



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 2017

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

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

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

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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 Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.

This announcement will remain on the “Latest Company Announcements” page of the GEM website for at least 7 days from the day of its posting and on the Company’s website www.8137.hk.

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 2017, together with the comparative unaudited figures for the corresponding period in 2016, as follows:

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

		Three months ended	
		31 March	
	Notes	2017	2016
		HK\$'000	HK\$'000
Turnover	2	909	20,181
Cost of sales		(804)	(17,930)
Gross profit		105	2,251
Other operating income	3	11,170	3,549
Selling and distribution costs		(303)	(366)
Administrative expenses		(18,014)	(22,342)
Operating losses	4	(7,042)	(16,908)
Finance costs	5	(19,269)	(17,285)
Loss before tax		(26,311)	(34,193)
Income tax credit	6	382	1,498
Loss for the period		(25,929)	(32,695)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain on translation of financial statements of foreign operations		145,432	103,733
Other comprehensive income, net of tax		145,432	103,733
Total comprehensive income for the period		119,503	71,038
Loss for the period attributable to:			
Owners of the Company		(25,070)	(32,511)
Non-controlling interests		(859)	(184)
		(25,929)	(32,695)
Total comprehensive income attributable to:			
Owners of the Company		114,199	71,321
Non-controlling interests		5,304	(283)
		119,503	71,038
Loss per share attributable to the owners of the Company during the period	8		
— Basic		HK(0.32) cent	HK(0.41) cent
— Diluted		N/A	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months ended 31 March 2017 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 2016 annual report.

The accounting policies adopted in the 2016 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 2017. 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	
	2017	2016
	HK\$'000	HK\$'000
Sale of lithium batteries	909	20,181

3. OTHER OPERATING INCOME

	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Bank Interest income	846	756
Government grant	2,752	2,643
Rental income	150	150
Sundry income	33	–
Interest income from loan receivable	4,050	–
Imputed interest income of amounts due from non-controlling interests of a subsidiary	3,339	–
	11,170	3,549

4. OPERATING LOSSES

	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Operating losses are arrived at after charging:		
Rental expenses	1,092	1,173
Amortisation of other intangible assets	2,544	6,434
Depreciation and amortisation	2,333	3,192

5. FINANCE COSTS

	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Interest charges on bank and other borrowings wholly repayable within five years	122	321
Imputed interest on convertible bonds	19,147	16,964

6. INCOME TAX CREDIT

	For the three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Overseas tax		
Current period	–	(167)
Deferred tax	382	1,665
Income tax credit	382	1,498

During the period ended 31 March 2016 and 2017, 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 2015. It is subject to income tax rate of 15%.

During the period, corporate income tax rates in Brazil of 34% (2016: 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 2017 (three months ended 31 March 2016: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2017 is based on the loss attributable to the owners of the Company of approximately HK\$25,070,000 (loss for the three months ended 31 March 2016: HK\$32,511,000) and on 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 2016 and 2017, 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 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
	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

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Vehicles-Related Business

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

Zhejiang Forever New Energy is owned as 49%, 48% and 3% by the Group, Shanghai Maple Automobile Company Limited (“Shanghai Maple”), a subsidiary of Zhejiang Geely Holding Group Company Limited (“Zhejiang Geely”) and Jiaxing Jiale Investment Partnership Corporation (limited partnership) (“Jiaxing Jiale”) respectively. As the Company will be able to appoint the majority of the board of directors of Zhejiang Forever New Energy and the Board considers that the Group will be able to exercise control, Zhejiang Forever New Energy is an indirect non-wholly owned subsidiary of the Company and its financial performance and results are consolidated into the results of the Company. Zhejiang Geely owns and controls the automobile brand “Geely” in the PRC and luxury European automobile brand “Volvo”, and Zhejiang Geely is also one of the Fortune Global 500 companies.

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

Shandong Forever New Energy

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

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

Shandong Forever New Energy Capital Contribution Agreement Capital Contribution Agreement

On 9 May 2016, Triumphant Glory, a 90.68% owned subsidiary of the Company, entered into the capital contribution agreement with Zhejiang Geely Automobile Co., Ltd. (“Zhejiang Geely Auto”) and Jiaxing Jiale, whereby Zhejiang Geely Auto and Jiaxing Jiale have conditionally agreed to contribute capital into Shandong Forever New Energy, which was a direct wholly-owned subsidiary of Triumphant Glory (the “Capital Contribution Agreement”). According to the terms of the Capital Contribution Agreement, Zhejiang Geely Auto and Jiaxing Jiale shall contribute approximately US\$42.15 million and US\$2.62 million into Shandong Forever New Energy respectively. Zhejiang Geely Auto has paid the 10% of its capital contribution amount (i.e. US\$4.215 million) according to the Capital Contribution Agreement and up to the date of this announcement, no further capital contribution has been paid by Geely Auto and Jiaxing Jiale. After the completion of the capital contribution, the registered capital of Shandong Forever New Energy will be increased from US\$10 million to approximately US\$20.41 million. After the Capital Contribution Agreement became effective, Triumphant Glory, Zhejiang Geely Auto and Jiaxing Jiale hold 49.0%, 48.0% and 3.0% equity interest in Shandong Forever New Energy, respectively.

