICIENCY PLAN

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

ENVIRONMENTAL PROTECTION AND NATURAL RESOURCES CONSERVATION

The premises of our Shandong facilities and Zhejiang sites are located within the planned area of Zoucheng Industrial Zone in Shandong and Jinhua New Energy Automobile Industrial Park respectively, which are at significant distances from any nature reserve areas. Feasibility analysis and environmental impact assessment were conducted for both sites. The Group has established the environmental protection facility and conducted major construction work in compliance with requirements of laws and regulations. By adhering to the principle of "Focusing on proactive prevention and combining with controlling and correcting measures to form a comprehensive solution", we strive to reduce the facilities' impact on environment to a minimal level and ensure that it will not affect the important local water sources in whatever way.

METHODOLOGY OF ENVIRONMENTAL INSPECTION OR RESEARCH IN BRAZIL

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

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

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

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

In 2016, Brazil SAM Company did not carry out any drilling activities, and there was no occurrence of material negative environmental issues in the course of other environmental inspection or research.

FEEDBACKS

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

Independent Auditor's Report

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To the shareholders of Honbridge Holdings Limited
(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Honbridge Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 62 to 125, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Impairment of exploration and evaluation assets

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

As at 31 December 2016, the Group had exploration and evaluation assets with carrying amount of HK$2,948 million operated by Sul Americana de Metais S.A. ("SAM"), a subsidiary of the Group, and for the year then ended, an impairment loss of HK$271 million was made on the Group's exploration and evaluation assets.

Following a review of the business, the outlook of the industry in Brazil and SAM's operating plans, management recognised an impairment loss of HK$271 million to reduce the exploration and evaluation assets to their estimated recoverable values, which was estimated by the management with assistance of the independent external valuer as the management's expert.

Independent Auditor's Report

These conclusions are dependent upon significant management judgement and significant to the financial statements.

Our response

Our key procedures in relation to the impairment assessment included:

— Assessing the appropriateness of valuation methodologies for the assessment of the estimated recoverable values of exploration and evaluation assets;

— Assessing the reasonableness of underlying key assumptions;

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

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

Lithium battery production business impairment assessment

(Refer to notes 3, 4 and 18 to the consolidated financial statements)

As at 31 December 2016, before current year impairment, the Group had property, plant and equipment with an aggregate carrying value of HK$88.5 million, prepaid land lease payments of HK$46.6 million and other intangible assets of HK$151.5 million relating to the lithium battery production business operated by Shandong Forever New Energy Co., Ltd. ("Shandong Forever New Energy"), a subsidiary of the Group. This business incurred losses for the year and this has increased the risk that the carrying values of the relevant assets within that business may be impaired.

Following a review of the business and the Group's operating plans of the lithium battery production business, management assessed impairment losses of HK$37.6 million and HK$86.0 million on property, plant and equipment and other intangible assets respectively, recognised to reduce the carrying values of the relevant assets of the lithium battery business to their estimated recoverable values, which was estimated by the management with assistance of the independent external valuer as the management's expert.

Estimation of recoverable amount is dependent upon significant management judgement. The impact of impairment loss recognised for the year is significant to the financial statements.

Our response

Our key procedures in relation to the impairment assessment included:

— Assessing the appropriateness of valuation methodologies for assessment of the recoverable amount of lithium battery production business;

— Assessing the reasonableness of underlying key assumptions;

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

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

Valuation of contingent consideration payables

(Refer to notes 3, 4 and 39 to the consolidated financial statements)

As at 31 December 2016, the Group had contingent consideration payables with carrying amount of HK$153 million, and for the year then ended, the Group recognised a gain on changes in fair value and terms of contingent consideration payables of HK$1,039 million in profit or loss, which is mainly due to changes in the terms of the outstanding contingent considerations payment in respect of the acquisition of SAM upon signing a settlement agreement during the year. Details of the changes of the terms of contingent considerations are set out in note 39 to the consolidated financial statements.

The contingent consideration payables are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise. The fair values of contingent consideration payables are estimated by the management with assistance of the independent external valuer as the management's expert. The appropriateness of the valuation is dependent on determination of certain key assumptions that require an exercise of management judgment. The impact of gain on changes in fair value and terms of contingent consideration payables is significant to the financial statements.

Our response

Our key procedures in relation to the valuation of contingent consideration payables included:

— Obtaining the settlement agreement to understand the underlying terms of contingent consideration payments and to assess if the valuation is calculated according to the same terms of the settlement agreement;

— Assessing the appropriateness of valuation methodologies;

— Assessing the reasonableness of underlying key assumptions;

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

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

Independent Auditor's Report

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hong Kong, 24 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Turnover	5	34,045	115,394
Cost of sales		(33,160)	(91,723)
Gross profit		885	23,671
Other operating income	7	33,959	15,028
Selling and distribution costs		(1,457)	(2,323)
Administrative expenses		(102,175)	(98,940)
Share-based payment expenses	33	—	(10,812)
Other operating expenses	9	(2,884)	—
Impairment of exploration and evaluation assets	15	(270,826)	(3,305,838)
Impairment of goodwill	18	—	(176,370)
Impairment of other intangible assets	17	(85,964)	(93,037)
Impairment of property, plant and equipment	14	(37,643)	(20,688)
Gain on full settlement of loans from ultimate holding company		—	3,358
Fair value gain on derivative financial liabilities	28	9,892	15,510
Gain on changes in fair value and terms of contingent consideration payables	39	1,039,423	564,740
Gain on disposals of subsidiaries		—	3,239
Finance costs	8	(72,138)	(66,556)
Profit/(Loss) before income tax	9	511,072	(3,149,018)
Income tax credit	10	122,135	1,154,011
Profit/(Loss) for the year		633,207	(1,995,007)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of financial statements of foreign operations	36	326,139	(1,982,118)
Release of translation reserve upon disposals of subsidiaries		—	(959)
Other comprehensive income for the year, net of tax		326,139	(1,983,077)
Total comprehensive income for the year		959,346	(3,978,084)
Profit/(Loss) for the year attributable to:			
Owners of the Company		700,010	(1,984,984)
Non-controlling interests		(66,803)	(10,023)
		633,207	(1,995,007)
Total comprehensive income attributable to:			
Owners of the Company		1,036,103	(3,966,343)
Non-controlling interests		(76,757)	(11,741)
		959,346	(3,978,084)
Earnings/(Losses) per share	11		
— Basic		HK9.04 cents	HK (26.55) cents
— Diluted		HK7.81 cents	N/A

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	104,743	109,551
Exploration and evaluation assets	15	2,947,964	2,716,000
Prepaid land lease payments	16	84,928	50,635
Other intangible assets	17	65,536	191,215
Goodwill	18	—	—
Other financial assets	19	812,545	—
Deposits for acquisition of land use rights	22	—	21,487
		4,015,716	3,088,888
Current assets			
Inventories	20	36,653	37,957
Trade and bill receivables	21	101,137	118,456
Prepayments, deposits and other receivables	22	21,670	11,491
Financial assets at fair value through profit or loss	23	1,936	—
Tax recoverable		1,956	—
Restricted bank deposits	24	3,367	—
Cash and cash equivalents	24	669,052	1,228,682
Total current assets		835,771	1,396,586
Current liabilities			
Trade and bill payables	25	35,910	56,103
Other payables, accrued expenses, deposits received and receipts in advance	26	40,884	8,496
Borrowings	27	11,206	35,811
Derivative financial liabilities	28	58,297	68,189
Convertible bonds	30	623,433	552,386
Current tax liabilities		—	1,328
Total current liabilities		769,730	722,313
Net current assets		66,041	674,273
Total assets less current liabilities		4,081,757	3,763,161
Non-current liabilities			
Borrowings	27	112,061	—
Deferred income	29	95,708	114,378
Deferred tax liabilities	31	910,279	881,478
Contingent consideration payables	39	153,087	1,215,829
		1,271,135	2,211,685
Net assets		2,810,622	1,551,476

