



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 2016

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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 2016, together with the comparative unaudited figures for the corresponding period in 2015, as follows:

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

		Three months ended 31 March	
		2016	2015
	Notes	HK\$'000	HK\$'000
Turnover	2	20,181	37,376
Cost of sales		(17,930)	(25,577)
Gross profit		2,251	11,799
Other operating income	3	3,549	526
Selling and distribution costs		(366)	(444)
Administrative expenses		(22,342)	(21,737)
Operating losses	4	(16,908)	(9,856)
Finance costs	5	(17,285)	(16,304)
Loss before tax		(34,193)	(26,160)
Income tax credit (expense)	6	1,498	(35)
Loss for the period		(32,695)	(26,195)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain (loss) on translation of financial statements of foreign operations		103,733	(1,025,610)
Other comprehensive income, net of tax		103,733	(1,025,610)
Total comprehensive income for the period		71,038	(1,051,805)
Loss for the period attributable to:			
Owners of the Company		(32,511)	(25,941)
Non-controlling interests		(184)	(254)
		(32,695)	(26,195)
Total comprehensive income attributable to:			
Owners of the Company		71,321	(1,051,551)
Non-controlling interests		(238)	(254)
		71,038	(1,051,805)
Loss per share attributable to the owners of the Company during the period	8		
— Basic		HK(0.41) cent	HK(0.40) cent
— Diluted		N/A	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months ended 31 March 2016 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

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

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

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

2. TURNOVER

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

	For the three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Sale of lithium batteries	20,181	36,886
Revenue from trading commodity contracts	–	490
	20,181	37,376

3. OTHER OPERATING INCOME

	For the three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Bank Interest income	756	264
Government grant	2,643	–
Rental income	150	150
Sundry income	–	112
	3,549	526

4. OPERATING LOSSES

	For the three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Operating losses are arrived at after charging:		
Rental expenses	1,173	1,082
Amortisation of other intangible assets	6,434	10,362
Depreciation and amortisation	3,192	3,872

5. FINANCE COSTS

	For the three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Interest charges on bank and other borrowings wholly repayable within five years	321	154
Imputed interest on convertible bonds	16,964	15,032
Interest charges on loans from ultimate holding company	–	1,118
	17,285	16,304

6. INCOME TAX CREDIT (EXPENSE)

	For the three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Overseas tax		
Current period	(167)	(2,681)
Deferred tax	1,665	2,646
Income tax credit (expense)	<u>1,498</u>	<u>(35)</u>

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

During the period, the PRC corporate income tax rate of 15% (2015: 25%) and 25% (2015: 25%) is applicable to Shandong Forever New Energy Co., Ltd. ("Shandong Forever New Energy") and Zhejiang Forever New Energy Co., Ltd. ("Zhejiang Forever New Energy") respectively, being the Group's subsidiaries established in the People's Republic of China (the "PRC").

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

7. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the three months ended 31 March 2016 (three months ended 31 March 2015: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2016 is based on the loss attributable to the owners of the Company of approximately HK\$32,511,000 (loss for the three months ended 31 March 2015: HK\$25,941,000) and on 7,861,821,606 (for the three months ended 31 March 2015: 6,489,162,717) weighted average number of shares.

For the three months ended 31 March 2015 and 2016, diluted losses per share attributable to owners of the Company were not presented because the impact of the exercise of share options and convertible bonds was anti-dilutive.

9. 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	Convertible bonds equity reserve HK\$'000	Retained earnings HK\$'000	Non-controlling interest HK\$'000	Total equity HK\$'000
At 1 January 2016	7,862	2,627,306	(142,864)	136,741	(4,869,117)	258,836	3,488,507	44,205	1,551,476
Loss for the period	-	-	-	-	-	-	(32,511)	(184)	(32,695)
Other comprehensive income									
Currency translation	-	-	-	-	103,832	-	-	(99)	103,733
Total comprehensive income	-	-	-	-	103,832	-	(32,511)	(283)	71,038
At 31 March 2016	7,862	2,627,306	(142,864)	136,741	(4,765,285)	258,836	3,455,996	43,922	1,622,514