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 USD67.2 million to Sul Americana de Metais S.A. (“SAM”), an indirect wholly owned subsidiary of the Company in Brazil, through shareholders’ loans and increase of registered capital in SAM.

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

In November 2016, as IBAMA suggested, SAM decided to reopen a new environmental licensing administrative process and hired Brandt Meio Ambiente (“Brandt”) to prepare the Terms of Reference (“TR”), which outlines the contents for the new Environmental Impact Study (“EIA”) and Environmental Impact Report (“RIMA”). IBAMA agreed that SAM could use most of the studies finished in the previous EIA/RIMA. On 12 January 2017, SAM submitted the proposed TR to IBAMA. Since then, SAM has been keeping close contact and communicating with IBAMA, consultants and other professional parties, pursuing that IBAMA could confirm the specific details and the proposed supplementary studies in the TR so that SAM could start the necessary work for the new EIA/RIMA as soon as possible.

Other details of the Vale do Rio Pardo project and the history of license application have been set out in the 2016 annual report of the Company.

Contingent Consideration and Liabilities

Pursuant to the Share Purchase Agreement in relation to the acquisition of SAM (the “SPA”), the total consideration of US\$390.0 million for the acquisition of SAM was to be satisfied in cash in five instalment payments. The first and the second instalment payment amount to US\$75.0 million were settled. The third, fourth and fifth instalment payment amount to US\$115.0 million, US\$100.0 million and US\$100.0 million were required to be settled according to certain milestones.

After execution of the Settlement Agreement 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\$315.0 million under the SPA.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Contingent Consideration and Liabilities — Continued

Conditional additional payment

If, however:

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Contingent Consideration and Liabilities — Continued

Conditional mining production payment to Votorantim

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

As at 31 March 2017, saved as disclosed above the Group did not have any significant contingent liabilities.

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. The Borrower shall repay the outstanding amount of the Loan and the unpaid interest accrued 12 months after the drawdown date unless the Borrower exercise its option to extend the Loan for 12 months. The Borrower has exercised its option to extend the repayment date by 12 months. The Loan is secured by the share charges provided by two of the shareholders of the Borrower over all of their shareholdings in the Borrower and a debenture consisting of a fixed and floating charge over all of the assets of the Borrower in favour of the Company. Since the provision of the Loan and up to the date of this announcement, the Borrower has settled HK\$11.9 million loan interest in accordance with the Loan Agreement. During the period ended 31 March 2017, a loan interest income of approximately HK\$4.1 million was recognised by the Company. Other details of the Loan Agreement have been disclosed in the circular of the Company dated 24 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

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

	Three months ended		Year ended	
	2017	2016	2016	2015
	RMB	RMB	RMB	RMB
	Unaudited	Unaudited	Audited	Audited
Revenue	848,834.19	16,971,870.77	30,469,187.67	101,744,903.90
Cost of sales	(713,021.89)	(15,078,917.87)	(29,544,683.25)	(82,998,002.92)
Gross profit	135,812.30	1,892,952.90	924,504.42	18,746,900.98
Selling and distribution costs	(692,930.07)	(307,815.59)	(2,953,799.58)	(1,850,484.72)
Administrative expenses	(6,215,938.21)	(3,285,443.70)	(9,577,892.58)	(11,621,263.23)
Finance costs	(82,903.22)	(265,312.42)	(825,226.58)	(597,443.16)
Write-down of inventories	–	–	(24,360.00)	–
Operating (loss) profit	(6,855,959.20)	(1,965,618.81)	(12,456,774.32)	4,677,709.87
other income	2,440,231.11	2,526,518.04	9,877,278.32	10,599,774.72
other expenses	–	–	–	(566,743.85)
Profit (loss) before tax	(4,415,728.09)	560,899.23	(2,579,496.00)	14,710,740.74
Income tax expenses	–	(140,224.81)	–	(4,508,100.11)
Net Profit (loss)	(4,415,728.09)	420,674.42	(2,579,496.00)	10,202,640.63

(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.)

Business Review

For the period ended 31 March 2017, the Group recorded approximately HK\$0.9 million turnover from the sale of lithium-ion batteries which decreased by 95.5% when compared to approximately HK\$20.2 million revenue recognised in the last corresponding period. Nevertheless, the group results improved from a loss of approximately HK\$32.7 million for the period ended 31 March 2016 to a loss of approximately HK\$25.9 million in the current period.

