



HONBRIDGE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8137)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2018

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

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UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the “Board”) of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2018, together with the comparative unaudited figures for the corresponding period in 2017, as follows:

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

	Notes	Three months ended	
		2018	2017
		HK\$'000	HK\$'000
Turnover	2	4,035	909
Cost of sales		(4,391)	(804)
Gross (loss)/profit		(356)	105
Other operating income	3	10,520	11,170
Selling and distribution costs		(724)	(303)
Administrative expenses		(34,174)	(18,014)
Operating losses		(24,734)	(7,042)
Finance costs	4	(1,889)	(19,269)
Loss before tax		(26,623)	(26,311)
Income tax credit	5	–	382
Loss for the period		(26,623)	(25,929)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of financial statements of foreign operations		29,412	145,432
Other comprehensive income, net of tax		29,412	145,432
Total comprehensive income for the period		2,789	119,503
Loss for the period attributable to:			
Owners of the Company		(14,487)	(25,070)
Non-controlling interests		(12,136)	(859)
		(26,623)	(25,929)
Total comprehensive income attributable to:			
Owners of the Company		10,841	114,199
Non-controlling interests		(8,052)	5,304
		2,789	119,503
Loss per share attributable to the owners of the Company during the period	7		
— Basic		HK(0.15) cent	HK(0.32) cent
— Diluted		N/A	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months ended 31 March 2018 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

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

These financial statements should be read, where relevant, in conjunction with the 2017 annual report.

The accounting policies adopted in the 2017 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2018. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

2. TURNOVER

Turnover represents total invoiced value of goods supplied and income from provision of services.

	For the three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Sale of lithium batteries	4,035	909

3. OTHER OPERATING INCOME

	For the three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Bank interest income	1,087	846
Loan interest income	4,050	4,050
Government grant	883	2,752
Rental income	186	150
Sundry income	496	33
Gain on financial assets at fair value through profit or loss	546	–
Imputed interest income of amounts due from non-controlling interests	3,272	3,339
	10,520	11,170

4. FINANCE COSTS

	For the three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Interest charges on bank and other borrowings wholly repayable within five years	1,889	122
Imputed interest on convertible bonds	–	19,147
	1,889	19,269

5. INCOME TAX CREDIT

	For the three months ended 31 March	
	2018	2017
	HK\$'000	HK\$'000
Overseas tax		
Current period	–	–
Deferred tax	–	382
Income tax credit	–	382

During the period ended 31 March 2017 and 2018, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

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 2016. It is subject to income tax rate of 15%.

During the period, corporate income tax rates in Brazil of 34% (2017: 34%) is applicable to Sul Americana de Metais S.A. ("SAM"), being the Group's subsidiary established in Brazil.

6. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the three months ended 31 March 2018 (three months ended 31 March 2017: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2018 is based on the loss attributable to the owners of the Company of approximately HK\$14,487,000 (loss for the three months ended 31 March 2017: HK\$25,070,000) and on 9,737,433,606 (31 March 2017: 7,744,721,606) weighted average number of shares (after adjusting the effect of treasury shares held by the Company).

For the three months ended 31 March 2017 and 2018, diluted losses per share attributable to owners of the Company were not presented because the impact of the exercise of share options was anti-dilutive.

8. MOVEMENT OF RESERVES

Movement of reserves for the Group during the period is set out below:

Changes in Equity

	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Share based payment reserve HK\$'000	Translation reserve HK\$'000	Retained earnings HK\$'000	Non- controlling interest HK\$'000	Total equity HK\$'000
At 1 January 2018	9,855	3,563,686	(142,864)	136,741	(4,511,262)	4,909,365	298,436	4,263,957
Loss for the period	-	-	-	-	-	(14,487)	(12,136)	(26,623)
Other comprehensive income								
Currency translation	-	-	-	-	25,328	-	4,084	29,412
Total comprehensive income	-	-	-	-	25,328	(14,487)	(8,052)	2,789
At 31 March 2018	9,855	3,563,686	(142,864)	136,741	(4,485,934)	4,894,878	290,384	4,266,746