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
EQUITY			
Equity attributable to the owners of the Company			
Share capital	*32*	**7,862**	7,862
Reserves	*36*	**2,580,297**	1,499,409
		2,588,159	1,507,271
Non-controlling interests		**222,463**	44,205
Total equity		**2,810,622**	1,551,476

On behalf of directors

He Xuechu
Chairman

Liu Wei, William
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax		**511,072**	(3,149,018)
Adjustments for:			
Depreciation of property, plant and equipment	14	**13,915**	14,581
Amortisation of prepaid land lease payments	16	**1,523**	1,117
Amortisation of other intangible assets	17	**25,737**	41,447
Impairment of exploration and evaluation assets	15	**270,826**	3,305,838
Impairment of other intangible assets	17	**85,964**	93,037
Impairment of goodwill	18	**—**	176,370
Impairment of property, plant and equipment	14	**37,643**	20,688
Write-down of inventories	9	**2,319**	—
Interest expense on bank and other borrowings	8	**1,091**	1,292
Imputed interest expense on convertible bonds	8	**71,047**	62,950
Interest expense on loans from ultimate holding company	8	**—**	2,314
Fair value gain on derivative financial liabilities	28	**(9,892)**	(15,510)
Gain on changes in fair value and terms of contingent consideration payables	39	**(1,039,423)**	(564,740)
Share-based payment expenses		**—**	10,812
Bank interest income	7	**(3,553)**	(714)
Interest income from loan receivable	7	**(10,904)**	—
Imputed interest income of amounts due from non-controlling interests of a subsidiary	7	**(5,453)**	—
Loss on disposals of property, plant and equipment		**159**	119
Government grant	29	**(10,631)**	(11,052)
Gain on disposals of subsidiaries		**—**	(3,239)
Gain on full settlement of shareholder's loan		**—**	(3,358)
Loss on financial assets at fair value through profit or loss	9	**565**	—
Operating loss before working capital changes		**(57,995)**	(17,066)
Increase in inventories		**(1,015)**	(6,689)
Decrease in trade and bill receivables		**17,319**	10,871
(Increase)/Decrease in prepayments, deposits and other receivables		**(10,179)**	3,562
Increase in financial assets at fair value through profit or loss		**(2,501)**	—
Decrease in trade and bill payables		**(20,193)**	(31,591)
Increase/(Decrease) in other payables, accrued expenses and receipts in advance		**32,388**	(17,359)
Cash used in from operations		**(42,176)**	(58,272)
Income tax paid		**(1,328)**	(3,535)
Net cash used in operating activities		**(43,504)**	(61,807)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from investing activities			
Interest received	7	3,553	714
Loan interest received	7	10,904	—
Increase in loan receivable	19	(540,000)	—
Purchases of property, plant and equipment	14	(55,743)	(11,707)
Additions of exploration and evaluation assets	15	(5,502)	(10,239)
Proceeds from disposals of property, plant and equipment		—	505
Increase in deposits of acquisition of land use rights		—	(21,487)
(Increase)/Decrease in restricted bank deposits		(3,367)	15,294
Disposals of subsidiaries, net of cash disposed		—	(14)
Additions of prepaid land lease payments	16 & 22	(18,963)	—
Net cash used in investing activities		(609,118)	(26,934)
Cash flows from financing activities			
Proceeds from issue of share capital		—	1,344,000
Share issuance costs related to placing and subscription		—	(7,903)
Interest paid on bank and other borrowings	8	(1,091)	(1,292)
Drawdown of borrowings		123,267	41,780
Repayments of borrowings		(35,097)	(5,969)
Repayments of loans from ultimate holding company		—	(219,094)
Capital contribution from non-controlling interests		32,708	31,204
Repayments of contingent consideration payables	39	(23,319)	—
Proceeds from sales of treasury shares	36	—	60,490
Proceeds from issue of new shares under share options scheme		—	18,452
Net cash generated from financing activities		96,468	1,261,668
Net (decrease)/increase in cash and cash equivalents		(556,154)	1,172,927
Cash and cash equivalents at 1 January		1,228,682	57,080
Effect of foreign exchange rate changes		(3,476)	(1,325)
Cash and cash equivalents at 31 December		669,052	1,228,682
Analysis of cash and cash equivalents			
Cash at banks and in hand		669,052	1,228,682

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	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 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 33)*	—	—	—	—	10,812	—	—	—	10,812	—	10,812
Lapse of share options *(note 33)*	—	—	—	—	(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 and 1 January 2016	7,862	2,627,306	(142,864)	—	136,741	(4,869,117)	258,836	3,488,507	1,507,271	44,205	1,551,476
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	44,785	44,785	255,015	299,800
Transactions with owners	—	—	—	—	—	—	—	44,785	44,785	255,015	299,800
Profit for the year	—	—	—	—	—	—	—	700,010	700,010	(66,803)	633,207
Other comprehensive income											
Currency translation	—	—	—	—	—	336,093	—	—	336,093	(9,954)	326,139
Total comprehensive income	—	—	—	—	—	336,093	—	700,010	1,036,103	(76,757)	959,346
At 31 December 2016	7,862	2,627,306	(142,864)	—	136,741	(4,533,024)	258,836	4,233,302	2,588,159	222,463	2,810,622

* The aggregate amount of these balances of approximately HK$2,580,297,000 (2015: HK$1,499,409,000) is included as reserves in the consolidated statement of financial position.

Notes to the Financial Statements

For the year ended 31 December 2016

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 P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, 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 35. 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 change of shareholding of Shandong Forever New Energy Co., Ltd ("Shandong Forever New Energy"), a non-wholly owned subsidiary of the Group as detailed in note 35, there were no significant changes in the Group's operations during the year.

The financial statements on pages 62 to 125 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.

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

HKFRS 9 — 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 ("FVTOCI") 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 FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL 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 FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

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 2016

2. ADOPTION OF NEW OR AMENDED HKFRSs — CONTINUED

HKFRS 16 — Leases

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

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

The directors of the Company anticipate that the application of the above standards in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of these new pronouncements until the Group performs a detailed review.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

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

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.2 Business combination and basis of consolidation — continued

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

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

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

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

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

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.

Notes to the Financial Statements

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.3 Subsidiaries

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

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

3.4 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.

Notes to the Financial Statements

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.7 Property, plant and equipment

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

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

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

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

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

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

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

3.8 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.

Notes to the Financial Statements
For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

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 2016

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 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.12 Financial assets

The Group's financial assets are classified into fair value through profit or loss and 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.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets.

(ii) Loans and receivables

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

At each reporting date, financial assets other than financial assets at fair value through profit or loss are reviewed and 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.

Notes to the Financial Statements

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.12 Financial assets — continued

Impairment of financial assets — continued

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.

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.

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 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.17 Financial liabilities — continued

Financial liabilities at amortised cost

Borrowings 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 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.

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 2016

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

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

Short-term employee benefits

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

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

3.21 Share-based payments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

3.21 Share-based payments — continued

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES — CONTINUED

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Impairment of exploration and evaluation assets

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

(ii) Impairment of receivables

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.

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

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

(iv) Depreciation and amortisation

The Group depreciates/amortises its property, plant and equipment, 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.