The decrease in turnover in lithium-ion batteries business was mainly due to the policy change of the PRC government. The revised central government subsidies system for new energy vehicles was only released in late December 2016 and generally each vehicle sold this year will receive 20% less central government subsidies than it would have in 2016, and the subsidies policies in many areas are still uncertain, which affects the sales strategies and pricing policy of new energy vehicles manufacturing enterprises. Moreover, the list of new energy vehicle models eligible for subsidies (新能源汽車推廣應用推薦車型目錄) (the "List") was re-examined in accordance to the new standards. Since models not on the List are not eligible for subsidies, many new energy vehicles delayed their production plan and sales.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

The decrease was also due to the investigation carried out by the PRC Government on the misappropriation of the government subsidies by the automobile enterprises for new energy vehicle. Since the investigation began in late 2015, the PRC Government has not distributed the subsidies to the automobile enterprises in a timely manner. The automobile enterprises have occupied a large amount of their own working capital as they are unable to receive the government subsidies. This also reduced the working capital of the batteries manufacturing enterprise as the automobile enterprises delayed their payment to suppliers. Under these uncertainties, the production volume of some automobile enterprises in this period decreased substantially. 康迪電動車 and 新大洋電動車, the major customers of Shandong Forever New Energy have also taken a conservative approach and control their production plan, hence reducing their demand for lithium-ion batteries. The Company also takes a more cautious approach before accepting new orders in order to mitigate the potential credit risk.

Despite the substantial decrease in revenue and gross profits, the loss for the period was reduced from HK\$32.7 million for the period ended 31 March 2016 to HK\$25.9 million in the current period. The reduction was mainly due to the increase in HK\$4.1 million loan interest income from Cloudrider Limited and the decrease in HK\$3.9 million amortisation expenses of other intangible assets.

During the period ended 31 March 2017, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015 as well as by the loan interests received from Cloudrider Limited.

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 2017, 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\$36.5 million has been used for general working capital and approximately HK\$62.0 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$588.4 million, HK\$410 million will be invested into the new energy vehicle related business, HK\$138 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$40.4 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

Prospect

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

In 2017, the Group will focus on developing Zhejiang Forever New Energy into a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion, battery and battery system. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to produce approximately 1,500,000 kWh ternary lithium-ion battery for new energy vehicles annually. Most of the construction work has been completed and installation of production facilities are scheduled to complete in the third quarter of 2017.

After Shandong Forever New Energy was listed in the Catalog according to the “Vehicle Power Battery Industry Standard Conditions (汽車動力蓄電池行業規範條件)” in July 2016, the Group has continued to make huge effort to achieve diversification of customers and obtain purchase order from customers other than 康迪電動車 and 新大洋電動車.

Both Shandong Forever New Energy and Zhejiang Forever New Energy will focus on the research and development of ternary lithium battery as most of the sedan car manufacturing enterprises in China mostly prefer ternary lithium battery so as to achieve a better travel range for their new energy vehicles. The progress of research and development of new products are satisfactory and they are scheduled for mass production once Zhejiang Forever New Energy enters full operation. Target customers include PRC and overseas new energy vehicles enterprises which require top class ternary lithium batteries.

For the resource sector, after execution of the Settlement Agreement, SAM became a wholly-owned subsidiary of the Group. The Group may at its discretion decide the pace of the SAM iron ore project’s development according to the circumstances and may dispose of the relevant assets when opportunities arise. On the other hand, there were still no breakthrough in the progress of the Group’s efforts in obtaining necessary approvals for starting the construction in respect of the SAM iron ore project. As previously stated, the Group is experiencing difficulty in obtaining one of the licenses and approvals, i.e. the LP. The Brazilian team has been working on the new licensing process and will continue to evaluate the details, including how many studies and works finished in the old process could be reused, and time and costs required for the new licensing administrative process. The Group has also been keeping close contact with IBAMA, and has taken initiatives to meet the new requirements and guidances issued by the government. If there is any breakthrough in the matter, announcement will be made in accordance with the GEM Listing Rules.

Corporate Governance

Throughout the three months ended 31 March 2017, 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 2017, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

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

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

Notes:

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.

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 31/03/2017	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 01/01/2017	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 2017, 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 2017, 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 (Note 9)	694,000,000	—	—	694,000,000	8.83
Pan Shangcong (Note 9)	—	—	694,000,000	694,000,000	8.83
Jifu Financial Investment Company Limited (Note 9)	—	—	694,000,000	694,000,000	8.83
Maxwealth Investment Management Limited (Note 9)	—	—	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. Maxwealth Investment Management Limited was wholly owned by Jifu Financial Investment Company Limited, which is in turn wholly owned by Mr. Pan Shangcong. Maxwealth Investment Management Limited has indirect interest of 694,000,000 shares through its interest in Yue Xiu Great China Fixed Income Fund II LP.

Save as disclosed above, as at 31 March 2017, 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 2017, 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 2017, 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 2017.

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 2017.

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 2017.

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 2017 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 and 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 2017, 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, 9 May 2017