

ANNUAL REPORT 2015



HYBRID KINETIC GROUP LIMITED
正道集團有限公司

(Stock Code: 01188)



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr Yeung Yung (*Chairman*)

Mr Xu Jianguo (*appointed as Chief Executive Officer with effect from 3 February 2016*)

Mr Hui Wing Sang, Wilson (*Deputy Chairman*)

Dr Huang Chunhua (*Deputy Chairman*)

Dr Wang Chuantao (*re-designated as Deputy Chairman with effect from 3 February 2016*)

Mr Liu Stephen Quan

Dr Zhu Shengliang

Mr Li Zhengshan

Mr Ting Kwok Kit, Johnny

Mr Chen Xiao

Non-executive Director

Dr Xia Tingkang, Tim

Independent Non-Executive Directors

Mr Wong Lee Hing

Dr Song Jian

Dr Zhu Guobin

Mr Cheng Tat Wa

Dr Li Jianyong

Mr Chan Sin Hang

COMPANY SECRETARY

Mr Ting Kwok Kit, Johnny

AUDITOR

BDO Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

PRINCIPAL BANKERS

East West Bank

(U.S. branch)

9550 Flair Drive

El Monte CA91731

Hongkong and Shanghai Banking Corporation Limited

1 Queen's Road

Central, Hong Kong

PRINCIPAL OFFICE

Suites 1407-8, 14/F.

Great Eagle Centre

23 Harbour Road, Wanchai

Hong Kong

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

HONG KONG LEGAL ADVISOR

Chiu & Partners

40th Floor, Jardine House

1 Connaught Place

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Management (Bermuda) Limited

(formerly known as Appleby Management (Bermuda) Ltd.)

Canon's Court

22 Victoria Street

Hamilton, HM 12

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

Chairman's Statement

Dear Shareholders,

Over the past few years, the Group has laid a solid foundation for the large-scale promotion of the Group's electric buses. The Group's new generation of high-power fast charging LTO battery systems (which is the core element of electric buses) and high-performance fast charging electric buses have successfully passed the national accreditation and certification required, and are ready to embrace the market in China at full scale. Due to the economic slowdown of China and the supply-side structural reform, and having regard to the interests of our shareholders, the long-term development of the Group, the territorial protection characteristics of the bus industry in China, the Group will after prudent due diligence and financial review make full use of the excess capacity of the nearly 400 domestic bus manufacturers while continuing to seek potential merger and acquisition opportunities, engage leading companies on OEM (original equipment manufacturer) basis, share the Group's technological and integration advantages, and leverage on the close ties between local manufacturers and their communities, so as to build a good industry ecosystem to promote energy conserving and environment friendly new energy vehicles and achieve industry consolidation and maximize the utilization of production capacity and resources. The Board considers that, through the establishment of joint venture businesses with strategic partners, the Group can help build an electric bus manufacturing ecosystem, achieve a higher level of vertical integration of the entire supply chain, and benefits the Group in a greater way.

The Group is also actively expanding the sales and manufacturing market outside China, and has made significant progress in a number of overseas projects. In addition, the Group had also planned out the next phase of development in passenger vehicle and resource projects. Through a series of environmentally oriented projects, the Group remains committed to helping solve the global environment problems, and will continue to protect and create value for shareholders.

Once again, I would like to express my appreciation to the support of our shareholders, directors and employees.

Yeung Yung

Chairman

Hong Kong, 31 March 2016

Biographical Details of Directors and Senior Management

Below are the biographical details of the Directors and the Senior Management of the Group as at the date of this annual report.

EXECUTIVE DIRECTORS

Dr YEUNG Yung (仰融), aged 58, was appointed a Director of the Company in November 1998, and is the Chairman of the Group, the chairman of the nomination committee and a member of the remuneration committee of the Board. Dr Yeung is also a substantial shareholder of the Company. Dr Yeung holds a PhD Degree in Economics from the China's Southwest University of Finance & Economics. Dr Yeung was elected as a director of the John Hopkins University Center – Nanjing University Centre for Chinese and American Studies (中美文化交流中心理事). Dr Yeung was the chairman, chief executive officer and president of Brilliance China Automotive Holdings Limited and also the chairman and president of Shenyang Jinbei Passenger Vehicle Manufacture Co., Ltd. from 1992 to 2002. Dr Yeung is a well-known, highly successful automotive industrialist with over 18 years' experience in the automobile industry as well as a pioneering international financier from China.

Mr XU Jianguo (徐建國), aged 48, was appointed a Director of the Company in June 2010. He is also the Chief Executive Officer of the Group. Mr Xu holds a Master's Degree in mechanical engineering from the Shanghai Jiaotong University in the PRC. He is currently the vice-president of the global sourcing division in Hybrid Kinetic Motors Corporation, a wholly-owned subsidiary of the Company. Mr Xu has 20 years' experience in the field of mechanical engineering and automotive industries. He was one of the key experts who developed Chinese Computer aided engineering industry in 1990s. Mr Xu has extensive experience in product development, engineering management, product planning, purchasing and supplier management. Mr Xu was involved in multiple projects for certain well-known auto makers in Asia and Europe and has extensive expertise in automotive development procedure. Mr Xu has in-depth understanding in the global automotive industry, in particular the Chinese automotive industry.

Mr HUI Wing Sang, Wilson (許永生), aged 48, was appointed a Director of the Company in September 2007. He is also the Deputy Chairman of the Group and one of the authorized representatives of the Company. Mr Hui holds a Master's Degree in Business Administration from the University of Surrey and a Master's Degree in Professional Accounting and Information Systems from the City University of Hong Kong. He has been an associate member of Hong Kong Institute of Chartered Secretaries (HKICS) since 1996 and Hong Kong Institute of Certified Public Accountants (HKICPA) since 1999. Mr Hui possesses more than 20 years of experience in accounting, finance and corporate management.

Dr HUANG Chunhua (黃春華), aged 52, was appointed a Director of the Company in June 2010, and is the Deputy Chairman of the Group. Dr Huang holds a Bachelor of Economics Degree from the Wuhan University in China, an MBA and PhD in Marketing (focus on corporate strategy) from the University of Strathclyde in Scotland. Dr Huang is also the vice-chairman of Hybrid Kinetic Motors Corporation, a wholly-owned subsidiary of the Company and a director of certain subsidiaries of the Company. Dr Huang had been the vice-chairman of the Company between November 2002 and October 2007 and its chief financial officer between August 2000 and September 2004. He is an independent non-executive director of China Rare Earth Holdings Limited (listed in Hong Kong). He was among the first generation China equity analysts and had in-depth knowledge about China's automotive and the transport infrastructure sectors, as well as red chip conglomerates. Dr Huang was a pioneering financier for China's first wave of private companies going public in Hong Kong during 1999 and 2001.

Biographical Details of Directors and Senior Management

Dr WANG Chuantao (王川濤), aged 62, was appointed a Director of the Company in April 2009, and is the Deputy Chairman of the Group. He is also the chief executive officer of Hybrid Kinetic Motors Corporation, a wholly-owned subsidiary of the Company. Dr Wang has more than 30 years' experience in the field of manufacturing engineering. He is an internationally recognized leading technologist and business leader in the development and implementation of advanced stamping using computer-aided engineering technology and production systems for digital die manufacturing and stamping for large scale automotive applications. He had been the Chief Die Engineer and Technical Fellow in General Motors Corp in Michigan, the US before he joined the Group. He is armed with interdisciplinary education, diverse and in-depth knowledge and management experience in the automotive industry. He received his doctorate in industrial systems and engineering and his Master's Degree in materials science and engineering from The Ohio State University, Columbus, Ohio, the US and his Bachelor's Degree and Master's Degree in mechanical engineering from Chongqing University, Chongqing, the PRC.

Mr LIU Stephen Quan (劉泉), aged 61, was appointed a Director of the Company in October 2007. Mr Liu holds a Master's Degree in business, economics and finance from the China Europe International Business School (CEIBS). Mr Liu has extensive knowledge and experience in the management of supply chain business. He has been in the supply chain industry for more than 20 years and was one of the founders of several industrial companies and investment companies in China and the US.