	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Other 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 2015	6,645	1,266,484	(203,132)	48,708	136,873	(2,887,758)	258,836	5,421,107	24,742	4,072,505
Sales of treasury shares	-	-	52,948	-	-	-	-	(7,378)	-	45,570
Transactions with owners	-	-	52,948	-	-	-	-	(7,378)	-	45,570
Loss for the period	-	-	-	-	-	-	-	(25,941)	(254)	(26,195)
Other comprehensive income										
Currency translation	-	-	-	-	-	(1,025,610)	-	-	-	(1,025,610)
Total comprehensive income	-	-	-	-	-	(1,025,610)	-	(25,941)	(254)	(1,051,805)
At 31 March 2015	6,645	1,266,484	(150,184)	48,708	136,873	(3,913,368)	258,836	5,387,788	24,488	3,066,270

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Vehicles-Related Business

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

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

Formation of the Zhejiang Forever New Energy

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

Zhejiang Forever New Energy will develop a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion, battery and battery system. Zhejiang Forever New Energy will occupy an area of approximately 200 Mu. It can produce approximately 1,500,000 kWh lithium-ion battery for new energy vehicles annually after completion of the construction of the production facilities, which is scheduled in late-2017.

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

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

Background and Development of the Lithium-ion Batteries Business

Acquisition in July 2014

Since 2013, the Company has been looking for investment and cooperation opportunities in the new energy and resources sector. The Group has since identified the lithium battery industry as an area of growth in the new energy sector due to the increasing demand for electric vehicles in China. The sales and purchase agreement was entered into with the vendors of Shandong Forever New Energy in July 2014 and the acquisition was closed on 26 September 2014. A valuation on Shandong Forever New Energy was performed by independent valuer, goodwill, intangible assets along with all the acquired assets and liabilities were recognised into the Company in accordance with the applicable accounting policy.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Background and Development of the Lithium-ion Batteries Business — continued

Business plan in late 2014

For the year ended 31 December 2014, a revaluation on Shandong Forever New Energy was performed by independent valuer. The Company, subject to the availability of the necessary funding, planned to start to build a new production line in Shandong Forever New Energy to expand its annual production capacity from 150,000 kWh to about 300,000 kWh in or around mid-2015. It was estimated that such new production line could commence production by mid-2016 after a projected capital expenditure of approximately RMB76.9 million. Further expansion was also planned in the year 2016 and 2017, with large capital expenditure projection amount to RMB76.9 million and RMB85.5 million respectively. The increase in total production capacity was expected to increase the revenue and cash flow of Shandong Forever New Energy significantly. The revenue growth rate of Shandong Forever New Energy for the then 4-year projection was 182%, 58%, 31% and 23% for year 2015 to 2018 respectively.

Financial activities and business plan in 2015

As the expansion plan was subject to the availability of the fund, the Company had been actively looking for potential investors in order to secure necessary funding. Some of the potential investors have shown a lot of interest in the Company's lithium battery business, discussed details and specific terms with the Company and also visited Shandong Forever New Energy. But all those efforts did not materialised until in June 2015, the Company successfully placed 754,000,000 new shares of the Company through a placing agent and 446,000,000 new shares of the Company were subscribed by Shagang International (Hong Kong) Co., Limited. The two transactions provided a net proceeds of HK\$1.34 billion to the Company and it was planned that HK\$950 million of the proceeds will be invested into the new energy vehicles related business.

From late 2014 to mid-2015, the Company has been investigating and exploring the possibilities of massive expansion or investment in areas other than Shandong. For example on 16 October 2014, the Company entered into a non-legally binding cooperation framework agreement with the New District Administrative Committee of Wuxi Municipal People's Government ("Wuxi Government") and Sunbase International (Holdings) Limited ("Sunbase"). According to the agreement, the Company will provide its lithium battery technology, Wuxi Government will provide several benefits on land, tax and other areas and Sunbase will set up a fund of approximately RMB5 billion to support the new energy automobile production base in the New District of Wuxi. Although detail terms could not be agreed finally, the Company aware that there were many good investment opportunities with proactive local government support in cities other than Shandong and the expansion plan of Shandong Forever New Energy was subject to re-valuation.