	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Share based payment reserve HK\$'000	Translation reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Retained earnings HK\$'000	Non- controlling interest HK\$'000	Total equity HK\$'000
At 1 January 2017	7,862	2,627,306	(142,864)	136,741	(4,533,024)	258,836	4,233,302	222,463	2,810,622
Loss for the period	-	-	-	-	-	-	(25,070)	(859)	(25,929)
Other comprehensive income									
Currency translation	-	-	-	-	139,269	-	-	6,163	145,432
Total comprehensive income	-	-	-	-	139,269	-	(25,070)	5,304	119,503
At 31 March 2017	7,862	2,627,306	(142,864)	136,741	(4,393,755)	258,836	4,208,232	227,767	2,930,125

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Vehicles-Related Business

Following the procurement arrangement with Volvo Car, a famous brand in the world and also with the CMA platform vehicle models including Lynk & Co under Zhejiang Geely Holding Group Company Limited (“Zhejiang Geely”), the Group is also promoting the product matching with Geely Emgrand EC7, Geely Yuan Cheng Commercial Vehicle and London Electric Vehicle Company and also exploring new customers including major automobile enterprises and new energy vehicle enterprises. The Group has been constantly negotiating and conducting products matching with major and new automobile manufacturers and potential new customers in the energy storage field. The Group is going to seize the historic opportunity of the development of new energy vehicle industries and is committed to develop in the powered battery industry.

As at the date of this announcement, the car models installed with battery packs of the Group listed in the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products 《道路機動車輛生產企業及產品公告》 and the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles 《新能源汽車推廣應用推薦車型目錄》 of Ministry of Industry and Information Technology of the PRC include the Plug-in Hybrid Electric Vehicle (PHEV) model “XC60” and “S90” of Volvo and “Lynk 01” PHEV model of Geely, Geely K12, Geely Vision X1, Kandi K10, Kandi K11, Guangtong Bus EV and Tongjiafu Van. Other than the customers mentioned above, the Group also has new customers such as Shangong Telangsi (山東特朗斯) and Suzhou Pulaier (蘇州普萊爾).

Zhejiang Forever New Energy Company Limited (“Zhejiang Forever New Energy”)

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

Shandong Forever New Energy

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM

As of the date of this announcement, the Group has provided funding with principal amount of approximately US\$69.6 million to the iron ore project in Brazil, through shareholders' loans and increase of registered capital in Sul Americana de Metais S.A. ("SAM"), an indirect wholly owned subsidiary of the Company in Brazil.

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

SAM has started licensing process for the mine and its facilities in the Secretariat of Environment and Sustainable Development ("SEMAD") in the state of Minas Gerais in Brazil since November 2017.

In November and December 2017, SAM had meetings with Superintendency of Priority Projects' ("SUPPRI") technical team to understand their requirements for the LP application.

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

In the beginning of January 2018, SAM hired engineering firm WALM to optimise the engineering parameters of tailings and waste disposal, and update the hidro-geologic model and water availability studies considering extreme dry weather.

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

By the end of March, Brandt finished all necessary rainy season field works including speleological survey, flora and fauna survey, water quality monitoring. According to the complementary rainy season field work, no major environmental change and associated risks were found.

According to the new environmental licensing process, SAM submitted a new Activity Characterization Sheet (FCA) and all existing archaeological studies to the National Historical and Artistic Heritage Institute (IPHAN) on 29 March 2018.

SAM is waiting for IPHAN to issue the Specific Reference Term (TRE) to prepare an Archaeological Heritage Impact Assessment Project (PAIPA) which must be presented for authorization of studies in the area of installation of the Project and its surroundings.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

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

Other details of the Vale do Rio Pardo project including the history of license application and the major licenses, permits, approvals obtained have been set out in the 2016 and 2017 annual report of the Company.

Loan Agreement Entered into with Cloudrider Limited

On 11 April 2016, the Company entered into a loan agreement with Cloudrider Limited (the "Borrower"), pursuant to which the Company granted to the Borrower the loan with principal amount of HK\$540 million (the "Loan") with an interest rate of 3% per annum (the "Loan Agreement") for funding Borrower's merger and acquisitions. HK\$251,100,000 and HK\$288,900,000 were lent to the Borrower on 22 April 2016 and 12 May 2016 respectively. After the Borrower exercised its option to extend the repayment date by 12 months, the repayment period has extended from 12 months to 24 months. Pursuant to the Loan Agreement, the Borrower shall repay HK\$251,100,000 principal and its accrued interest on 21 April 2018 and repay HK\$288,900,000 principal and its accrued interest on 11 May 2018, respectively. On 20 April 2018, the Company received a notice from the Borrower that the Loan could not be settled on time because of difficulties encountered at the transfer of fund across borders in short time (the "Default"). On 30 April 2018, the Borrower repaid HK\$10,000,000, including outstanding interest and part of the principal.