Dr ZHU Shengliang (朱勝良), aged 65, was appointed a Director of the Company in May 2008. Dr Zhu holds a PhD Degree in Economics from the Southwestern University of Finance and Economics. Dr Zhu is currently the chairman of Ningbo Meilide Consulting Co., Limited, a subsidiary of the Company. Dr Zhu possesses extensive experience in finance and corporate management. He took senior managerial roles in several companies, including Shanghai Shenhua Holdings Co., Ltd., a PRC-listed company.

Mr LI Zhengshan (李正山), aged 46, was appointed a Director of the Company in June 2010. Mr Li holds a Master of Arts Degree in English language and literature from the Shanghai International Studies University. He has been the Executive Assistant to Dr Yeung Yung, the Chairman of the Company since 2003 and the deputy general manager of the PRC investment division of the Company. He is currently a director of certain subsidiaries of the Company. He is responsible for corporate coordination and business development of the Group in China.

Mr TING Kwok Kit, Johnny (丁國傑), aged 55, was appointed a Director of the Company in November 2014, and is the Company Secretary and the Chief Financial Officer of the Company. He is also one of the authorized representatives of the Company. He had previously served as the independent non-executive Director from 19 November 2007 to 31 May 2011. Mr Ting holds a Bachelor's Degree in Economics from the University of Victoria of Canada and a MBA from the City University of Hong Kong. Mr Ting is a fellow member of the Association of Chartered Certified Accountants and a member of the Certified General Accountants Association of Canada. He is also a fellow member of the Hong Kong Institute of Chartered Secretaries. Mr Ting has more than 15 years' experience in accounting, finance and corporate management.

Biographical Details of Directors and Senior Management

Mr CHEN Xiao (陳曉), aged 44, was appointed a Director of the Company in November 2014. Mr Chen has joined the Group since April 2008. He has been one of the senior management of the Group and has been assuming the roles of general manager or deputy manager or director (as the case may be) of certain subsidiaries of the Company. Mr Chen is primarily responsible for identifying, evaluating, participating in commercial negotiations and financial planning for the implementation of potential projects for the Group in the PRC. Mr Chen was graduated from the Shanghai University of Finance and Economics (上海財經大學) in 1994, majoring in Investment, Economics and Financial Management (投資經濟管理). He has extensive experience in the areas of securities investment, corporate finance, capital management and merger and acquisition in the PRC.

NON-EXECUTIVE DIRECTOR

Dr XIA Tingkang, Tim (夏廷康), aged 60, was appointed a non-executive Director of the Company in June 2010. Dr Xia holds a Bachelor's Degree from Peking University, the PRC, a PhD from The Ohio State University, the US and a Juris Degree from the Columbia University School of Law, the US. Dr Xia is currently a senior partner of an international law firm, Morris Manning & Martin, LLP, and a registered U.S. patent attorney. Prior to his legal career, he was a physicist specializing in supercomputing, large scale computer simulation of complex fluids, super-thin-films of polymers, and Josephson junction superconducting arrays, electromagnetic properties of high temperature superconductors, and physics of granular metals. Dr Xia also counsels clients of international corporate law.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr WONG Lee Hing (王利興), aged 47, was appointed an independent non-executive Director of the Company in October 2008. He is also the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Board. Mr Wong holds a Bachelor's Degree in Manufacturing Engineering and a Postgraduate Certificate in Business Administration from the City University of Hong Kong. Mr Wong possesses more than 10 years' experience in the production industry and information technology management. He is currently a director of an electronic trading company.

Dr SONG Jian (宋健), aged 58, was appointed an independent non-executive Director of the Company in May 2010. Dr Song holds a Doctorate's and Bachelor's Degrees in Tsinghua University. He is currently a professor of Automotive Engineering Department in Tsinghua University. He is also the Executive Vice-President of the Tsinghua Automotive Engineering Institute, the Vice-Director of the National Laboratory in Automotive Safety and Energy and an expert consultant to the Beijing Government. Dr Song was formerly the Deputy Dean of the Automotive Engineering Department at Tsinghua University.

Dr ZHU Guobin (朱國斌), aged 54, was appointed a non-executive Director in July 2010 and re-designated as an independent non-executive Director of the Company on 31 December 2012. Dr Zhu holds a Bachelor's Degree in history, a Master's Degree in history and a Master's Degree in law from the Renmin University of China, a Master's degree in law from the University of Hong Kong and a PhD in law and a HDR (Diplôme d'Habilitation à Diriger des Recherches) from the University of Aix-Marseilles in France. Dr Zhu is currently a professor of law in the School of Law in the City University of Hong Kong. He is also a guest professor at Shandong University, Southern-Central China and Wuhan University School of Law in the PRC. He is a council member of the Chinese Association of Constitutional Law and a member of International Association of Constitutional Law and French Society of Comparative in Legislation, and an associate member of the International Academy of Comparative Law. Dr Zhu is also a Director of The Legal Education Fund Limited, and also a council member of Hubei Province Overseas Friendship Association.

Biographical Details of Directors and Senior Management

Mr CHENG Tat Wa (鄭達華), aged 51, was appointed an independent non-executive Director of the Company in August 2012. He is also the chairman of the audit committee and a member of the nomination committee and the remuneration committee of the Board. Mr Cheng holds a Master's Degree in international accounting from City University of Hong Kong and a LLB (HONS) from Northumbria University. Mr Cheng is a fellow member of the Association of Chartered Certified Accountants. He is an associate member of the Institute of Chartered Secretaries and Administrators of Canada and a member of the Certified General Accountants Association of Canada. He is also a member of the Institute of Internal Auditors. Mr Cheng has more than 15 years of extensive experience in the business accounting fields.

Dr LI Jianyong (李建勇), aged 58, was appointed an independent non-executive Director of the Company in December 2012. Dr Li holds a Doctoral Degree in economics from the Southwestern University of Finance and Economics (西南財經大學). Dr Li obtained the accreditation and qualification of sponsor representative* (保薦代表人) from the Securities Association of China (中國證券業協會) in 2007. Dr Li had served various senior positions in GF Securities Company Limited (廣發證券股份有限公司). Dr Li was also appointed as the vice-chairman of the Securities Association of China in 2007. Dr Li has extensive experience in the securities and investment field in the PRC. Dr Li is currently a professor of the Chinese Finance Research Institute of the Southwestern University of Finance and Economics.

Mr CHAN Sin Hang (陳善衡), aged 31, was appointed an independent non-executive Director of the Company in December 2012. He is also a member of the audit committee of the Board. Mr Chan holds a Bachelor's Degree in business (accounting) from the Australian Catholic University. Mr Chan is a full member of the CPA Australia. He is also a member of HKICPA since March 2013. Mr Chan had been an auditor in CPA firms in Hong Kong, and a chief financial officer and a company secretary of a financial services company based in Hong Kong and China. Mr Chan has more than 5 years of experience in the accounting field, and is currently a chief accountant of a Hong Kong company. He is currently a director of a PRC consultant company.

COMPANY SECRETARY

The company secretary of the Company is Mr Ting Kwok Kit, Johnny, an executive director of the Company. Please refer to the biographical details of Mr Ting as disclosed above.

* For identification purpose only

Directors' Report

The directors of the Company (the “**Directors**” or the “**Board**”) are pleased to present to the shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2015 (the “**Year**”).

MANAGEMENT DISCUSSION AND ANALYSIS AND OTHER INFORMATION

Overview

During the Year, the principal businesses of the Group included:

- the electric motor vehicles business comprising primarily electric buses, engine and related battery cells; and
- the promotion of the new energy project which involved the development of key new energy automobile components and primarily the production of single and few-layer graphene (單層石墨烯).

The Group's turnover and gross profit from continuing operations for the Year amounted to approximately HK\$38.0 million (2014: Nil) and HK\$1.5 million (2014: Nil). The gross profit for the Year was primarily attributable to the sales of electric buses. The loss attributable to shareholders for the Year amounted to HK\$350.5 million (2014: HK\$415.2 million). The loss for the Year was mainly attributable to general operating expenses and loss for the Year from discontinued operations.

The general operating expenses from continuing operations for the Year decreased to HK\$388.9 million (2014: HK\$413.9 million) which consisted of research and development expenses of HK\$38.6 million (2014: HK\$96.4 million), employee benefit expense (including wages and salaries, pension costs, share-based compensation and other benefits) of HK\$74.3 million (2014: HK\$169.5 million) and depreciation expenses of HK\$12.4 million (2014: HK\$5.3 million).