Despite the delay in expansion, in October 2015 the new ternary lithium battery product Shandong Forever New Energy has passed tests conducted by a national quality supervision and inspection center. In December 2015, Shandong Forever New Energy was recognised by certain government authorities under the Shandong Province government as a high-tech Enterprises ("高新技術企業").

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Background and Development of the Lithium-ion Batteries Business — continued

Financial activities and business plan in 2015 — continued

As mentioned in the “Formation of the Zhejiang Forever New Energy” section above, the battery enterprise was established on 16 December 2015, which its scale is several times larger than Shandong Forever New Energy, the Company has to shift the main focus on this investment and development. The expansion plan in Shandong Forever New Energy is more uncertain. This negatively affected the forecast revenue of the Shandong Forever New Energy significantly and was reflected in the re-valuation for the year ended 31 December 2015. The revenue growth rate of Shandong Forever New Energy for the 4-year projection was 69%, 7%, 7% and 7% from year 2016 to 2019 respectively while the capital expenditure was projected to be approximately RMB7.8 million per year in that forecast period, both projections were adjusted significantly when compared to previous projection. Although there was a large impairment recognized in Shandong Forever New Energy for the year ended 31 December 2015, Shandong Forever New Energy and its technology continue to attract interest from potential investors and is very important for the Company’s development in new energy vehicle industry.

Business plan in 2016 and onwards

The PRC Government continuously introduced various policies regulating vehicle power batteries industry, with an aim to guide power batteries products to attain the national standard. According to the “Vehicle Battery Industry Standard Conditions” (Guo Fa [2015] No. 22) issued by Ministry of Industry and Information Technology of the People’s Republic of China, the State Council encourages enterprises to engage in motor vehicle battery industry and establishes product specifications and quality assurance system. The Standard Conditions apply to the enterprises that are conducting production and customs products supporting the automotive battery manufacturers in the People’s Republic of China (excluding Hong Kong, Taiwan and Macau). The bulletin states the basic requirement for manufacturers, conditions of production requirements, technical competency requirements, quality assurance capacity requirements and service capacity requirements of the qualified enterprise. Enterprises with the proportion of foreign investment less than 50% will be qualified to register under the State Council and to list in the Catalog for Batteries Manufacturing Enterprises (“Catalog”) according to the “Vehicle Battery Industry Standard Conditions”. Enterprises, which are successfully listed in the Catalog, can attract more customers and have more chance to obtain government subsidies. The said policy was made effective since 1 May 2015. In addition, the car manufacturer, which used a power batteries from a supplier not in the Catalog, is less likely to enjoy the government subsidies. Currently, Shandong Forever New Energy is a wholly-foreign owned enterprise. In order to be successfully listed in the Catalog, increase the chance to obtain government subsidies, maintain its competitiveness and customer relationship, Triumphant Glory entered into a capital contribution agreement and joint investment agreement with details set out below.

Capital Contribution Agreement and Joint Investment Agreement

Capital Contribution Agreement

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Capital Contribution Agreement and Joint Investment Agreement — continued

Joint Investment Agreement

Also on 9 May 2016, Triumphant Glory, Geely Auto and Jiaying Jiale also entered into the Joint Investment Agreement to govern the operation and management, and the rights and obligations of the shareholders of Shandong Forever New Energy. As Triumphant Glory will be able to appoint the majority of the directors to the board of directors of Shandong Forever New Energy pursuant to the Joint Investment Agreement, and the Board considers that the Group will be able to exercise significant influence over Shandong Forever New Energy, Shandong Forever New Energy will remain as an indirect non-wholly owned subsidiary of the Company and its financial performance and results will continue to be consolidated into the financial results of the Group after the completion of the Capital Contribution.