The Company has raised the interest rate of the Loan to 6% in accordance with the terms disclosed in the circular dated 24 May 2016. Furthermore, the Company has called on the loan and stated the rights enjoyed by the Company by sending a notice to the Borrower on 20 April 2018. Presently, the Company is seeking the legal advice as to access the impact towards the Company brought by the Default. 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, among which, was approximately 24.98% of the equity interest of Yuxing Infotech Investment Holdings Ltd ("Yuxing Infotech"), a company listed on the GEM (Stock code: 8005). The net assets of Yuxing Infotech was approximately HK\$2.42 billion as at 31 December 2017. Though it is delayed for some while, the recoverability of the Loan was high based on our current assessment. However, had the Loan could not be recovered in full, the Company might foreclose the security. As the market value of the security up to the date of the report is lower than the amount of the Loan, it may be written off significantly after foreclosure and resulting in a severe loss. Further updates in respect of the Default will be reported to the Shareholders as soon as practicable in accordance with the provisions of the GEM Listing Rules.

Business Review

For the period ended 31 March 2018, the total turnover of the Group recognised was HK\$4.0 million, increased by more than four times when compared to the HK\$0.9 million turnover recognised for the period ended 31 March 2017.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The increase was mainly because our new plant in Zhejiang has delivered small batch of products to the customers. On the other hand, the number of purchase orders received from our major customers during the first quarter of last year was relatively low because of the change in government policies such as general decreased in central government subsidies in 2017 on new energy vehicles by 20% and the re-examination of the “Recommended Models Directory of New Energy Vehicles” 《新能源汽車推廣應用推薦車型目錄》 in December 2016. On 23 October 2017 Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation (“Volvo Car”) in relation to the sales of high performance ternary lithium-ion powered battery packs for the hybrid models of Volvo Car planning to be manufactured in the PRC. Another three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 was secured on 25 October 2017, in relation to the sales of high performance ternary lithium-ion powered battery packs for vehicle models including Lynk & Co and other models manufactured under the CMA platform of Zhejiang Geely. The total annual caps (excluding VAT) in respect of the above two sales agreements for the financial years ending 31 December 2018 and 2019 are RMB880 million and RMB900 million respectively. Our new plant in Zhejiang has already supplied small batch of products pursuant to relevant agreements and are expected to commence mass production in the second quarter.

The Group recorded a gross loss of approximately HK\$0.36 million (gross profit ratio: -8.8%) in current period as compared with the gross profit of approximately HK\$0.11 million (gross profit ratio: 11.6%) in the last corresponding period. Gross loss was recorded mainly because of the sales of higher costs long ageing inventories by Shandong Forever New Energy during the period and it is also challenging to decrease the unit cost of battery cells under the current low production level. In addition, the lithium-ion battery industry has been affected by the increase in average cost of raw materials and the decrease in average selling price of battery cell. The Group will continue to control and improve the costs structure of lithium-ion battery products by increasing the energy density and decreasing the failure rate of our products, strengthening the management skill, promoting effective use of materials, etc.

The administrative expenses were increased by HK\$16.2 million mainly because of the increase in wages and salaries of approximately HK\$5.9 million in the current period. Expenses such as utilities costs and depreciation expenses were also increased significantly after Zhejiang Forever New Energy completed its construction in the end of 2017.

In November 2017, the Company allotted and issued 2,000,000,000 Conversion Shares in relation to the convertible bonds issued in June 2013. After that, Geely International (Hong Kong) Limited became one of the substantial shareholders of the Company. This not only greatly improved the financial position of the Group, the early conversion of convertible bonds is also a vote of confidence for the future development of the Group. Because of this early conversion, no imputed interests on convertible bonds were recorded in the current period (2017: HK\$19.1 million).