The loss for the Year from discontinuing operations was HK\$7.3 million as compared to HK\$25.4 million in 2014.

Electric Motor Vehicles Business

The Group has endeavoured to become a pioneer in the design, development and manufacture of zero-emission electric motor vehicles with advanced technology and tremendous potential to improve energy efficiency.

During the Year, the Group had operated its electric bus business through the Company's wholly-owned subsidiary, 連雲港正強新能源汽車銷售有限公司 (Lianyungang Zheng Qiang New Energy Motors Sales Co., Ltd.*). Our emphasis was placed on electric buses as we believe that any improvement in the performance, efficiency and reliability of electric buses would help promote the use of public transportation by the public, minimize environmental pollutions and improve public health and safety.

Directors' Report

During the Year, the Group had collaborated with 丹東黃海汽車有限責任公司 (Dandong Huanghai Automobile Company Limited*) ("**Dandong Automobile**"), one of the largest builders of city buses in the People's Republic of China (the "**PRC**"), on the joint development of a series of auto products for the purpose of designing and developing two prototypes of 12-metre lightweight monocoque electric bus (12米全承載輕量化純電動公交車) that were suitable for public transportation in the PRC. The collaborative efforts had achieved notable results. In January 2016, 國家機動車質量監督中心(重慶) (The National Motor Vehicle Quality Supervision and Inspection Centre (Chongqing)*) confirmed that a 12-metre lightweight monocoque electric bus (under the product code DD6129EV12) (the "**Electric City Bus**") jointly developed by the Group and Dandong Automobile conformed to the technical standard and successfully passed the inspection under 車輛產品(公告)技術審查 (Notice of Technology Review of Auto Products*). After the inspection, the Electric City Bus has been included and formally announced in 《道路機動車輛生產企業及產品公告》(第280批) (the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products (Batch No. 280*)), and 中國國家強制性產品認證證書 (China Compulsory Certification of Products*) for the Electric City Bus was also issued by the China Quality Certificate Centre (中國質量認證中心) on 25 January 2016.

During the Year, the manufacturing of electric buses had been undertaken by processing plant (代工廠) selected by the Group in the PRC. Dandong Automobile was the major processing plant engaged by the Group. Nevertheless, it has been the intention of the Company to establish an electric bus manufacturing platform, either through forming joint venture business with strategic partner(s) or acquiring a controlling stake of public bus manufacturing entity so as to achieve a higher level of vertical integration. During the Year, the Company had devoted time and resources to engage in commercial negotiations, though of no avail, to explore investment or acquisition opportunities to implement the business goal of the Group.

Further, 連雲港正道新能源汽車系統集成有限公司 (Lianyungang HK New Energy Vehicles System Integration Company Limited*), a wholly-owned subsidiary of the Company, had established a battery system factory in 連雲港經濟技術開發區 (Lianyungang Economic and Technology Development Zone*), the Jiangsu Province, the PRC for the development of battery management system (which is a core component for use in electric buses) in the third quarter of 2015.

During the Year, to elevate the sales and production of electric buses and/or its components to a level of advanced technologies, the Group had on 20 March 2015 entered into a supply agreement with XALT Energy MI, LLC ("**XALT**") for the supply of new generation high-power rapid charging lithium titanate (LTO) battery cells specified and tailored to the Group's production of high-performance rapid-charging electric bus for a term until the end of 2020. In November 2015, the XALT LTO battery cells had passed the product function inspection performed by the national inspection authority, 北方汽車質量監督檢驗鑒定試驗所 (North Vehicle Quality Supervision, Inspection and Approval Test Institute*) which certified that the XALT LTO battery cells conformed with the required technical and safety standard. With the official certification, the Group is able to use the XALT LTO battery cells in the manufacture of its battery systems in the PRC. The Company had placed orders to XALT for shipment of the XALT LTO battery cells for the Group's trial production of LTO batteries through the Company's wholly-owned subsidiary in the PRC, Lianyungang HK New Energy Vehicles System Integration Company Limited.

Directors' Report

During the Year, the Group had also been keen to seek opportunities for investment, cooperation and/or collaboration with renowned organizations, institutions and/or experts with a view to exploring ways to strengthening the Group's supply chains, enhance its production capacity and operational flexibility and widen its expertise in such areas which are considered to be beneficial to the overall development of the Group's electric motor vehicles business.

We realize that flexibility is one of the keys to success for any business. To complement the intended expansion of our electric bus business, we consider the finance-leasing business is promising. Through the finance-leasing model adopted by the Group, the electric buses are made available to transportation solutions operators or municipality transit companies for purchase or hire through finance-lease arrangement offered by 上海正道融資租賃有限公司 (HK Leasing Co., Ltd.*), a wholly-owned subsidiary of the Company set up for engaging in the finance-leasing business. The electric buses are effectively hired out to transportation solutions operators or municipality transit companies which choose to take out finance lease from the Group at minimal or zero upfront payment. The Group will provide a 10-year warranty for the battery packs installed in the electric buses leased out by the Group. The business strategy can help ease the concerns of transportation solutions operators or municipality transit companies over battery degradation or having to make significant capital outlay. The provision of finance-leasing is therefore expected to promote the sale and use of the Group's electric buses and facilitate market penetration in a greater scale and at a quicker space. During the Year, the Group had entered into finance-lease contracts amounted to approximately HK\$22.36 million with certain public buses operators who were also the customers of our electric buses.

For the Year, the turnover and the loss of this segment were approximately HK\$38.0 million (2014: Nil) and HK\$34.3 million (2014: HK\$99.6 million).

New Energy Project

The Group has been engaging in the promotion of a new energy project (which involved the development of key new energy automobile components) (the "**New Energy Project**") through 連雲港正道新能源有限公司 (Hybrid Kinetic (Lianyuangang) New Energy Limited, Inc.*) (the "**Project Company**"), in which the Company holds approximately 77.78% of its total registered capital of US\$27,000,000.

The Project Company commenced trial production of small quantity of single and few-layer graphene (單層石墨烯) in July 2015. Graphene is an ideal material for super batteries (超級電池), electronic traction motor (電機) and power electronic system (電控系統) for use in electric vehicles.

In the pursuit of technological and socially responsible innovation for new energy productions, the Project Company and HK Graphene Technology Corporation (formerly known as Angstrom Holdings Corporation), a subsidiary of the Company in the United States of America (the "**US**"), have been cooperating in the research and development of graphene super batteries (石墨烯超級電池) (which possess relatively higher energy and power density and long charge and discharge life cycle, have a charging rate which is much faster than normal batteries and can function normally under severe weather condition). The Group has the ability to commence production of graphene in relatively low cost, and an application for patent registration for the production process of graphene had been filed in the US pending approval during the Year.

Directors' Report

To enhance the competitive strength of the Group's high-tech electric motor vehicles business, the Project Company is expected to commence mass production of graphene super batteries for installation in electric buses when the market of electric bus in China is mature.

For the Year, the turnover and the loss of this segment were nil (2014: Nil) and HK\$27.1 million (2014: HK\$12.8 million).

PROSPECTS

We believe that the demand for high-tech, clean and sustainable transportation will continue to grow under the global trend of urbanization and proactive impositions of environmental regulations.

Given the positive response in respect of the electric buses designed by the Group, we are optimistic that the Group's business scale will extend beyond the existing China market to cover the Asian and European markets. We have started our initial penetration in the electric bus market in Thailand and planned potential collaboration in certain markets in Europe. We anticipate that the development of electric buses will entail massive potentials as well as business and investment opportunities for the Group.

We will step up our efforts to explore investment opportunities and consider different options to achieve a higher level of vertical integration of our electric motor vehicles business (including but not limited to the viability of having our own manufacturing facilities (through acquisition or otherwise)). This business goal, if achieved successfully, is expected to improve supply chain co-ordination, as well as enhance costs and quality control. These, in turn, are expected to bring a positive impact on the Group's operation, performance and competitiveness in the automobile market place.