Capital Contribution Amount

Pursuant to the Capital Contribution Agreement, Geely Auto and Jiaying Jiale have conditionally agreed to make capital contribution of US\$42.15 million and US\$2.62 million to Shandong Forever New Energy in cash respectively.

The Capital Contribution Amount was arrived at after arm's length negotiations between the parties involved in the Capital Contribution Agreement and was with reference to the net asset value of Shandong Forever New Energy as at 31 December 2015 of approximately RMB74.5 million prepared in accordance with PRC accounting standards.

Payment terms

Pursuant to the Capital Contribution Agreement, Geely Auto is required to paid 10% of its capital contribution within 30 days after the registration of increase in share capital of Shandong Forever New Energy is completed. Geely Auto and Jiaying Jiale shall make the Capital Contribution Amount in full to Shandong Forever New Energy no later than 31 October 2022. Geely Auto and Jiaying Jiale undertake that, pending full payment of their respective capital contribution under the Capital Contribution Agreement, they shall use all dividend, distribution and payment received from Shandong Forever New Energy (if any) to satisfy their capital contribution obligation.

A circular containing, among other things, (i) information on the Capital Contribution; (ii) the recommendation of the Independent Board Committee in respect of the Capital Contribution; (iii) the advice of the independent financial adviser regarding the terms of the Capital Contribution Agreement and the Joint Investment Agreement; and (iv) other information as required under the GEM Listing Rules, together with the notice of the EGM, is expected to be despatched to the Shareholders on or about 3 June 2016.

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

During the period ended 31 March 2016, Shandong Forever New Energy, recorded a revenue of approximate HK\$20.2 million (equivalent to approximately RMB17.0 million), which decreased by 45% when compared to HK\$36.9 million (equivalent to approximately RMB29.3 million) revenue recognised in the last corresponding period. The decrease was 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. Moreover, the automobile enterprises occupy a large amount of their funding as they are unable to obtain the government subsidies in a timely manner, and they even further occupy the funding of the batteries manufacturing enterprise. Under these uncertainties, the production volume of the automobile enterprises in this quarter decreased substantially. 康迪電動車 and 新大洋電動車, the major customers of Shandong Forever New Energy has also reduced their production volume, hence reducing their demand for lithium-ion batteries. The overall gross profit percentage has changed from last corresponding period's 30.7% to 11.2% mainly because of the decreased in production in the current period, results in higher average unit cost of products. During the period ended 31 March 2016, Shandong Forever New Energy's earnings before interests, taxes, depreciation and amortisation ("EBITDA") was approximately HK\$0.98 million (equivalent to approximately RMB0.82 million). However, the net loss for the lithium-ion batteries business was approximately HK\$7.2 million (equivalent to approximately RMB6.0 million) during the period ended 31 March 2016 mainly due to the non-cash amortisation expenses of patents and customers relationship of HK\$6.0 million and HK\$0.4 million (equivalent to approximately RMB5.0 million and RMB0.34 million respectively) charged respectively. Other details on Shandong Forever New Energy have been set out in annual report 2015 of the Group.

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

	Three months ended		Year ended	
	2016 RMB Unaudited	2015 RMB Unaudited	2015 RMB Audited	2014 RMB Audited
Revenue	16,971,870.77	29,274,485.31	101,744,903.90	137,274,477.83
Cost of sales	(15,078,917.87)	(20,299,278.17)	(82,998,002.92)	(113,000,695.82)
Gross profit	1,892,952.90	8,975,207.14	18,746,900.98	24,273,782.01
Selling and distribution costs	(307,815.59)	(334,855.64)	(1,850,484.72)	(1,270,764.10)
Administrative expenses	(3,285,443.70)	(2,466,437.23)	(11,621,263.23)	(10,753,655.24)
Finance (costs) income	(265,312.42)	58,377.05	(597,443.16)	(943,941.69)
Write-down of inventories	–	–	–	(1,004,723.48)
Operating (loss) profit	(1,965,618.81)	6,232,291.32	4,677,709.87	10,300,697.50
other income	2,526,518.04	2,389,029.86	10,599,774.72	9,181,371.69
other expenses	–	(145,641.82)	(566,743.85)	(113,112.30)
Profit (loss) before tax	560,899.23	8,475,679.36	14,710,740.74	19,368,956.89
Income tax expenses	(140,224.81)	(2,118,919.84)	(4,508,100.11)	(4,842,239.23)
Net Profit	420,674.42	6,356,759.52	10,020,640.63	14,526,717.66