(v) 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. In addition, the fair value of the contingent consideration payables was estimated based on the probability of occurrence of certain events as stated in settlement agreement (note 39). Changes in assumptions about these factors could affect the reported fair value of financial instruments (including contingent consideration payables).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS — CONTINUED

(vi) 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.

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:

	2016 ***HK$'000***	2015 *HK$'000*
Sale of lithium batteries	**34,045**	113,989
Revenue from trading commodity contracts (note)	**—**	1,405
	34,045	115,394

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.

6. SEGMENT REPORTING

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2016

6. SEGMENT REPORTING — CONTINUED

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

	Mineral resources exploration and trading *HK$'000*	Lithium battery production *HK$'000*	Total *HK$'000*
Year ended 31 December 2016			
Reportable segment turnover (external customers)	**—**	**34,045**	**34,045**
Reportable segment losses	**(286,548)**	**(167,311)**	**(453,859)**
Reportable segment assets	**2,952,531**	**802,986**	**3,755,517**
Reportable segment liabilities	**156,795**	**288,612**	**445,407**
Capital expenditure	**48**	**55,695**	**55,743**
Impairment of exploration and evaluation assets	**270,826**	**—**	**270,826**
Impairment of other intangible assets	**—**	**85,964**	**85,964**
Impairment of property, plant and equipment	**—**	**37,643**	**37,643**
Interest income	**(159)**	**(2,303)**	**(2,462)**
Interest expense	**—**	**1,091**	**1,091**
Depreciation	**629**	**11,951**	**12,580**
Amortisation charge	**—**	**27,260**	**27,260**
Write-down of inventories	**—**	**2,319**	**2,319**
Year ended 31 December 2015			
Reportable segment turnover (external customers)	1,405	113,989	115,394
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 loss on exploration and evaluation assets	3,305,838	—	3,305,838
Impairment loss on goodwill	—	176,370	176,370
Impairment loss on 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

Notes to the Financial Statements

For the year ended 31 December 2016

6. SEGMENT REPORTING — CONTINUED

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

	2016 HK$'000	2015 HK$'000
Reportable segment turnover	34,045	115,394
Reportable segment loss	(453,859)	(3,641,581)
Other operating income	12,625	662
Administrative expenses	(25,397)	(18,870)
Fair value gain on derivative financial liabilities	9,892	15,510
Gain on change in fair value and terms of contingent consideration payables	1,039,423	564,740
Loss on financial assets at fair value through profit or loss	(565)	—
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
Finance costs	(71,047)	(65,264)
Profit/(Loss) before income tax	511,072	(3,149,018)
Reportable segment assets	3,755,517	3,330,119
Property, plant and equipment	861	1,288
Loan receivable	540,000	—
Prepayments and other receivables	3,751	810
Financial assets at fair value through profit or loss	1,936	—
Cash and cash equivalents	549,422	1,153,257
	4,851,487	4,485,474
Reportable segment liabilities	445,407	1,428,145
Other payables and accrued expenses	3,449	3,800
Derivative financial liabilities	58,297	68,189
Convertible bonds	623,433	552,386
Deferred tax liabilities	910,279	881,478
	2,040,865	2,933,998

Notes to the Financial Statements

For the year ended 31 December 2016

6. SEGMENT REPORTING — CONTINUED

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

	2016 HK$'000	2015 HK$'000
Turnover from external customers		
PRC	34,045	115,394
Reportable segment turnover	34,045	115,394
Non-current assets (excluding other financial assets)		
Hong Kong	861	1,288
PRC	253,303	370,044
Brazil	2,949,007	2,717,556
Reportable segment non-current assets	3,203,171	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).

During the year ended 31 December 2016, over 86% (2015: 99%) of the Group's turnover was derived from 2 major customers (2015: 2) in lithium battery production segment and turnover generated from these customers are HK$24,882,000 and HK$4,507,000 respectively (2015: HK$89,996,000 and HK$23,852,000 respectively).

7. OTHER OPERATING INCOME

	2016 HK$'000	2015 HK$'000
Bank Interest income	3,553	714
Government grant	11,126	12,373
Rental income	600	600
Net gain on trading of motor vehicles	—	159
Sundry income	2,323	1,182
Interest income from loan receivable	10,904	—
Imputed interest income of amounts due from non-controlling interests of a subsidiary *(note 19(a))*	5,453	—
	33,959	15,028

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For the year ended 31 December 2016

8. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest charges on bank and other borrowings wholly repayable within five years	1,091	1,292
Imputed interest on convertible bonds *(note 30)*	71,047	62,950
Interests on loans from ultimate holding company	—	2,314
	72,138	66,556

9. PROFIT/(LOSS) BEFORE INCOME TAX

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

	2016 HK$'000	2015 HK$'000
Auditor's remuneration	2,537	2,249
Cost of inventories recognised as cost of sales	33,160	91,723
Depreciation	13,915	14,581
Amortisation of prepaid land lease payments	1,523	1,117
Amortisation of other intangible assets	25,737	41,447
Loss on disposals of property, plant and equipment	—	119
Minimum lease payments paid under operating leases in respect of rental premises	4,146	4,321
Net foreign exchange loss/(gain)	81	(171)
Research and development costs	17,800	2,183
Other operating expenses:		
— Write-down of inventories	2,319	—
— Loss on financial assets at fair value through profit or loss	565	—
	2,884	—

10. INCOME TAX CREDIT

	2016 HK$'000	2015 HK$'000
Overseas tax		
Current year	—	4,796
Over provision in respect of prior years	(2,128)	—
Deferred tax *(note 31)*	(120,007)	(1,158,807)
Income tax credit	(122,135)	(1,154,011)

Notes to the Financial Statements

For the year ended 31 December 2016

10. INCOME TAX CREDIT — CONTINUED

During the years ended 31 December 2016 and 31 December 2015, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profits arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

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

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

Reconciliation between income tax credit and accounting profit/(loss) at applicable tax rates:

	2016 HK$'000	2015 HK$'000
Profit/(Loss) before income tax	511,072	(3,149,018)
Tax on profit/(loss) before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	20,520	(1,121,202)
Tax effect of non-deductible expenses	28,836	57,839
Tax effect of non-taxable revenue	(179,031)	(97,086)
Tax effect of tax losses not recognised	9,581	6,503
Tax effect on temporary difference not recognised	87	(65)
Over provision in respect of prior years	(2,128)	—
Income tax credit	(122,135)	(1,154,011)

11. EARNINGS/(LOSSES) PER SHARE

The calculation of basic earnings per share is based on the earnings attributable to owners of the Company of HK$700,010,000 (2015: loss attributable to owners of HK$1,984,984,000) and weighted average of 7,744,722,000 (2015: 7,475,894,000) ordinary shares in issue (after adjusting the effect of treasury shares held by the Company) during the year.