The finance-leasing business had come into operation during the Year. We expect the finance-leasing model adopted by the Group will be well-received by potential customers. We intend to extend the provision of our finance-leasing services to potential customers who have financing needs for other motor vehicles with a view to broadening our customer base.

The participation of the Group in the New Energy Project, through its investment in the Project Company, and following completion of the construction of production facilities by the Project Company in July 2015 for producing key new energy automobile components (including battery materials, super batteries, electric control systems, electrolyte and in particular, single and few-layer graphene (單層石墨烯)) is expected to enhance the Group's capability and production capacity for the manufacture of more advanced and competitive new energy automobile components at competitive price.

MATERIAL ACQUISITION OR DISPOSAL

The Company had on 10 January 2015 completed (through Hybrid Kinetic Power Battery Holdings Limited (正道動力電池控股有限公司) (“HK-Power”), its wholly-owned subsidiary) the disposal (the “**GBS Equity Interest Disposal**”) of the Group’s 75% equity interest in Zhejiang GBS Energy Co., Ltd. (浙江佳貝思綠色能源有限公司) (“**GBS**”) pursuant to the terms and conditions contained in the share transfer agreement dated 18 August 2014 (as supplemented) entered into between HK-Power and the purchasers therein (namely Headland Co., Limited (48.15%), Ms Wenren Hongyan (23.95%) and Mr Wenren Hongquan (2.90%)). Ms Wenren Hongyan and Mr Wenren Hongquan are also the directors of GBS. The Company derived net proceeds of approximately HK\$76.6 million from the GBS Equity Interest Disposal. The GBS Equity Interest Disposal together with the transactions and arrangements contemplated thereunder constituted very substantial disposal and connected transaction of the Company under the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and were subject to (and had obtained) the approval of the independent shareholders of the Company. Please refer to note 44 to the financial statements disclosed above and the announcement dated 10 October 2014, the circular dated 16 December 2014, the announcements dated 11 January 2015 and 14 January 2015 of the Company for details of the transactions and arrangements under the GBS Equity Interest Disposal.

Save as the GBS Equity Interest Disposal, there were no material acquisitions and disposals of the Group during the Year.

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

During the Year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

FUND RAISING ACTIVITIES AND USE OF PROCEEDS DURING THE YEAR

- (1) On 3 February 2015, the Company allotted and issued an aggregate of 697,946,951 ordinary shares of HK\$0.10 each in the Company (with aggregate nominal value of HK\$69,794,695.10) at HK\$0.175 each upon completion of various subscription transactions contemplated under 23 subscription agreements all dated 23 January 2015 entered into by the Company with 23 subscribers with the net proceeds of approximately HK\$121,740,000 raised therefrom. To the best of the Directors’ knowledge, the subscribers were professional and other investors and independent of and not connected with the Company and its connected persons. The closing price of each share as quoted on 22 January 2015 (being the last trading day immediately before the signing of the various subscription agreements) was HK\$0.216 and the net proceeds raised per share was approximately HK\$0.174 under the subscription transactions. Please refer to the announcements dated 23 January 2015 and 3 February 2015 of the Company for details.

As of 31 December 2015, the Company utilized all of the net proceeds raised from the subscription transactions completed on 3 February 2015 for pursuing opportunities in the research and development, manufacture and/or operation of high-tech motor vehicles in the PRC. The application of such net proceeds was in line with the intended use of the net proceeds as previously disclosed.

Directors' Report

- (2) On 22 June 2015, the Company also allotted and issued an aggregate of 4,471,268,040 ordinary shares of HK\$0.10 each in the Company (with aggregate nominal value of HK\$447,126,804) at HK\$0.37 each upon completion of the various subscription/placing transactions contemplated under 27 subscription agreements and a placing agreement all dated 22 April 2015 entered into by the Company with various independent subscribers and an independent placing agent with the net proceeds of approximately HK\$1,648,000,000 raised therefrom. To the best of the Directors' knowledge, the subscribers and placees were professional and other investors and independent of and not connected with the Company and its connected persons. The closing price of each share as quoted on 21 April 2015 (being the last trading day immediately before the signing of the various subscription agreements and the placing agreement) was HK\$0.44 and the net proceeds raised per share was approximately HK\$0.370 under the subscription transactions and HK\$0.366 under the placing transaction. Please refer to the announcements dated 22 April 2015 and 22 June 2015 and the circular dated 26 May 2015 of the Company for details.

As of 31 December 2015, the Company utilized part of the net proceeds in the aggregate amount of approximately HK\$425 million (as to approximately (i) HK\$30 million for the setting up of a battery system factory in 連雲港經濟技術開發區 (Lianyungang Economic and Technology Development Zone*) in the Jiangsu Province, the PRC (ii) HK\$78 million in the research and development of fuel cell systems, (iii) HK\$234 million as initial registered capital contributed towards the establishment of a wholly-owned subsidiary to engage in the finance-leasing business, (iv) HK\$23 million for expanding the offices in Hong Kong and the PRC; and (v) HK\$60 million as general working capital of the Group), and the remaining balance of approximately HK\$1,223 million was yet to be utilized. The application of the net proceeds utilized was in line with the intended use of the net proceeds as previously disclosed.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2015, the total equity of the Group amounted to approximately HK\$2,280.0 million (31 December 2014: HK\$612.4 million).

The gearing ratio of the Group as of 31 December 2015 measured in terms of total liabilities divided by shareholders' equity was approximately 1.83% (31 December 2014: 17.46%).

As of 31 December 2015, net current assets of the Group were approximately HK\$2,119.1 million (31 December 2014: HK\$483.4 million). The pledged bank deposits were approximately HK\$1.6 million (31 December 2014: HK\$0.8 million). The cash and cash equivalents amounted to HK\$999.8 million (31 December 2014: HK\$202.1 million).

The short-term investments was approximately HK\$84.0 million (31 December 2014: HK\$11.3 million) and structured bank deposits was approximately HK\$420.2 million (31 December 2014: HK\$100.9 million). The Group also had outstanding borrowings of approximately HK\$0.2 million (31 December 2014: HK\$0.2 million).

Directors' Report

PLEDGE OF THE GROUP'S ASSETS

As of 31 December 2015, the Group had pledged its bank deposits of HK\$1.6 million (31 December 2014: HK\$0.8 million) to the Group's bankers to secure corporate credit cards facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

During the Year, almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong dollar and/or United States dollars, and the Group had no significant exposure to foreign exchange fluctuations and therefore, had not taken any financial instruments for hedging purpose.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group had a total of approximately 183 employees as at 31 December 2015 (2014: 85 employees). Total staff costs, including directors' emoluments, of the Group were approximately HK\$74,430,000 (2014: HK\$179,030,000). It has been the Group's policy to ensure that the remuneration levels of the Directors and its employees are reviewed and rewarded on a performance-related basis within the general framework of the Group's salary and bonus system. Share options may also be granted to the Directors and employees of the Group to attract, retain and incentivize them to work and make contribution towards the long term growth and development of the Group.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company had reviewed and discussed with the management of the Company regarding the consolidated financial statements of the Group for the Year.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the annual report on page 130. The summary does not form part of the audited financial statements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

Directors' Report

COMPOSITION OF THE BOARD

The Directors during the Year and up to the date of this Directors' report are:

Executive Directors:

Dr Yeung Yung (*Chairman*)

Mr Xu Jianguo (*appointed as Chief Executive Officer with effect from 3 February 2016*)

Mr Hui Wing Sang, Wilson (*Deputy Chairman*)

Dr Huang Chunhua (*Deputy Chairman*)

Dr Wang Chuantao (*re-designated as Deputy Chairman with effect from 3 February 2016*)

Mr Liu Stephen Quan

Dr Zhu Shengliang

Mr Li Zhengshan

Mr Ting Kwok Kit, Johnny

Mr Chen Xiao

Non-executive Director:

Dr Xia Tingkang, Tim

Independent Non-Executive Directors:

Mr Wong Lee Hing

Dr Song Jian

Dr Zhu Guobin

Mr Cheng Tat Wa

Dr Li Jianyong

Mr Chan Sin Hang

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2015, so far as is known to any director(s) or chief executive of the Company, the following parties (other than the directors or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

Name	Capacity/Nature of interest	Number of Shares	Percentage (Note 4)
Sun East LLC	Beneficial owner (Note 1)	2,673,071,189	13.15%
Yeung Yung	Interest of controlled corporation (Note 2)	2,673,071,189	13.15%
	Beneficial owner (Note 3)	68,140,000	0.34%
		2,741,211,189	13.49%

Notes:

1. Sun East LLC is owned as to 35% by Dr Yeung Yung (shared commonly with his spouse under the laws of California, the US) and 65% by Mr Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr Yeung Yung on 30 December 2002. Dr Yeung Yung (as well as his spouse) was deemed to be interested in these 2,673,071,189 Shares held by Sun East LLC under Part XV of the SFO.
2. These 2,673,071,189 Shares are the same parcel of Shares held by Sun East LLC in which Dr Yeung Yung (as well as his spouse) is deemed interested under Part XV of the SFO.
3. These 10,000,000 Shares are directly held by Dr Yeung Yung, in which his spouse is deemed interested under Part XV of the SFO.
4. The percentage of shareholding is calculated on the basis of 20,325,872,747 Shares in issue as at 31 December 2015 and does not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.