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Possible Acquisition of a Target Company Based in North America With Mass Production Facility Located in China

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

Loan agreement entered into with Cloudrider Limited

Upon completion of the Placing and the Subscription in June 2015, the Company received an aggregate of HK\$1,336 million of net proceeds, HK\$950 million of which was then intended to be applied to in the new energy vehicle related field , the Company has yet to identify suitable investment and acquisition targets in the new energy vehicle-related field. Whilst the Company will continue to explore and identify suitable targets in the new energy vehicle related field, the Company has decided to improve the Group’s capital efficiency and to better utilise its cash by making short-term investment to generate better returns to its Shareholders. On 11 April 2016, the Company entered into a loan agreement with the Cloudrider Limited (the “Borrower”), pursuant to which the Company conditionally agreed to grant to the Borrower the loan with principal amount of HK\$540 million with an interest rate of 3% per annum (the “Loan Agreement”). Major terms of the Loan Agreement has have disclosed in the announcement of the Company dated 11 April 2016 and more details will be set out in the circular expected to be released on or before 27 May 2016.

Business Review

For the period ended 31 March 2016, the Group recorded a HK\$20.2 million turnover from the sale of lithium-ion batteries which decreased by 45% when compared to HK\$36.9 million revenue recognised in the last corresponding period. Group results changed from loss of HK\$26.2 million for the period ended 31 March 2015 to loss of HK\$32.7 million in current period. It was mainly due to the increase in loss recorded by the lithium-ion battery business.

Liquidity and the use of proceeds from placing and share subscription

During the period ended 31 March 2016, the operation of the Group was mainly financed by the proceeds received from Placing and Share Subscription completed in June 2015. HK\$1,336.0 million net proceeds have been raised from the Placing and the Share Subscription, HK\$109.1 million has been utilised to repaid the loans and related interest from the ultimate holding company, approximately HK\$18.4 million as general working capital and approximately HK\$13.2 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$1,195.3 million, HK\$410.0 million will be invested into the new energy automotive-related business, HK\$540.0 million will be lent to the Borrower according to the Loan Agreement, HK\$186.8 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$58.5 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Approximately HK\$30.4 million has been invested in Zhejiang Forever New Energy and all of the amount will be utilised in the lithium-ion batteries business.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Liquidity and the use of proceeds from placing and share subscription — continued

As at 31 March 2016, the Group had net current assets of HK\$759.6 million (31 December 2015: HK\$674.3 million). Current assets mainly comprised of bank balances and cash of HK\$1,312 million, trade and bill receivables of HK\$122.9 million, prepayments, deposits and other receivables of HK\$10.7 million and inventories of HK\$32.2 million. Current liabilities mainly comprised of convertible bonds liabilities of HK\$569.3 million and derivative financial liabilities of HK\$68.2 million, trade and bill payables of HK\$44.2 million, bank borrowing of HK\$23.8 million, other payables and accrued expenses and receipts in advance of HK\$12.7 million.

As at 31 March 2016, the gearing ratio of the Group which is measured by total loans and borrowings to total equity was 0.16 (31 December 2015: 0.10).

Capital Commitments

As at 31 March 2016, the Group has capital commitments amounted to approximately HK\$1.79 million (31 December 2015: HK\$3.5 million) for the acquisition of property, plant and equipment. Zhejiang Forever New Energy was established in the PRC with registered capital of USD80.0 million which the Group held 49% of its equity interests. As at 31 March 2016, the Group injected USD3.9 million (approximately to HK\$30.4 million) as capital to Zhejiang Forever New Energy and the remaining balance of USD35.3 million (approximately to HK\$273.8 million) to be injected on or before 31 December 2025.