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11. EARNINGS/(LOSSES) PER SHARE — CONTINUED

For the year ended 31 December 2016, the calculation of diluted earnings per share attributable to the owners of the Company was based on the following data:

	HK'000
Earnings for the purposes of basic earnings per share	700,010
Effect of dilutive potential ordinary shares:	
Interest on convertible bonds	71,047
Fair value gain on derivative financial assets	(9,892)
Earnings for the purposes of diluted earnings per share	761,165

Number of shares	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	7,744,722
Effect of dilutive potential ordinary shares:	
— convertible loan notes	2,000,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share	9,744,722

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

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 HK$'000	2015 HK$'000
Wages and salaries	**29,253**	25,376
Contribution to defined contribution plans	**5,942**	5,629
Share-based payment expenses	**—**	10,812
	35,195	41,817

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

	2016 HK$'000	2015 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**8,591**	7,698
Contribution to defined contribution plans	**72**	447
Share-based payment expenses	**—**	10,243
	8,663	**18,388**

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13. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS

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

(a) Directors' emoluments

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Contribution to defined contribution plans *HK$'000*	Total *HK$'000*
Year ended 31 December 2016				
Executive directors				
HE Xuechu	1,638	—	18	1,656
LIU Wei, William	1,513	—	18	1,531
SHI Lixin	—	1,168	—	1,168
Non-executive directors				
YAN Weimin	—	—	—	—
ANG Siu Lun, Lawrence	—	—	—	—
Independent non-executive directors				
CHAN Chun Wai, Tony	277	—	—	277
MA Gang	277	—	—	277
HA Chun	267			267
	3,972	1,168	36	5,176
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

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

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

13. DIRECTORS AND SENIOR MANAGEMENT'S EMOLUMENTS — CONTINUED

(b) Five highest paid individuals

The five individuals whose total emoluments including share-based payment expenses were the highest in the Group for the year included three (2015: two) directors whose emoluments are reflected in the analysis presented above. Emoluments payable to the remaining two (2015: three) individual during the year are as follows:

	2016	2015
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**2,490**	3,173
Contribution to defined contribution plans	**18**	408
Share-based payment expenses	**—**	10,243
	2,508	13,824

The emoluments fell within the following bands:

	Number of individual	
	2016	2015
Emolument bands		
HK$6,500,001 — HK$7,000,000	**—**	1
HK$5,500,001 — HK$6,000,000	**—**	1
HK$1,500,001 — HK$2,000,000	**1**	1
Nil — HK$1,000,000	**1**	—
	2	3

During the year, no emoluments were paid by the Group to the directors or the two (2015: three) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

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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 2015									
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	—	—	—	—	(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
Year ended 31 December 2016									
Opening net book amount	105	23,319	699	81,394	2,009	1,425	600	—	109,551
Additions	—	32	28	1,340	408	255	—	53,680	55,743
Disposals	—	—	—	(66)	(93)	—	—	—	(159)
Depreciation	—	(1,851)	(509)	(10,416)	(662)	(319)	(158)	—	(13,915)
Impairment	—	(8,575)	(8)	(28,443)	(376)	(117)	(124)	—	(37,643)
Exchange realignment	19	(870)	82	(5,931)	121	(10)	18	(2,263)	(8,834)
Closing net book amount	124	12,055	292	37,878	1,407	1,234	336	51,417	104,743
At 31 December 2016									
Cost	124	42,796	2,722	87,933	3,623	1,744	971	51,417	191,330
Accumulated depreciation and impairment	—	(30,741)	(2,430)	(50,055)	(2,216)	(510)	(635)	—	(86,587)
Net book amount	124	12,055	292	37,878	1,407	1,234	336	51,417	104,743

Note:

The Group's land held as at 31 December 2016 and 2015, was a freehold land situated in the Brazil whilst the Group's leasehold buildings as at 31 December 2016 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$37,643,000 (2015: 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.

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15. EXPLORATION AND EVALUATION ASSETS

	2016 HK$'000	2015 HK$'000
At 1 January		
Cost	9,044,536	13,374,783
Accumulated impairment	(6,328,536)	(4,474,063)
Net book amount	2,716,000	8,900,720
For the year ended 31 December		
Opening net book amount	2,716,000	8,900,720
Additions	5,502	10,239
Exchange realignments	497,288	(2,889,121)
Impairment losses	(270,826)	(3,305,838)
Net book amount	2,947,964	2,716,000
At 31 December		
Cost	10,705,546	9,044,536
Accumulated impairment	(7,757,582)	(6,328,536)
Net book amount	2,947,964	2,716,000

As at 31 December 2016 and 2015, 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$270,826,000 (2015: HK$3,305,838,000) had been identified and recognised in the consolidated statement of profit or loss and other comprehensive income. The impairment is mainly due to the increase in operating costs and capital expenditures, which are negatively affected by significant appreciation of Brazilian currency during the year.

The recoverable amount of exploration and evaluation assets were valued by an independent valuer, Roma Appraisals Limited and based on the fair value less cost of disposal. The valuation was based on the income-based approach and the excess earnings method was adopted. This method estimates the cash flow derived from the exploration and evaluation assets after deducting portions of the cash flow that attributed to tangible assets and other intangible assets employed. The fair value of exploration and evaluation assets is level 3 fair value measurement. There were no changes to the valuation techniques during the year.

Notes to the Financial Statements

For the year ended 31 December 2016

15. EXPLORATION AND EVALUATION ASSETS — CONTINUED

Assumptions and parameters of the valuation as at 31 December 2016 are as follows:

Approval of all major required licenses	The first half of 2020 (2015: The first half of 2019)
Commencement of production	2023 (2015: 2022)
Annual production capacity	27.5 million tonnes (2015: 27.5 million tonnes) of iron concentrate
Resource estimates	Measured resources of 1,135 million tonnes (2015: 1,135 million tonnes) (20.57%) Indicated resources of 1,479 million tonnes (2015: 1,479 million tonnes) (19.64%)
Dilution rate	0% (2015: 0%)
Mining loss rate	6.66% (2015: 6.66%)
Processing recovery	87% (2015: 87%)
Average price of iron concentrate	US$56 per tonnes (2015: US$45 per tonnes)
Operating costs	US$29.4 per tonnes (2015: US$24.8 per tonnes)
Income tax rate	11-15% for the first ten years of operation 34% afterwards (2015: same term)
Capital expenditures	US$3,025 million (2015: US$2,932 million) for the construction of infrastructure
Discount rate	16.80% (2015: 18.13%)

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.

16. PREPAID LAND LEASE PAYMENTS

	2016 ***HK$'000***	2015 *HK$'000*
At 1 January		
Cost	**52,080**	54,810
Accumulated amortisation	**(1,445)**	(328)
Net book amount	**50,635**	54,482
For the year ended 31 December		
Opening net book amount	**50,635**	54,482
Addition	**40,450**	—
Amortisation	**(1,523)**	(1,117)
Exchange realignment	**(4,634)**	(2,730)
Net book amount	**84,928**	50,635
At 31 December		
Cost	**87,685**	52,080
Accumulated amortisation	**(2,757)**	(1,445)
Net book amount	**84,928**	50,635

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 2016, the Group's prepaid land lease payments with carrying amount of HK$46,635,000 (2015: HK$50,635,000) were pledged to secure the bank borrowings granted to the Group (note 27).

17. OTHER INTANGIBLE ASSETS

	Patents *HK$'000*	Customers relationship *HK$'000*	Total *HK$'000*
At 1 January 2015			
Cost	348,085	11,083	359,168
Accumulated amortisation and impairment	(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
Year ended 31 December 2016			
Opening net book amount	**186,677**	**4,538**	**191,215**
Amortisation	**(24,087)**	**(1,650)**	**(25,737)**
Exchange realignment	**(13,645)**	**(333)**	**(13,978)**
Impairment losses	**(84,514)**	**(1,450)**	**(85,964)**
Closing net book amount	**64,431**	**1,105**	**65,536**
At 31 December 2016			
Cost	**325,647**	**10,395**	**336,042**
Accumulated amortisation and impairment	**(261,216)**	**(9,290)**	**(270,506)**
Net book amount	**64,431**	**1,105**	**65,536**

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$85,964,000 (2015: 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.