The loss attributable to the owners of the Company during the period was approximately HK\$14.5 million, decreased by approximately HK\$10.6 million when compared to the last corresponding period. It was mainly due to the decrease in HK\$19.1 million imputed interests on convertible bonds but the decrease was partially net-off by the increase in administrative expenses during the period.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

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

As at 31 March 2018, the cash and cash equivalent balance of the Group was approximately HK\$600 million with a net current assets of HK\$822.4 million. The gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.12 (31 December 2017: 0.08). The working capital will be mainly used for the development of new energy vehicles related business of the Group.

Prospect

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

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

After Volvo XC60, S90 PHEV and LYNK 01 PHEV models equipped with Zhejiang forever New Energy battery packs were successfully listed in the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles 《新能源汽車推廣應用推薦車型目錄》 released by the Ministry of Industry and Information Technology. Zhejiang Forever New Energy is expected to go into mass production in the second quarter this year. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other mainstream automobile manufacturers. To achieve the aim, other than the second production line pending installation in late 2018, the Group also has been investigating the possibility of massive expansion in other cities in China.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospect — Continued

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

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

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

The use of proceeds from placing and share subscription

Upon completion of the placing of 754,000,000 new shares (the "Placing") and the subscription of 446,000,000 new shares (the "Share Subscription") of the Company in June 2015, the Company received an aggregate of HK\$1,336 million of net proceeds, HK\$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 March 2018, out of the HK\$1,336 million net proceeds that have been raised from the Placing and the Share Subscription, HK\$540.0 million has been lent to the Borrower, HK\$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK\$83.5 million has been used for new energy vehicle related business, approximately HK\$40.0 million has been used for general working capital and approximately HK\$80.6 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$482.8 million, HK\$326.5 million will be invested into the new energy vehicle related business, HK\$119.4 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$36.9 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Contingent Consideration and Liabilities

Pursuant to the Share Purchase Agreement in relation to the acquisition of SAM (the “SPA”), the total consideration of US\$390 million for the acquisition of SAM was to be satisfied in cash in five instalment payments.

After execution of the Settlement Agreement in June 2016 (details set out in the announcement of the Company dated 13 May 2016), the Group shall no longer be liable to pay third, fourth and fifth instalment payment with the total amount of US\$315 million under the SPA. For the details of the Conditional Additional Payment and Conditional Mining Production Payment to Votorantim, please refer to the announcement of the Company dated 13 May 2016 and the 2017 annual report.

As at 31 March 2018, the contingent consideration payable was approximately HK\$159.1 million (equivalent to approximately US\$20.5 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

Corporate Governance

Throughout the three months ended 31 March 2018, the Company has complied with all Code Provisions as set out in Appendix 15 of the GEM Listing Rules.

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

As at 31 March 2018, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Number of shares in the Company				Total	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interest of controlled corporation	Number of Share option ²		
HE Xuechu	57,939,189	22,460,000	4,065,000,000 ¹	–	4,145,399,189	42.07
LIU Wei, William	9,002,000	–	–	30,000,000	39,002,000	0.40
SHI Lixin ³	–	–	–	25,000,000	25,000,000	0.25
YAN Weimin	30,000,000	–	–	30,000,000	60,000,000	0.61
ANG Siu Lun, Lawrence	–	–	–	15,000,000	15,000,000	0.15
CHAN Chun Wai, Tony	1,000,000	–	–	2,000,000	3,000,000	0.03
MA Gang	–	–	–	3,000,000	3,000,000	0.03
HA Chun	–	–	–	–	–	–

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

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

Notes:

- The 4,065,000,000 shares were held by Hong Bridge Capital Limited (“Hong Bridge”). Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.
- This refers to the number of underlying shares of the Company covered by its share option scheme.
- Mr. SHI Lixin was resigned on 17 April 2018.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2018, 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.