Contingent Consideration and Liabilities

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

As at 31 March 2016, the first and the second instalment payment amount to USD75.0 million (equivalent to approximately HK\$582.0 million) have been settled. The third instalment payment amount to USD115.0 million (equivalent to approximately HK\$892.4 million) are to be settled on the tenth Business Day following the Approval Date (or the date Infinite Sky waives the requirements that all Required Approvals be obtained). The fourth instalment payment of USD100.0 million (equivalent to approximately HK\$776.0 million) was agreed to pay on the tenth Business Day following the Port Operation Commencement Date, being the later of (a) the Closing Date; and (b) the date by which an aggregate of 100,000 metric tons of pellet feed have been shipped through the Port on a commercial basis; and the fifth instalment payment of USD100.0 million (equivalent to approximately HK\$776.0 million) is required to settle on the tenth Business Day following the Mining Production Commencement Date.

The fair value of contingent consideration as mentioned above for the third to fifth instalments payment were approximately USD157 million (equivalent to approximately HK\$1,216 million). For financial reporting and valuation for the period ended 31 March 2016, it is considered that termination of SPA has no material impact on contingent consideration. The Company will assess the situation continuously.

As at 31 March 2016, saved as disclosed above the Group did not have any significant contingent liabilities.

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 USD64 million to SAM through shareholders' loans and increase of registered capital in SAM. Other details related to the SAM iron ore project have been disclosed in 2015 annual report.

Although the Group has been working diligently aiming to get the Preliminary License ("LP") as early as possible, IBAMA, the Brazilian Federal Environmental agency issued a technical opinion to SAM on 29 March 2016, declined SAM's request on LP issuance saying that "based on the current engineering design, IBAMA technical staff are not allowed to certify environmental viability." IBAMA has agreed to open the environmental licensing process for a period of four months, which could be extended later. SAM is now diligently working on complementary studies aiming to minimize environmental impact.

Impairment of exploration and evaluation assets for the year ended 31 December 2015

The exploration and evaluation assets recognised an impairment of HK\$3,305,838,000 for the year ended 31 December 2015. It was mainly due to the continuous drop in selling price of iron ores in 2015, the average price of iron concentrate was decreased from US\$85 per tonnes to US\$45 per tonnes. In addition, the estimated commencement date of production was delayed by 3 years as more in-depth studies and work are required by the Brazil government on the application of licenses. The negative impact of the above was partially net-off by the decrease in CAPEX and OPEX. The decrease in CAPEX was mainly due to the decrease in the price of steel which is a significant cost component of construction. Besides, the estimated price of machineries and equipment also decreased because of the weak demand. Decrease in oil price, depreciation of Brazilian Reais against the dollar and scale down of the port improved the OPEX of the project. Other major assumptions for the revaluation have been set out in the 2015 annual report.

Prospect

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospect — continued

Subject to various factors such as technology, crafts, investment and sales of products, the Company is evaluating the expansion plan in Zou Cheng, Shandong continuously 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 PRC Government continuously introduced various policies regulating vehicle power batteries industry with an aim to guide power batteries products to attain the national standard; batteries manufacturers with foreign shareholding of more than 50% are forbidden to be listed in the Catalog for Batteries Manufacturing Enterprises (the "Catalog"). In addition, the car manufacturer, which used a power batteries from a supplier not in the Catalog, is less likely to enjoy the government subsidies. Currently, Shandong Forever New Energy is a wholly-foreign owned enterprise. As long as change is made on its shareholding structure within a short period of time to comply with the policies of the PRC government, or its batteries products will lose their competitiveness.

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

Shandong Forever New Energy is also developing customers other than 康迪 and 新大洋. However, since Shandong Forever New Energy has not been listed in the Catalog for Batteries Manufacturing Enterprises, the intended orders could not be completed. The Group has been making huge effort to be listed in the Catalog for Batteries Manufacturing Enterprises as soon as possible in order to achieve large scale production and diversification of customers.