Notes to the Financial Statements

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18. GOODWILL

As at 31 December 2016 and 2015, the balance represented goodwill which arose from the acquisition of Triumphant Glory Investment Limited ("Triumphant Glory") 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 2016. The net carrying amount of goodwill can be analysed as follows:

	2016 **HK$'000**	2015 HK$'000
At 1 January		
Gross carrying amount	**176,370**	186,166
Accumulated impairment	**(176,370)**	—
Net carrying amount	—	186,166
Carrying amount at 1 January	—	186,166
Exchange realignment	—	(9,796)
Impairment losses	—	(176,370)
Net carrying amount at 31 December	—	—
At 31 December		
Gross carrying amount	**165,569**	176,370
Accumulated impairment	**(165,569)**	(176,370)
Net carrying amount	—	—

As at 31 December 2016 and 2015, goodwill allocated to the CGU of lithium battery production segment was fully impaired.

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

As at 31 December 2016, the relevant assets of CGU of lithium battery production segment, operated by Shandong Forever New Energy, included property, plant and equipment of HK$88,452,000 (2015: HK$119,823,000), prepaid land lease payments of HK$46,635,000 (2015: HK$50,635,000), other intangible assets of HK$151,500,000 (2015: HK$284,252,000) and goodwill of Nil (2015: HK$176,370,000)(before current year impairment).

The recoverable amount for this CGU is determined based on fair value less cost of disposal calculation using discounted cash flow technique, covering detailed five-year budget plans, followed by an extrapolation of expected cash flows without growth rate (2015: 3%). The post-tax discount rate used for fair value less cost of disposal calculation is 17.36% (2015: 16.44%) per annum, which reflects specific risks relating to the relevant CGU.

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

18. GOODWILL — CONTINUED

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

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 was HK$145,125,000 (2015: HK$309,837,000) as at 31 December 2016, which was below the total carrying amounts of the relevant assets of the CGU. Accordingly, impairment losses of HK$37,643,000 (2015: HK$20,688,000) and HK$85,964,000 (2015: 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 adverse impact of the delay in subsidies distribution to the Group's major customers engaged in the manufacturing of electric motor vehicles, which resulted in the significant decrease in the sales of lithium battery to these customers by the Group during the year.

19. OTHER FINANCIAL ASSETS (NON-CURRENT)

	2016 ***HK$'000***	2015 *HK$'000*
Loan and receivables		
— Amounts due from non-controlling interests of a subsidiary *(note (a))*	**272,545**	—
— Loan receivable *(note (b))*	**540,000**	—
	812,545	—

Note:

(a) According to the capital contribution agreement for Shandong Forever New Energy on 9 May 2016 (note 35), the non-controlling interests of Shandong Forever agreed to contribute capital of US$44.77 million to Shandong Forever New Energy and US$4.215 million was paid immediately while the remaining balances will be paid on demand by the board of directors of Shandong Forever New Energy but not later than 31 October 2022. The transaction was completed on 26 July 2016.

As at 31 December 2016, in the opinion of directors, the unpaid capital contribution is not expected to be realised within twelve months after the reporting period. Accordingly, such balance is classified as non-current assets. The non-controlling interests undertake that, pending full payment of their respective capital contribution, they shall use all dividend, distribution and payment received from Shandong Forever New Energy to satisfy their capital contribution obligation.

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19. OTHER FINANCIAL ASSETS (NON-CURRENT) — CONTINUED

Note: — continued

(a) — continued

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

	2016 HK$'000	2015 HK$'000
Upon the date of capital contribution agreement	**299,800**	—
Repayment	**(32,708)**	—
Imputed interest income	**5,453**	—
	272,545	—

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

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

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

In the opinion of directors, such balance is not expected to be realised within twelve months after the reporting period. Accordingly, it is classified as non-current assets.

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

20. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**4,222**	7,105
Work-in-progress	**3,530**	30,239
Finished goods	**31,220**	613
	38,972	37,957
Less: Write-down of inventories	**(2,319)**	—
	36,653	37,957

The Directors have assessed the net realisable values and condition of the Group's inventories as at 31 December 2016 and considered a write-down of inventories of HK$2,319,000 (2015: Nil) be made in the consolidated statement of profit or loss and other comprehensive income.

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21. TRADE AND BILL RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	101,059	113,789
Bill receivables	78	4,667
Trade and bill receivables	101,137	118,456

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

The Group allows a credit period from 0 day to 180 days (2015: 0 days to 180 days) to its trade customers. The following is ageing analysis of net trade and bill receivables at the reporting date:

	2016 HK$'000	2015 HK$'000
0–30 days	20,125	60,289
31–90 days	13,077	13,864
91 to 180 days	—	7,803
Over 180 days	67,935	36,500
	101,137	118,456

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

	2016 HK$'000	2015 HK$'000
At 1 January	—	12,570
Disposals of subsidiaries	—	(11,908)
Exchange realignment	—	(662)
At 31 December	—	—

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

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

	2016 HK$'000	2015 HK$'000
Neither past due nor impaired	31,212	81,956
31–60 days	1,990	—
Over 180 days but not more than 1 year	67,857	36,500
Over 1 year past due	78	—
	101,137	118,456

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21. TRADE AND BILL RECEIVABLES — CONTINUED

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.

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

Deposits for acquisition of land use right (under non-current assets)

As at 31 December 2015, the Group paid deposits of HK$21,487,000 to acquire the land use rights in the PRC. During the year, such land use rights were acquired by the Group.

Prepayments, deposits and other receivables (under current assets)

	2016	2015
	HK$'000	*HK$'000*
Deposits	**650**	644
Prepayments	**717**	157
VAT receivables	**12,194**	4,526
Other receivables	**5,326**	5,052
Advances to suppliers	**2,783**	1,112
	21,670	11,491

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Listed equity investments, at market value, in Hong Kong — held for trading	**1,936**	—

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

24. RESTRICTED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

All restricted bank deposits as at 31 December 2016 represented guaranteed deposits placed in the banks in the PRC as securities for the Group's bill payables and bank 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 2016, the Group had cash and bank balances denominated in Renminbi ("RMB") amounting to approximately HK$116,986,000 (2015: HK$70,877,000), 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.

25. TRADE AND BILL PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	32,552	43,211
Bill payables	3,358	12,892
	35,910	56,103

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

	2016 HK$'000	2015 HK$'000
0–30 days	5,211	14,122
31–60 days	5,122	2,834
61–90 days	5,949	3,609
91–180 days	5,151	21,770
Over 180 days	14,477	13,768
	35,910	56,103

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

	2016 HK$'000	2015 HK$'000
Payables for construction in progress	31,276	—
Other payables	3,042	2,282
Accrued expenses	5,991	5,448
Receipts in advance	418	611
Deposits received	157	155
	40,884	8,496

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27. BORROWINGS

	2016 HK$'000	2015 HK$'000
Current:		
Bank borrowings		
— secured, due for repayment within one year *(Note (a))*	11,206	35,811
Non-current:		
Government loan *(Note (b))*	112,061	—
	123,267	35,811

Note:

(a) The bank borrowings were secured by the Group's prepaid land lease payments with the carrying amount of HK$46,635,000 (2015: HK$50,635,000). The effective interest rate of the bank borrowings ranged from 3.84% to 5.60% (2015: 3.84% to 5.60%) per annum for the year.

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

28. DERIVATIVE FINANCIAL LIABILITIES

The balance represented embedded derivatives in convertible bonds (note 30). 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.

29. DEFERRED INCOME

	2016 HK$'000	2015 HK$'000
At 1 January	114,378	133,279
Exchange realignment	(8,039)	(7,849)
Government grant income recognised for the year	(10,631)	(11,052)
At 31 December	95,708	114,378

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 the PRC. These production facilities with net book amount of HK$41,470,000 (2015: HK$90,343,000) 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.

30. 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, matured on 3 June 2018, 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.