Save as disclosed above, no person, other than those Directors whose interests are set out in the section "Directors' and chief executive's interests and short positions" below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

As at 31 December 2015, the interests and short positions of the directors and the chief executive 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 SFO) as recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules were as follow:

(1) Long positions in the ordinary share (each a "Share") of HK\$0.10 each in the Company

Name of Director	Number of Shares	Capacity/Nature of interest	Approximate percentage of shareholding (Note 1)
Yeung Yung	2,673,071,189 (Note 2)	Controlled corporation	
	68,140,000	Beneficial owner	
	2,741,211,189 (Note 3)		13.49%
Xu Jianguo	30,000,000	Beneficial owner	0.15%
Hui Wing Sang, Wilson	2,904,000	Beneficial owner	0.01%
Huang Chunhua	65,000,000	Beneficial owner	0.32%
Wang Chuantao	30,000,000	Beneficial owner	0.15%
Liu Stephen Quan	281,760,000 (Note 4)	Founder of trust Interest of children under 18	
	10,000,000	Beneficial owner	
	291,760,000		1.44%
Zhu Shengliang	22,043,883	Beneficial owner	0.11%
Li Zhengshan	26,270,000	Beneficial owner	0.13%
Ting Kwok Kit, Johnny	3,000,000	Beneficial owner	0.01%
Chen Xiao	25,000,000	Beneficial owner	0.12%
Cheng Tat Wa	1,300,000	Beneficial owner	0.006%
Chan Sin Hang	500,000	Beneficial owner	0.002%

Directors' Report

Notes:

- (1) The percentage of shareholding is calculated on the basis of 20,325,872,747 Shares in issue as at 31 December 2015 and did not take into account any Shares which may fall to be allotted and issued upon exercise of any subscription rights attaching to any share options granted by the Company.
- (2) These Shares are held by Sun East LLC. Sun East LLC is a limited liability company incorporated in California, the US, which is owned as to (i) 35% by Dr Yeung Yung (shared commonly with his spouse under the laws of California, the US) and 65% by Mr Ma Manwai (alias Ma Manwai, Philip) and Mr Jimmy Wang (alias Wang Jian) as co-trustees for certain trusts established for the benefit of the children of Dr Yeung Yung on 30 December 2002. Dr Yeung Yung (as well as his spouse) was deemed to be interested in the Shares held by Sun East LLC by virtue of Part XV of the SFO.
- (3) The spouse of Dr Yeung Yung is deemed to be interested in the Shares beneficially held by Dr Yeung Yung by virtue of Part XV of the SFO.
- (4) These Shares were indirectly owned by certain trusts of which Mr Liu Stephen Quan were the founder. The children of Mr Liu were eligible beneficiaries of the trusts. Mr Liu was deemed to be interested in these Shares by virtue of Part XV of the SFO.

(2) Interests in share options of the Company

Name of Director	Date of grant	Exercisable period	Exercise price (HK\$)	Number of underlying Shares subject to outstanding Options	Approximate percentage of shareholding (Note)
Xu Jianguo	20 November 2014	20 November 2014 to 19 November 2024	0.201	50,000,000	0.25%
Hui Wing Sang, Wilson	6 February 2008	6 February 2008 to 5 February 2018	0.114	27,000,000	
	6 September 2013	6 September 2013 to 5 September 2023	0.108	60,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	50,000,000	
				137,000,000	0.67%
Huang Chunhua	20 November 2014	20 November 2014 to 19 November 2024	0.201	50,000,000	0.25%
Wang Chuantao	20 November 2014	20 November 2014 to 19 November 2024	0.201	30,000,000	0.15%
Liu Stephen Quan	6 September 2013	6 September 2013 to 5 September 2023	0.108	10,000,000	0.05%

Directors' Report

Name of Director	Date of grant	Exercisable period	Exercise price (HK\$)	Number of underlying Shares subject to outstanding Options	Approximate percentage of shareholding (Note)
Zhu Shengliang	6 September 2013	6 September 2013 to 5 September 2023	0.108	20,000,000	
	20 November 2014	20 November 2014 to 19 November 2014	0.201	20,000,000	
				40,000,000	0.20%
Li Zhengshan	6 September 2013	6 September 2013 to 5 September 2023	0.108	20,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	50,000,000	
				70,000,000	0.34%
Ting Kwok Kit, Johnny	6 September 2013	6 September 2013 to 5 September 2023	0.108	32,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	25,000,000	
				57,000,000	0.28%
Chen Xiao	20 November 2014	20 November 2014 to 19 November 2024	0.201	50,000,000	0.25%
Xia TingKang, Tim	6 September 2013	6 September 2013 to 5 September 2023	0.108	10,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	10,000,000	
				20,000,000	0.14%
Wong Lee Hing	29 July 2014	29 July 2014 to 28 July 2024	0.1136	7,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	2,000,000	
				9,000,000	0.04%

Directors' Report

Name of Director	Date of grant	Exercisable period	Exercise price (HK\$)	Number of underlying Shares subject to outstanding Options	Approximate percentage of shareholding (Note)
Song Jian	6 September 2013	6 September 2013 to 5 September 2023	0.108	10,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	10,000,000	
				20,000,000	0.10%
Zhu Guobin	6 September 2013	6 September 2013 to 5 September 2023	0.108	10,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	10,000,000	
				20,000,000	0.10%
Cheng Tat Wa	20 November 2014	20 November 2014 to 19 November 2024	0.201	5,000,000	0.02%
Li Jianyong	6 September 2013	6 September 2013 to 5 September 2023	0.108	10,000,000	
	20 November 2014	20 November 2014 to 19 November 2024	0.201	20,000,000	
				30,000,000	0.15%
Chan Sin Hang	20 November 2014	20 November 2014 to 19 November 2024	0.201	4,500,000	0.02%

Note:

The percentage of shareholding is calculated on the basis of 20,325,872,747 Shares in issue as at 31 December 2015.

Save as disclosed above, none of the Directors or the chief executive of the Company had or were deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2015.

Directors' Report

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Old Scheme") on 12 June 2003, which was expired on 11 June 2013. The share option scheme currently in force was adopted on 13 June 2013 (the "Scheme") pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 13 June 2013.