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

Details of options granted

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

Name or category of participant	Number of share options					Outstanding as at 31/03/2018	Date of grant of share options (Note a)	Exercise period of share option	Exercise price per share option HK\$	Price immediately preceding the grant date of share options (Note b) HK\$	Price immediately preceding the exercise date of share options (Note c) HK\$
	Outstanding as at 01/01/2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period						
Director											
LIU Wei, William	30,000,000	-	-	-	-	30,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
SHI Lixin (Note d)	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					

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

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

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.
- (d) Mr. SHI Lixin was resigned on 17 April 2018.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2018, 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 March 2018, 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:

Name of Shareholder	Number of Shares in the Company			Total number of shares held	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interests of controlled corporation		
Hong Bridge	4,065,000,000 (Note 1)	–	–	4,065,000,000	41.25
HE Xuechu (Note 2)	57,939,189	22,460,000	4,065,000,000 (Note 1)	4,145,399,189	42.07
FOO Yatyan (Note 2)	22,460,000	4,122,939,189	–	4,145,399,189	42.07
LI Xing Xing	–	–	4,065,000,000 (Note 3)	4,065,000,000	41.25
Geely International (Hong Kong) Limited	1,850,675,675	–	–	1,850,675,675	18.78%
Zhejiang Geely Holding Group Co., Ltd. (Note 4)	–	–	1,850,675,675	1,850,675,675	18.78%
LI Shufu (Note 5)	103,064,000	–	1,850,675,675	1,953,739,675	19.83%
Shagang International (Hong Kong) Co., Ltd.	446,000,000	–	–	446,000,000	4.53%
Jiangsu Shagang Group Co., Ltd. (Note 6)	–	–	446,000,000	446,000,000	4.53%
Shen Wenrong (Note 7)	–	–	446,000,000	446,000,000	4.53%
Maxwealth Great China Fixed Income Fund II LP (Note 8)	662,186,000	–	–	662,186,000	6.72%
Pan Shangcong (Note 8)	–	–	662,186,000	662,186,000	6.72%
Jifu Financial Investment Company Limited (Note 8)	–	–	662,186,000	662,186,000	6.72%
Maxwealth Investment Management Limited (Note 8)	–	–	662,186,000	662,186,000	6.72%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES — 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. Zhejiang Geely Holding Group Co., Ltd. holds 100% equity interest of Geely International (Hong Kong) Limited.
5. Mr. LI Shufu is the controlling shareholder holding 90% equity interest of Zhejiang Geely Holding Group Co., Ltd.
6. Jiangsu Shagang Group Co., Ltd. holds 100% equity interest of Shagang International (Hong Kong) Co., Ltd.
7. Mr. Shen Wenrong is the controlling shareholder holding 46.99% equity interest of Jiangsu Shagang Group Co., Ltd.
8. 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 Maxwealth Great China Fixed Income Fund II LP.

Save as disclosed above, as at 31 March 2018, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

On 20 November 2017, for the short term working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely"), a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK\$124 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.35% per annum.

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

During the period ended 31 March 2018, a finance costs of HK\$1.8 million was recognised by the Company in relation to the two short term loans. The Board considers the above two loan arrangements were conducted on normal commercial terms or better.

CONTINUING CONNECTED TRANSACTIONS

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

Volvo Car Sales Agreement

Parties	:	Zhejiang Forever New Energy (as the vendor) Volvo Car (as the purchaser)
Date	:	23 October 2017
Term	:	From 23 October 2017 to 22 October 2020
Nature of transaction	:	Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	:	The price of goods under the Volvo Car Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	:	All transactions contemplated in the under the Volvo Car Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	:	RMB280 million
Sales for the period ended 31 March 2018	:	RMB0.6 million (HK\$0.7 million)

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Zhejiang Geely Components Sales Agreement

Parties	: Zhejiang Forever New Energy (as the vendor)
	Zhejiang Geely Components (as the purchaser)
Date	: 25 October 2017
Term	: From 25 October 2017 to 24 October 2020
Nature of transaction	: Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	: The price of goods under the Zhejiang Geely Components Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	: All transactions contemplated in the under the Zhejiang Geely Components Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2018 annual cap	: RMB600 million
2019 annual cap	: RMB900 million
Sales for the period ended 31 March 2018	: RMB2.2 million (HK\$2.7 million)

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

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

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Zhejiang Geely Components Sales Agreement — Continued

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

- (a) in the ordinary and usual course of business of the Company;
- (b) either on normal commercial terms or better; and
- (c) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as whole.

Further details of the Conversion are disclosed in the announcement of the Company dated 6 November 2017.

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

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 three months ended 31 March 2018.

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 period or at any time during the period under review.

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 three months ended 31 March 2018.

AUDIT COMMITTEE

The Group's unaudited results for the three months ended 31 March 2018 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.

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

During the three months ended 31 March 2018, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

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

Hong Kong, 8 May 2018