As at 31 December 2016 and 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.

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 2016 and 31 December 2015 are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
At 1 January	**552,386**	489,436
Imputed interest expenses (note 8)	**71,047**	62,950
At 31 December	**623,433**	552,386

For the years ended 31 December 2016 and 2015, 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 2016 and 31 December 2015 are as follows:

	2016 ***HK$'000***	2015 *HK$'000*
At 1 January	**68,189**	83,699
Fair value gain recognised in profit or loss	**(9,892)**	(15,510)
At 31 December	**58,297**	68,189

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31. DEFERRED TAX

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

	Fair value adjustments arising from				Tax losses	Total
	Exploration and evaluation assets	Prepaid land lease payments	Other intangible assets	Property, plant and equipment		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2016	832,202	449	48,827	—	—	881,478
Credited to profit or loss	(92,081)	—	(27,926)	—	—	(120,007)
Exchange realignment	152,304	—	(3,496)	—	—	148,808
At 31 December 2016	892,425	449	17,405	—	—	910,279

As at 31 December 2016, the Group has unused tax losses of HK$120,975,000 (2015: HK$82,033,000) 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 2016. All tax losses of the Group have no expiry dates under the current tax legislation except for the tax losses amounting to HK$9,474,000 (2015: Nil) incurred by two (2015: Nil) subsidiaries in the PRC which will expire after 5 years from the year in which the tax losses were incurred.

32. SHARE CAPITAL

	Number of shares	Total
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.001 each at 31 December 2015 and 2016	1,000,000,000	1,000,000

	Number of shares	
	'000	*HK$'000*
Issued and fully paid:		
At 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 33)*	17,250	17
At 31 December 2015, 1 January 2016 and 31 December 2016	**7,861,822**	**7,862**

32. SHARE CAPITAL — CONTINUED

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 19 June 2015, an aggregate of 446,000,000 new shares were 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 were 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 2016 have the same rights.

33. 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 2016, an aggregate of 118,750,000 (2015: 118,750,000) shares of the Company were issuable pursuant to share options granted under the Share Option Scheme, representing 1.5% (2015: 1.5%) of the shares of the Company in issue at that date.

Notes to the Financial Statements

For the year ended 31 December 2016

33. SHARE OPTIONS — CONTINUED

As at 31 December 2016, total number of shares available for issue pursuant to the grant of further options under the Share Option Scheme was 591,567,971 (2015: 591,567,971), representing 7.5% (2015: 7.5%) of the issued share capital of the Company as at 31 December 2016.

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

The following tables set out the movement in share options:

Name or category of participant	Share option type	Outstanding at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2015 and 2016
Share Option Schemes						
Share option for directors and employees						
Directors						
Executive directors						
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
Non-executive directors						
Mr. Yan Wei Min	2010	30,000,000	—	—	—	30,000,000
Mr. Ang Siu Lun, Lawrence	2010	15,000,000	—	—	—	15,000,000
Independent non-executive directors						
Mr. Chan Chun Wai, Tony	2010	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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33. SHARE OPTIONS — CONTINUED

Notes:

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

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

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

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

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

(v) No share options were exercised for the year ended 31 December 2016 (2015: 17,250,000 of share options were exercised, resulted in an equal number of issued ordinary shares).

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

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

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

(vii) For the year ended 31 December 2016, no share-based payment expenses (2015: HK$10,812,000) have been included in the consolidated statement of profit or loss and other comprehensive income, with a corresponding credit in share-based payment reserve. The amount recorded in share-based payment reserve represented the fair value of share options expense vested during the year. No liabilities were recognised due to share-based payment transactions.

Notes to the Financial Statements

For the year ended 31 December 2016

33. SHARE OPTIONS — CONTINUED

Notes: — continued

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

	2016		2015	
	Number of share options	Weighted average exercise price *HK$*	Number of share options	Weighted average exercise price *HK$*
Outstanding at 1 January	118,750,000	2.53	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	118,750,000	2.53

For the year ended 31 December 2016, no share options have been exercised (2015: exercised at HK$0.95, HK$2.60 or HK$2.61) The weighted average is remaining contractual life of 2.1 years (2015: 3.2 years). There are 118,750,000 (2015: 118,750,000) share options exercisable as at 31 December 2016.

(ix) For the year ended 31 December 2016, no share options have been lapsed. For the year ended 31 December 2015, share options lapsed were due to the lapse of 3,000,000 share options issued to an independent non-executive director who resigned during the year. As a result of the lapse of share options, an amount of HK$2,885,000 were debited from the share-based payment reserve and credited to retained earnings for the year ended 31 December 2015.

34. HOLDING COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		861	1,288
Investments in subsidiaries	35	90,542	309,992
Loan receivable	19(b)	540,000	—
		631,403	311,280
Current assets			
Financial assets at fair value through profit or loss	23	1,936	—
Deposits and other receivables		3,751	810
Amounts due from subsidiaries	35	643,365	597,745
Cash and cash equivalents		549,422	1,153,257
		1,198,474	1,751,812
Current liabilities			
Other payables and accrued expenses		3,449	3,800
Derivative financial liabilities	28	58,297	68,189
Convertible bonds	30	623,433	552,386
		685,179	624,375
Net current assets		513,295	1,127,437
Total assets less current liabilities		1,144,698	1,438,717
Net assets		1,144,698	1,438,717
EQUITY			
Share capital	32	7,862	7,862
Reserves	36	1,136,836	1,430,855
Total equity		1,144,698	1,438,717

On behalf of directors

He Xuechu
Chairman

Liu Wei, William
Director

Notes to the Financial Statements

For the year ended 31 December 2016

35. INTERESTS IN SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 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 Directly	Percentage of equity interest attributable to the Company Indirectly	Principal activities and place of operation
New Trinity Holdings Limited	BVI, limited liability company	10,000 ordinary shares of US$1 each	—	100%	Investment holding, Hong Kong
SAM	Brazil, limited liability company	10,000 ordinary shares in Reais ("R$") 5,266,604	—	100% (2015: 99.99%)	Research and exploration of iron ores, Brazil
Shandong Forever New Energy *(note)*	PRC, limited liability company	Registered capital of US$20,408,100 (2015: US$10,000,000)	—	44.43%* (2015: 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

Note: During the year, Triumphant Glory, a 90.68% owned subsidiary of the Company, entered into the capital contribution agreement with Zhejiang Geely Automobile Co., Ltd. ("Zhejiang Geely Auto") and Jiaxing Jiale Investment Partnership Corporation ("Jiaxing Jiale"), whereby Zhejiang Geely Auto and Jiaxing Jiale have conditionally agreed to contribute capital into Shandong Forever New Energy, which was a direct wholly-owned subsidiary of Triumphant Glory (the "Capital Contribution Agreement"). According to the terms of the Capital Contribution Agreement, Zhejiang Geely Auto and Jiaxing Jiale shall contribute approximately US$42.15 million and US$2.62 million into Shandong Forever New Energy respectively. All the conditions stated in the Capital Contribution Agreement were completed on 26 July 2016 and since then, Triumphant Glory, Zhejiang Geely Auto and Jiaxing Jiale hold 49.0%, 48.0% and 3.0% equity interest in Shandong Forever New Energy respectively. These transactions resulted in gain on dilution of interests in a subsidiary of HK$44,785,000, which is included in retained earnings in the equity and attributed to the owners of the Company.

* Despite the Group owning less than 50% of the equity interests, Shandong Forever New Energy and Zhejiang Forever New Energy are consolidated as subsidiaries under HKFRS10. This is because the Group has the practical ability to unilaterally direct the operating and financial activities and also the decision making in the board of Shandong Forever New Energy and Zhejiang Forever New Energy.