For the resource sector, there were still no breakthrough in the progress of the Group's efforts in obtaining necessary approvals for starting the construction in respect of the SAM iron ore project. As previous stated, the Group is experiencing difficulty in obtaining one of the licenses and approvals, i.e. the LP. The Group has been keeping close contact with IBAMA, and has taken initiatives to meet the new requirements and guidances issued by the government. However, this obstacle makes the future prospect of the whole project be uncertain. As previously disclosed in Annual report 2015, after the commencement of arbitration proceedings, the Company has cooperated with the legal representative to conduct significant detailed preparation work in order to ensure our complaints in writ are with merit and persuasive. But the meantime, the Group is also putting various efforts to discuss a commercial resolution with VNN which is beneficial for both sides. If there is any breakthrough in the two matters, announcement will be made in accordance with the GEM Listing Rules.

Corporate Governance

Throughout the three months ended 31 March 2016, 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 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:

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

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

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"). Mr. HE Xuechu is the controlling shareholder and director holding 68% equity interest of Hong Bridge.
2. This refers to the number of underlying shares of the Company covered by its share option scheme.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2016, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

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

Details of options granted

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 31/03/2016	Date of grant of share options (Note a)	Exercise period of share option	Exercise price per share option HK\$	Price immediately preceding the grant date of share options (Note b) HK\$	Price immediately preceding the exercise date of share options (Note c) HK\$
	Outstanding as at 01/01/2016	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period						
Director											
LIU Wei, William	30,000,000	-	-	-	-	30,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
SHI Lixin	20,000,000	-	-	-	-	20,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
	5,000,000	-	-	-	-	5,000,000	28/05/2012	28/05/2012 – 27/05/2020	0.95	0.91	N/A
YAN Weimin	30,000,000	-	-	-	-	30,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
ANG Siu Lun, Lawrence	15,000,000	-	-	-	-	15,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
CHAN Chun Wai, Tony	2,000,000	-	-	-	-	2,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
MA Gang	3,000,000	-	-	-	-	3,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
Sub-total	105,000,000	-	-	-	-	105,000,000					
Employee	5,000,000	-	-	-	-	5,000,000	06/05/2010	06/05/2011 – 05/05/2018	2.60	2.13	N/A
	8,750,000	-	-	-	-	8,750,000	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55	N/A
Total	118,750,000	-	-	-	-	118,750,000					

Notes:

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

From the date of grant of share options

Exercisable percentage

In the first year	Nil
In the second year (31,925,000 share option "Lot A")	25%
After the second year (95,775,000 share option "Lot B")	75%

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

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

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

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

Details of options granted (continued)

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 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 March 2016, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

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

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

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

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

Notes:

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

Save as disclosed above, as at 31 March 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.

CONVERTIBLE BONDS

As at 31 March 2016, a convertible bonds of HK\$740 million with a conversion price of HK\$0.37 per conversion share of the Company were outstanding.

During the three months ended 31 March 2016, there was no conversion of the Company's outstanding convertible bonds.

CONNECTED TRANSACTIONS

There was no connected transactions entered into by the Company during the period ended 31 March 2016.

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 month ended 31 March 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.

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 2016.

AUDIT COMMITTEE

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

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

Remuneration Committee was set up in 2005. Current Committee members are Mr. Ha Chun (Chairman of the Committee), Mr. MA Gang, Mr. CHAN Chun Wai, Tony, Mr. HE Xuechu and Mr. LIU Wei, William. The Committee meets at least once every year. Additional meetings shall be held as the work of the Committee demands. The Committee formulates remuneration policy for approval by the Board, which takes into consideration factors such as salaries paid by comparable companies, employment conditions, and responsibilities, and individual performance of the directors, senior management, and the general staff. Performance is measured against corporate goals and objectives resolved by the Board from time to time; and implement the remuneration laid down by the Board.

NOMINATION COMMITTEE

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

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

During the three months ended 31 March 2016, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

On behalf of the Board

LIU Wei, William

Director and Chief Executive Officer

Hong Kong, 10 May 2016