The following share options were outstanding during the period from 1 January to 31 December 2015 (the "Period"):

Name Category of Participant	As at 1 January 2015	Reclassification during the Period	Share Options Granted	Share options lapsed/ cancelled during the Period	Share Options Exercised	As at 31 December 2015	Date of Grant	Exercise Price	Exercise Period
Director									
Yeung Yung	11,140,000	-	-	-	(11,140,000)	-	Note 1	Note 1	Note 1
	27,000,000	-	-	-	(27,000,000)	-	Note 2	Note 2	Note 2
	10,000,000	-	-	-	(10,000,000)	-	Note 4	Note 4	Note 4
	10,000,000	-	-	-	(10,000,000)	-	Note 6	Note 6	Note 6
Xu Jianguo	30,000,000	-	-	-	(30,000,000)	-	Note 4	Note 4	Note 4
	50,000,000	-	-	-	-	50,000,000	Note 6	Note 6	Note 6
Hui Wing Sang, Wilson	27,000,000	-	-	-	-	27,000,000	Note 2	Note 2	Note 2
	60,000,000	-	-	-	-	60,000,000	Note 4	Note 4	Note 4
	50,000,000	-	-	-	-	50,000,000	Note 6	Note 6	Note 6
Huang Chunhua	65,000,000	-	-	-	(65,000,000)	-	Note 4	Note 4	Note 4
	50,000,000	-	-	-	-	50,000,000	Note 6	Note 6	Note 6
Wang Chuantao	30,000,000	-	-	-	(30,000,000)	-	Note 4	Note 4	Note 4
	30,000,000	-	-	-	-	30,000,000	Note 6	Note 6	Note 6
Liu Stephen Quan	10,000,000	-	-	-	-	10,000,000	Note 4	Note 4	Note 4
	10,000,000	-	-	-	(10,000,000)	-	Note 6	Note 6	Note 6
Zhu Shengliang	16,710,000	-	-	-	(16,710,000)	-	Note 1	Note 1	Note 1
	20,000,000	-	-	-	-	20,000,000	Note 4	Note 4	Note 4
	20,000,000	-	-	-	-	20,000,000	Note 6	Note 6	Note 6
Li Zhengshan	5,570,000	-	-	-	(5,570,000)	-	Note 1	Note 1	Note 1
	5,000,000	-	-	-	(5,000,000)	-	Note 2	Note 2	Note 2
	25,000,000	-	-	-	(5,000,000)	20,000,000	Note 4	Note 4	Note 4
	50,000,000	-	-	-	-	50,000,000	Note 6	Note 6	Note 6
Ting Kwok Kit, Johnny	35,000,000	-	-	-	(3,000,000)	32,000,000	Note 4	Note 4	Note 4
	25,000,000	-	-	-	-	25,000,000	Note 6	Note 6	Note 6
Chen Xiao	25,000,000	-	-	-	(25,000,000)	-	Note 4	Note 4	Note 4
	50,000,000	-	-	-	-	50,000,000	Note 6	Note 6	Note 6
Xia Tingkang, Tim	10,000,000	-	-	-	-	10,000,000	Note 4	Note 4	Note 4
	10,000,000	-	-	-	-	10,000,000	Note 6	Note 6	Note 6
Wong Lee Hing	10,000,000	-	-	-	(3,000,000)	7,000,000	Note 5	Note 5	Note 5
	2,000,000	-	-	-	-	2,000,000	Note 6	Note 6	Note 6
Song Jian	10,000,000	-	-	-	-	10,000,000	Note 4	Note 4	Note 4
	10,000,000	-	-	-	-	10,000,000	Note 6	Note 6	Note 6

Directors' Report

Name Category of Participant	As at 1 January 2015	Reclassification during the Period	Share Options Granted	Share options lapsed/ cancelled during the Period	Share Options Exercised	As at 31 December 2015	Date of Grant	Exercise Price	Exercise Period
Zhu Guobin	10,000,000	-	-	-	-	10,000,000	Note 4	Note 4	Note 4
	10,000,000	-	-	-	-	10,000,000	Note 6	Note 6	Note 6
Cheng Tat Wa	5,000,000	-	-	-	(5,000,000)	-	Note 5	Note 5	Note 5
	5,000,000	-	-	-	-	5,000,000	Note 6	Note 6	Note 6
Li Jianyong	10,000,000	-	-	-	-	10,000,000	Note 4	Note 4	Note 4
	20,000,000	-	-	-	-	20,000,000	Note 6	Note 6	Note 6
Chan Sin Hang	5,000,000	-	-	-	(500,000)	4,500,000	Note 6	Note 6	Note 6
Sub Total:	864,420,000	-	-	-	(261,920,000)	602,500,000			
Employee (in aggregate)	15,250,000	-	-	(557,000)	(14,693,000)	-	Note 1	Note 1	Note 1
	31,400,000	-	-	-	(14,400,000)	17,000,000	Note 2	Note 2	Note 2
	265,000,000	-	-	-	(154,500,000)	110,500,000	Note 4	Note 4	Note 4
	7,000,000	-	-	-	(7,000,000)	-	Note 5	Note 5	Note 5
	355,000,000	-	-	(2,000,000)	(69,000,000)	284,000,000	Note 6	Note 6	Note 6
Sub Total:	673,650,000	-	-	(2,557,000)	(259,593,000)	411,500,000			
Other eligible persons: (in aggregate)	15,000,000	-	-	-	(10,000,000)	5,000,000	Note 2	Note 2	Note 2
	412,000,000	-	-	-	(216,000,000)	196,000,000	Note 4	Note 4	Note 4
	14,000,000	-	-	-	-	14,000,000	Note 5	Note 5	Note 5
	436,000,000	-	-	-	(222,000,000)	214,000,000	Note 6	Note 6	Note 6
	-	-	400,000,000	-	-	400,000,000	Note 7	Note 7	Note 7
Sub Total:	877,000,000	-	400,000,000	-	(448,000,000)	829,000,000			
Total:	2,415,070,000	-	400,000,000	(2,557,000)	(969,513,000)	1,843,000,000			

Notes:

- These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK\$0.102 per share at any time during the period of 10 years from 29 August 2005 to 8 August 2015.
- These share options were granted on 6 February 2008 and are exercisable at a subscription price of HK\$0.114 per share at any time during the period of 10 years from 6 February 2008 to 5 February 2018.
- These share options were granted on 4 December 2012 and exercisable at a subscription price of HK\$0.12 per share at any time during the period of 8 years from 1 January 2015 to 3 December 2022.
- These share options were granted on 6 September 2013 and are exercisable at a subscription price of HK\$0.108 per share at any time during the period of 10 years from 6 September 2013 to 5 September 2023.
- These share options were granted on 29 July 2014 and are exercisable at a subscription price of HK\$0.1136 per share at any time during the period of 10 years from 29 July 2014 to 28 July 2024.

Directors' Report

6. These share options were granted on 20 November 2014 and are exercisable at a subscription price of HK\$0.201 per share at any time during the period of 10 years from 20 November 2014 to 19 November 2024.
7. These share options were granted on 14 July 2015 and are exercisable at a subscription price of HK\$0.395 per share at any time during the period of 10 years from 14 July 2015 to 13 July 2025. The closing price of the Shares on the day immediately before the date of grant (13 July 2015) was HK\$0.405 per share.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the share option granted is measured based on binomial option valuation model.

	Measurement date 28 July 2015
Fair value	HK\$0.3185
Exercise price	HK\$0.395
Expected volatility	78.880%
Expected life of the Share Options	10 years
Risk-free interest rate	1.888%
Expected dividend yield	0%

In the valuation, it has applied the following assumptions:

1. Risk-free rate was based on 10-Year Hong Kong Exchange Fund Notes yield as at the valuation date (that is, 28 July 2015);
2. Expected dividend yield is based on historical dividend trend and expected future dividend policy determined by the Company; and
3. Expected volatility was determined by using 520-week historical volatility of the Company's share price provided by the Bloomberg.

The principal terms of the Scheme, which is currently in force, are briefly summarised below:

- 1) Purpose of the Scheme As incentives and rewards to eligible participants for their contribution or potential contribution to the Group
- 2) Participants of the Scheme a) any employee (whether full time or part time, including any executive Director but excluding any non-executive Director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest;

- b) any non-executive Directors (including independent non-executive Directors), any of the subsidiaries of the Company or any Invested Entity;
 - c) any supplier of goods or services to any member of the Group or any Invested Entity;
 - d) any customer of the Group or any Invested Entity;
 - e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
 - f) any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
 - g) any advisor (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
 - h) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group.
- 3) Maximum number of shares available for issue under the Scheme
- The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme (and any other share option scheme adopted by the Group) must not in aggregate exceed 30% of the share capital of the Company in issue from time to time.
- 4) Maximum entitlement of each participant under the Scheme
- In any 12-month period, shall not exceed 1% of the shares in issue

Directors' Report

- | | | |
|----|---|--|
| 5) | The period within which the shares must be taken up under an option | The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant |
| 6) | The minimum period for which an option must be held before it can be exercised | Unless otherwise determined by the Board, no minimum period |
| 7) | The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid | Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 21 days from the date of offer |
| 8) | The basis of determining the exercise price | The exercise price is determined by the Board and being not less than the highest of:

a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or

b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or

c) the nominal value thereof |
| 9) | The remaining life of the Scheme | The Scheme remains in force until 12 June 2023 |

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any Director or an entity connected with a director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Directors' Report

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year and up to the date of this annual report, no Directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries, which is not determinable by the employer within one year without payment of compensation, other than statutory compensations.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct governing securities transactions by the Directors. All Directors, after specific enquiries by the Company, had confirmed to the Company their compliance with the required standards set out in the Model Code and its code of conduct during the Year.