Notes to the Financial Statements

For the year ended 31 December 2016

35. INTERESTS IN SUBSIDIARIES — CONTINUED

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

As at 31 December 2016, non-controlling interests ("NCI") of the Group is represented by (1) 9.32% equity interests in Triumphant Glory, which owns 49% equity interest of Shandong Forever New Energy (collectively known as TG Group) and (2) 51% equity interests in Zhejiang Forever New Energy held by non-controlling shareholders (2015: (1) 9.32% equity interests in Triumphant Glory, which wholly owns Shandong Forever New Energy and (2) 51% equity interests in Zhejiang Forever New Energy held by non-controlling shareholders).

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	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
For the year ended 31 December				
Revenue	**34,045**	113,989	**—**	—
Loss for the year	**(132,570)**	(109,233)	**(4,731)**	—
Total comprehensive income	**(148,112)**	(129,110)	**(8,539)**	—
Loss allocated to NCI	**(64,390)**	(10,023)	**(2,413)**	—
Cash flows used in operating activities	**(23,559)**	(27,994)	**(6,215)**	—
Cash flows (used in)/generated from investing activities	**(1,327)**	5,005	**(39,910)**	(21,487)
Cash flows generated from financing activities	**7,726**	35,811	**112,061**	62,076
Net cash (outflows)/inflows	**(17,160)**	12,822	**65,936**	40,589
As at 31 December				
Current assets	**162,853**	200,998	**114,209**	40,589
Non-current assets	**435,525**	348,445	**90,164**	21,487
Current liabilities	**(50,246)**	(98,424)	**(38,775)**	—
Non-current liabilities	**(262,430)**	(317,005)	**(112,061)**	—
Net assets	**285,702**	134,014	**53,537**	62,076
Accumulated non-controlling interests	**195,160**	13,001	**27,303**	31,204

36. RESERVES

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

Treasury shares reserve represented the fair value at the date of disposal of Hill Talent Limited and its subsidiaries (the "Hill Talent Group") in 2013 of 226,500,000 ordinary shares of the Company held by the purchaser which were receivable as part of the consideration of the disposals of the Hill Talent Group. As at 31 December 2016, the Company held 117,100,000 (2015: 117,100,000) ordinary shares as treasury shares.

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36. RESERVES — CONTINUED

Exchange fluctuation reserve represented gains/losses arising on retranslating the net assets of overseas operations into HK$. The significant exchange gain on translation of approximately HK$326,139,000 (2015: loss of HK$1,982,118,000) was mainly due to (1) the appreciation of Brazilian currency, and (2) the translation of the significant net assets of SAM during the year.

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 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 and 1 January 2016	2,627,306	(142,864)	—	136,741	258,836	(1,449,164)	1,430,855
Loss for the year and total comprehensive income for the year	—	—	—	—	—	(294,019)	(294,019)
At 31 December 2016	**2,627,306**	**(142,864)**	**—**	**136,741**	**258,836**	**(1,743,183)**	**1,136,836**

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For the year ended 31 December 2016

37. OPERATING LEASE COMMITMENTS

Operating leases — lessee

At 31 December 2016, total future minimum lease payments under non-cancellable operating leases are payable by the Group as follows:

	2016 HK$'000	2015 HK$'000
Within one year	2,934	3,536
In the second to fifth year inclusive	2,846	6,114
	5,780	9,650

The Group leases a number of rented premises under operating leases. The leases run for an initial period of one to three years (2015: one to three years). None of the leases include contingent rentals.

Operating leases — lessor

At 31 December 2016, total future minimum lease receivables under non-cancellable operating leases are as follows:

	2016 HK$'000	2015 HK$'000
Within one year	50	600

38. CAPITAL COMMITMENTS

	2016 HK$'000	2015 HK$'000
Contracted but not provided for		
Property, plant and equipment	90,530	14,505

In addition, as at 31 December 2016, the estimated capital expenditures for the mineral resources exploration business in Brazil, which is operated by SAM, are stated in note 15.

39. CONTINGENT CONSIDERATION PAYABLES

	2016 HK$'000	2015 HK$'000
At 1 January	1,215,829	1,780,569
Payment during the year	(23,319)	—
Gain on changes in fair value and terms of contingent consideration	(1,039,423)	(564,740)
At 31 December	153,087	1,215,829

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39. CONTINGENT CONSIDERATION PAYABLES — CONTINUED

As at 31 December 2015, 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. The sellers kept 1 share of SAM, which is a preferred share with no voting rights for protective purpose.

In May 2016, the Group entered into a settlement agreement with the sellers of SAM (the "Settlement Agreement"). Pursuant to the Settlement Agreement, the Group paid the sellers a settlement payment of US$3 million (equivalent to HK$23,319,000) (the "Initial Settlement Payment") and the sellers transferred the preferred share to the Group. After the transfer of the preferred share, SAM become a wholly owned subsidiary of the Company.

Under the Settlement Agreement, the Group is no longer liable to pay the third, fourth and fifth instalment payment with the total amount of US$315 million under the SAM share purchase agreement but in addition to the Initial Settlement Payment, the Group is committed to pay a maximum aggregate amount of US$60 million contingent additional payment and conditional mining production payment to the sellers upon occurrence of certain events. Details of the Settlement Agreement are set out in the Company's announcement dated 13 May 2016.

The contingent consideration payables represent the fair value of the obligation for the contingent payable in accordance with the Settlement Agreement (2015: the share purchase agreement for the acquisition of SAM ("SAM Agreement")) and are estimated by independent professional valuers. As at 31 December 2016, the fair value of the contingent consideration payables was estimated by applying probabilistic approach at a discount rate of 12.80% (2015: 13.81%) and the probability of occurrence of certain events as stated in the Settlement Agreement such as occurrence of disposal event or the commencement of mining (2015: the expected repayment schedules of SAM Agreement). The higher the discount rate, the lower the fair value.

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40. DISPOSALS OF SUBSIDIARIES

On 23 December 2015, the Company disposed its equity interests and shareholder's loan in Honbridge International Trading Company Limited ("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)

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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.

	2016 ***HK$'000***	2015 *HK$'000*
Financial assets		
Financial assets at fair value through profit or loss:		
Current assets		
Listed securities held for trading	**1,936**	—
Loans and receivables:		
Non-current assets		
Other financial assets	**812,545**	—
Current assets		
Trade and bill receivables	**101,137**	118,456
Other receivables	**5,326**	6,808
Restricted bank deposits	**3,367**	—
Cash and bank balances	**669,052**	1,228,682
	1,593,363	1,353,946
Financial liabilities		
Financial liabilities at fair value through profit or loss:		
Current liabilities		
Derivative financial liabilities	**58,297**	68,189
Non-current liabilities		
Contingent consideration payables	**153,087**	1,215,829
Financial liabilities at amortised cost:		
Current liabilities		
Trade and bill payables	**35,910**	56,103
Other payables and accrued expenses	**40,309**	7,730
Borrowings	**11,206**	35,811
Convertible bonds	**623,433**	552,386
Non-current liabilities		
Borrowings	**112,061**	—
	1,034,303	1,936,048

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

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

Level 1: fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: fair value measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

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

Financial assets/liabilities measured at fair value through profit or loss

As at 31 December 2016	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Listed securities held for trading *(note 23)*	1,936	—	—	1,936
Liabilities				
Derivative financial liabilities	—	—	58,297	58,297
Contingent consideration payables	—	—	153,087	153,087
	—	—	211,384	211,384

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

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 2016, the historical volatility is 59.36% (2015: 75.25%). 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 39.