MAJOR CUSTOMERS AND SUPPLIERS

Turnover

The percentage of the Group's revenue (included continuing and discontinued operations) attributable to the five largest customers for the Year is as follows:

– The largest customer	40%
– The five largest customers in aggregate	94%

Purchases

The percentage of the Group's purchase (included continuing and discontinued operations) attributable to the five largest suppliers for the Year is as follows:

– The largest supplier	87%
– The five largest suppliers in aggregate	90%

Directors' Report

As far as the Directors are aware, none of the Directors, their associates or any shareholder of the Company (who to the Directors' knowledge was interested in or owned more than 5 per cent. of the Company's share capital) had any interest in the customers or suppliers referred to above.

CONNECTED TRANSACTIONS

None of the "Related Party Transactions" as disclosed in note 41 to the consolidated financial statements for the Year constituted discloseable non-exempted connected transaction or non-exempted continuing connected transaction under the Listing Rules.

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group and the Company during the Year are set out in note 18 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity on pages 48 to 49 and note 40 to the financial statements respectively.

ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

The particulars of the Group's borrowings as at the end of the Year are set out in note 36 to the financial statements. No interest was capitalised by the Group during the Year.

SHARE CAPITAL

Movements in share capital of the Company are shown in note 38 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the Year and the Company did not declare any interim dividend during the Year.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed level of public float as required under the Listing Rules during the Year and up to the date of this annual report.

Directors' Report

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to ensure better transparency and protection of the interests of the Company and its shareholders as a whole and to enhance corporate value and accountability. The Company wishes to highlight that it will continue to devote efforts in ensuring effective leadership and control of the Company and the transparency and accountability of all operations.

Throughout the Year, the Company had adopted and complied with the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has overall responsibility for overseeing management in the design, implementation and monitoring of the risk management and internal control systems of the Group and establishing procedures to enable the Group to identify, evaluate and monitor the adequacy and effectiveness of the systems in a timely manner. During the Year, the Company had, together with the senior management of the Group and the audit committee of the Board, reviewed and evaluated the risk management and internal control systems of the Group and considered that they were adequate and remained effective.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The automotive industry is one of the most environmental aware business sectors. To preserve the environment, the Group strives to devise and adopt environmental friendly strategies, policies and measures (through the concepts of reducing, re-using and re-cycling) to achieve sustainable development, and is committed to conducting its activities in a manner consistent with the above determination.

These strategies, policies and measures include but not limited to (i) using energy-efficient lighting and appliances, recycling of office supplies and other materials in the workplace to the extent practicable, (ii) working or partnering with renowned academics and strategic business partners in the research and development of both technologically advanced and energy saving auto-components and materials (such as single and few-layer graphene, battery materials, super batteries and electric control systems) for the electric buses and other vehicles designed and/or manufactured by the Group, (iii) setting up or using energy-saving and technologically advanced establishments and facilities for the manufacture of new energy products for auto-use. For instance, one of our major strategic partners, Dandong Automobile, was accredited certification to ISO 14001 (which is an international standard showing that the entity has established environment management system (EMS) in developing and implementing policies and objectives from, among others, legal and environmental perspectives), (iv) setting criteria for the selection of our suppliers and manufacturers which must be reliable, financially sound, environmental conscientious and are keen to adopt sustainability measures in their business and operation and (v) educating and reinforcing environmental protection awareness among employees of the Group.

Directors' Report

COMPLIANCE WITH LAWS AND REGULATIONS

The Board recognizes the importance of the Company to act responsibly and due compliance with the laws, rules and regulations applicable to the businesses operated by the Group. The Group has employed suitable personnel and engaged appropriate professional advisers to ensure that it stays abreast with legislative changes and industry developments and its operations are being run in line with the applicable laws, rules and regulations.

During the Year, the Company had complied with, and the Board is not aware of any violation of, the applicable laws, rules and regulations that had a significant impact on the business and operation of the Group in any material respects.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Company is committed to upholding a positive image for the Group and building trust and loyalty among its stakeholders, employees, customers, suppliers and other business partners. The Board considers that the Company has all along maintained good relationships with its stakeholders, employees, key customers, suppliers and other business partners, which are beneficial to the long-term development of the Group.

AUDITOR

The consolidated financial statements for the Year were audited by BDO Limited which would retire at the conclusion of the forthcoming annual general meeting of the Company (the "AGM"), and being eligible, offer themselves for re-appointment.

A resolution will be proposed at the forthcoming AGM to re-appoint BDO Limited as auditor of the Company.

On behalf of the Board

Yeung Yung

Chairman

Hong Kong, 31 March 2016

* For identification purpose only

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The board of directors (the “Directors” or the “Board”) of the Company (together with its subsidiaries, the “Group”) is committed to maintaining high standards of corporate governance to ensure better transparency and protection of the overall interests of the Company and its shareholders and to enhance corporate value and accountability. The Company wishes to highlight that the Board will continue to devote efforts in ensuring effective leadership and control of the Company and the transparency and accountability of all operations.

Throughout the year ended 31 December 2015 (the “Year”), the Company had applied the principles and complied with the code provisions (the “Code Provisions”) set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

BOARD OF DIRECTORS

Board

The Board is accountable to the shareholders of the Company for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company’s affairs. The Board focuses on overall corporate strategies and policies with emphasis on the business growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions, and budget should be retained for the Board’s approval. It has formalized the functions reserved to the Board to achieve a clear division of responsibilities between the Board and the senior management of the Group. The Board has delegated its responsibilities to the senior management to deal with day-to-day operations and reviewed those arrangements on a periodic basis. The senior management has frequently reported back to the Board and obtained prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

The Board is also responsible for performing the corporate governance functions of the Company with clear written terms of reference. The Board had reviewed the Company’s policies and practices on corporate governance, compliance with legal and regulatory requirements, training and continuous professional development of its directors and senior management and this corporate governance report in the discharge of its corporate governance functions and to ensure compliance with the Listing Rules.

Corporate Governance Report

In order to maximize the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established three Committees (namely the Audit Committee, the Nomination Committee and the Remuneration Committee) (the “Committee(s)”), each with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the Committees are reviewed and amended (if necessary) from time to time, as are the Committees’ structure, duties and composition so as to best suit the needs of, and foster corporate governance excellence in, the Company.

The Company Secretary and the external auditor engaged by the Company shall attend the annual general meeting (the “AGM”) of the Company and, as far as possible, all other meetings of the Board and the committees of the Board to answer questions and advise on corporate governance, statutory compliance, accounting and financial matters. The Company Secretary is an employee of the Company and is appointed by the Board. All Directors have access to the Company Secretary who is responsible for facilitating the Board’s processes, liaison among members of the Board and the Group’s compliance with the continuing obligations under the Listing Rules, the Codes on Takeovers and Mergers and Share Buy-backs, the Companies Ordinance, the Securities and Futures Ordinance and other laws, rules and regulations applicable to the Group. During the Year, the Company Secretary had undertaken at least 15 hours of relevant professional training annually to update his skills and knowledge.

All Directors are encouraged to propose and include items in the agenda of each of the meetings of the Board and the Committees for full discussion and deliberation. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by any Director/Committee member for inclusion in the agenda.

The Board meets regularly and at least four Board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened whenever necessary.

During the Year, eleven Board meetings were held, due notice of these meetings were given to or, depending on the circumstances, urgency and/or importance of the matters, agreed to be shortened or waived by all the Directors. Even though the Directors often stay/travel in different time zones, they endeavour to make themselves available for, and participate in the meetings to the extent possible via teleconferencing mechanisms or other electronic means.