Notes to the Financial Statements

For the year ended 31 December 2016

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk and interest risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the Directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets. Long-term financial investments are managed to generate lasting returns with acceptable risk levels.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. Management identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the Directors.

42.1 Foreign currency risk

The Group's exposure to currency exchange rates is minimal as the group companies usually hold most of their financial assets/liabilities in their own functional currencies. Currently the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

42.2 Interest rate risk

The Group's exposure to cash flow interest rate risk is minimal as the Group has no financial assets or liabilities of material amounts with floating interest rates except for deposits held in banks and bank borrowings as at 31 December 2016. The exposure to fluctuations in interest rates for the Group's bank deposits is considered immaterial. The terms of bank borrowings are set out in note 27. The Group's fair value interest-rate risk mainly arises from the convertible bonds as disclose in note 30.

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Directors are of the opinion that sensitivity of the Group's profit/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 95% (2015: 99%) of the Group's turnover for the year was derived from 3 major customers (2015: 2) and as at reporting date, 75% (2015: 99%) of the Group's trade and bill receivables was due from these customers. The Group continuously and actively evaluates the credit risk of these debtors.

The Group'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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — CONTINUED

42.3 Credit risk — continued

Approximately 67% (2015: 94%) of the bank balances as at 31 December 2016 were deposited at a major bank, the credit risk for liquid funds is considered negligible, since the counterparty is a reputable bank with high quality external credit ratings.

42.4 Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2016 and 2015, 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 2016					
Non-derivatives:					
Trade and bill payables	35,910	—	—	35,910	35,910
Other payables and accrued expenses	40,309	—	—	40,309	40,309
Borrowings	11,459	112,061	—	123,520	123,267
Contingent consideration payables	—	122,648	117,622	240,270	153,087
Convertible bonds	740,000	—	—	740,000	623,433
	827,678	234,709	117,622	1,180,009	976,006

	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 and accrued expenses	7,730	—	—	7,730	7,730
Borrowing	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
	840,346	892,400	1,551,969	3,284,715	1,867,859

Notes to the Financial Statements

For the year ended 31 December 2016

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:

	2016 ***HK$'000***	2015 *HK$'000*
Capital		
Total equity	**2,810,622**	1,551,476
Convertible bonds — equity components	**(258,836)**	(258,836)
	2,551,786	1,292,640
Overall financing		
Borrowings	**123,267**	35,811
Convertible bonds — equity and liability components	**882,269**	811,222
	1,005,536	847,033
Capital-to-overall financing ratio	**2.54 times**	1.53 times

44. RELATED AND CONNECTED PARTIES DISCLOSURES

(i) Related party transactions

Save as disclosed in note 12 for compensation of key management personnel, there are no other significant related party transactions during the year ended 31 December 2016 and 31 December 2015.

Notes to the Financial Statements

For the year ended 31 December 2016

44. RELATED AND CONNECTED PARTIES DISCLOSURES — CONTINUED

(ii) Connected party transactions

Name of connected party	Nature of transactions	2016 HK$'000	2015 HK$'000
Ninghai Zhidou Electric Vehicles Company Limited *(note)*	Sales of lithium battery	**24,881**	N/A

Note:

Shandong Forever New Energy and Ninghai Zhidou Electric Vehicles Company Limited ("Ninghai Zhidou") entered into a sale of lithium-ion battery agreement (the "Sale Agreement") on 2 September 2016 regarding the supply of lithium-ion battery by Shandong Forever New Energy to Ninghai Zhidou commencing from 2 September 2016 to 30 June 2018.

Zhejiang Geely Auto is a substantial shareholder of Shandong Forever New Energy as it holds 48% equity interest in Shandong Forever New Energy, and therefore it is a connected person of the Company at the subsidiary level. Zhejiang Geely Auto is held as at 90% by Zhejiang Geely, and Zhejiang Geely indirectly holds 45% interest in Ninghai Zhidou. As such, both Zhejiang Geely and Ninghai Zhidou are associates of Zhejiang Geely Auto in accordance with Rule 20.11 of the GEM Listing Rules, and each of them is therefore a connected person of the Company at the subsidiary level.

The Sale Agreement is for a term commencing from 2 September 2016 to 30 June 2018.

The annual cap amounts for the three financial years ended 31 December 2018 for the Sale Agreement are RMB35,000,000, RMB40,000,000 and RMB25,000,000 respectively as set out in the announcement of the Company dated 2 September 2016.

During the year ended 31 December 2016, the total connected transaction amount was HK$24,881,000 (equivalent to approximately RMB21,268,000), which did not exceed the annual cap of RMB35,000,000 for the year ended 31 December 2016.

45. LITIGATION

On 22 June 2016, the Company received a writ of summons dated 18 June 2016 filed by Zhi Charles as the plaintiff against 16 defendants which include the Company with the Court of First Instance of the High Court of Hong Kong under action number HCA 1618 of 2016. Details of the writ are set out in the Company's announcement dated 30 June 2016.

On 7 October 2016, the plaintiff wholly withdrew his action against the Company and agreed that after the withdrawal of the said claims against the Company, there shall be no claims whatsoever arising out of or in connection with any matter or issue raised in this action against the Company, all or any of the Company's directors and/or servants or agents whatsoever.

46. APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 24 March 2017.

Financial Summary

FINANCIAL RESULTS

	Year ended 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
CONTINUING OPERATIONS					
Turnover	415,306	10,365	73,481	115,394	**34,045**
Direct operating expenses	(412,442)	(2,778)	(51,996)	(91,723)	**(33,160)**
Other operating revenue	8,190	6,971	4,086	15,028	**33,959**
Selling and distribution costs	(1,180)	(432)	(959)	(2,323)	**(1,457)**
Administrative expenses	(27,284)	(60,143)	(78,912)	(98,940)	**(102,175)**
Other operating expenses, net	(55,069)	(54,924)	(3,008)	—	**(2,884)**
Share-based payment expenses	(23,980)	—	—	(10,812)	**—**
Impairment of exploration and evaluation assets	(171,398)	—	(4,474,063)	(3,305,838)	**(270,826)**
Impairment of other intangible assets	—	—	—	(93,037)	**(85,964)**
Impairment of property, plant and equipment	—	—	—	(20,688)	**(37,643)**
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	**9,892**
Gain on changes in fair value and terms of contingent consideration payables	—	—	(190,295)	564,740	**1,039,423**
Impairment of goodwill	—	—	—	(176,370)	**—**
Finance costs	(61,200)	(69,539)	(67,327)	(66,556)	**(72,138)**
(Loss)/Profit before income tax	(329,057)	9,179,849	(4,762,020)	(3,149,018)	**511,072**
Income tax credit	58,767	—	1,520,225	1,154,011	**122,135**
(Loss)/Profit for the year	(270,290)	9,179,849	(3,241,795)	(1,995,007)	**633,207**
Attributable to:					
Owners of the Company	(221,699)	9,182,596	(3,241,459)	(1,984,984)	**700,010**
Non-controlling interests	(48,591)	(2,747)	(336)	(10,023)	**(66,803)**
(Loss)/Profit for the year	(270,290)	9,179,849	(3,241,795)	(1,995,007)	**633,207**

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2013	2014	2015	**2016**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	2,047,332	15,513,979	10,146,738	4,485,474	**4,851,487**
Total liabilities	(1,463,405)	(7,711,818)	(6,074,233)	(2,933,998)	**(2,040,865)**
Non-controlling interests	(279,188)	9,305	(24,742)	(44,205)	**(222,463)**
Equity attributable to owners of the Company	304,739	7,811,466	4,047,763	1,507,271	**2,588,159**