Minutes of the Board/Committee meetings are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by Directors and/or dissenting views expressed. The meeting minutes are circulated to the Directors or Committee members within a reasonable period of time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary and are open for inspection at any reasonable time upon reasonable notice being served by any Director. All Directors are entitled to have access to Board papers and related materials at least 3 days before the intended date of a Board or Board committee meeting unless there are restrictions on disclosure due to legal and regulatory requirements or other justifiable grounds.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group’s performance, position and prospects and to discharge their duties and responsibilities on a timely basis. To enable the Directors to properly discharge their duties, they are given access to independent professional advisers, when necessary, at the expense of the Company.

Corporate Governance Report

Whenever a member of the Board or member of a committee of the Board has cause to believe that a matter to be voted upon would involve him in a conflict or possible conflict of interest, he is required to disclose the conflict of interest and is not allowed to participate in the final deliberation or decision and will abstain from voting on such matter.

Board composition

During the Year, the Board comprised the following members (who remained in office as at 31 December 2015 unless otherwise specified below):

Name

Executive Directors

Dr Yeung Yung (*Chairman*)

Mr Xu Jianguo (*appointed as Chief Executive Officer with effect from 3 February 2016*)

Mr Hui Wing Sang, Wilson (*Deputy Chairman*)

Dr Huang Chunhua (*Deputy Chairman*)

Dr Wang Chuantao (*re-designated as Deputy Chairman with effect from 3 February 2016*)

Mr Liu Stephen Quan

Dr Zhu Shengliang

Mr Li Zhengshan

Mr Ting Kwok Kit, Johnny

Mr Chen Xiao

Non-executive Director

Dr Xia Tingkan, Tim

Independent Non-Executive Directors

Mr Wong Lee Hing

Dr Song Jian

Dr Zhu Guobin

Mr Cheng Tat Wa

Dr Li Jianyong

Mr Chan Sin Hang

The biographies and other information of the current Directors are set out in the “Biographical Details of Directors and Senior Management” of this annual report. There is no financial, business, family or other material/relevant relationship among the Directors.

Under bye-law 87(1) of the bye-laws of the Company (the “Bye-laws”), at each AGM, one-third of the Directors for the time being (or, if their number is not three or a multiple of three (3)), then the number nearest to but not less than one-third shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, the Directors are subject to the free and absolute choice of the shareholders for re-election at the annual general meetings. Whereas under bye-law 86(2) of the Bye-laws, any Director appointed by the Board to fill a casual vacancy or as an addition to the existing Board should hold office until the next following general meeting of the Company.

Corporate Governance Report

By virtue of Bye-law 87(1) of the Bye-laws, (1) Dr Yeung Yung , (2) Dr Huang Chunhua, (3) Mr Li Zhengshan, (4) Mr Cheng Tat Wa, (5) Dr Li Jianyong; and (6) Mr Chan Sin Hang would retire. Each of them, being eligible, will offer himself for re-election at the forthcoming annual general meeting of the Company (the "2016 AGM").

The skills and expertise among the existing Directors are well-balanced with a mixture of core competencies in areas such as accounting and finance, legal, business and management, marketing strategies, business development, and scientific backgrounds.

The independent non-executive Directors (the "INEDs") meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgments. The Board considers that all of the INEDs are independent and the confirmation of independence pursuant to Rule 3.13 of the Listing Rules had been obtained from each of them as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive Directors.

The functions of INEDs include, but not limited to:

- Participating in Board meetings to bring an independent judgment to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- Taking the lead where potential conflicts of interests arise;
- Serving as member of and actively participating on matters delegated by the Board to the committee(s) established by the Board, if invited;
- Attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- Scrutinizing the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

Chairman, Deputy Chairmen and CEO

As at 31 December 2015, the Chairman of the Company was Dr Yeung Yung. The Deputy Chairmen of the Company were Dr Huang Chunhua and Mr Hui Wing Sang, Wilson, and the Chief Executive Officer ("CEO") of the Company was Dr Wang Chuantao.

With effect from 3 February 2016, Mr Xu Jianguo, who is an executive Director, has been appointed to serve as the chief executive officer of the Group, while Dr Wang Chuantao, who is an executive Director, was re-shuffled from his role as CEO to, and being re-designated as, deputy chairman of the Group.

Corporate Governance Report

Following the above changes of executive functions and as at the date of this report, the Chairman of the Company was Dr Yeung Yung, the CEO was Mr Xu Jianguo and the Deputy Chairmen of the Company were Mr Hui Wing Sang, Wilson, Dr Huang Chunhua and Dr Wang Chuantao.

The Chairman of the Company provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

The Deputy Chairmen of the Company assist the Chairman of the Company in carrying out his duties.

The position of CEO is vested with executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Chairman of the Company also seeks to ensure that all Directors are properly briefed on issues raised at Board meetings and receive adequate and reliable information in a timely manner.

Appointment, Re-election, Retirement and Removal

It is the Board's responsibility to select and appoint individuals with integrity, experience and calibre to act as directors of the Company. The Board reviews the profiles of the candidates and seek recommendations from the Nomination Committee of the Board on the appointment, re-election, retirement and removal of directors.

All Directors are subject to rotation at least once in every three years as required by the Bye-laws. Each Director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he acquaints himself with the common law duties and responsibilities of acting as a director for a listed company and familiarise himself with the applicable laws and regulations (including without limitation, the Listing Rules, the Companies Ordinance, the Securities and Futures Ordinance, and the governance policies of the Company).

Each of the non-executive Directors (including INEDs) is appointed for an initial term of not more than two years commencing from his date of appointment and is renewable successively for a term of one year until terminated by either party by giving not less than one month's prior written notice to the other and is subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Bye-laws. Every Director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

Committees

The Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee with specific terms of reference (which are of no less exacting terms than those set out in the CG Code) to enable each of the Committees to discharge its functions properly.

Corporate Governance Report

Audit Committee

The Audit Committee is responsible for reviewing financial statements and internal control system of the Group. It also provides advice on the financial and accounting policies of the Group.

As at 31 December 2015, the Audit Committee comprised three independent non-executive Directors (namely Mr Wong Lee Hing, Mr Cheng Tat Wa and Mr Chan Sin Hang), and the chairman of the Audit Committee as at the date of this report was Mr Cheng Tat Wa.

Two meetings of the Audit Committee were held for the year ended 31 December 2015. The individual attendance of each member is set out below:

Name of Member	Number of meetings attended
Mr Wong Lee Hing	2/2
Mr Cheng Tat Wa	2/2
Mr Chan Sin Hang	2/2

During the Year, the Audit Committee performed the following work:

- Reviewed with the management the unaudited interim financial statements for the six months ended 30 June 2015
- Reviewed with the management the risk management and internal control systems of the Group and their adequacy and effectiveness
- Reviewed and discussed with the management regarding the financial statements for the year ended 31 December 2015
- Carried out such other duties as set out in the Corporate Governance Code which included the review of the independence and objectivity of the external auditor, the nature and scope of the audit and reporting obligations, as well as the terms of their engagement. The Audit Committee was satisfied with the outcome of their review, and the Board shared the same views of the Audit Committee.

The Company Secretary keeps the minutes of Audit Committee. Draft and final versions have been sent to all members of the Audit Committee within a reasonable time after the meeting for their comments and records respectively. The terms of reference of the Audit Committee are available on both the websites of the Stock Exchange and the Company.

Corporate Governance Report

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements for the Year, which give a true and fair view of the state of affairs of the Company and the Group's results and cash flows for the year then ended and were properly prepared on a going concern basis in accordance with the applicable statutory requirements and accounting standards. The Directors were not aware of any material uncertainties which may affect the Company's business or cast significant doubt upon the Company's ability to continue as a going concern.

In addition, the external auditor has stated its reporting responsibility in the independent auditor's report of the consolidated financial statements for the Year.

Auditors' Remuneration

During the Year, the fees paid/payable to the external auditor in respect of audit and non-audit services provided by the external auditor of the Group were as follows:

	<i>HK\$</i>
Audit service	1,480,000
Non-audit services [#]	1,106,700
	<hr/>
	2,586,700

[#] The non-audit services mainly comprised review of interim financial information, professional services in relation to possible transactions and tax compliance services.

Remuneration Committee

The Company has set up the Remuneration Committee to ensure that there are formal and transparent procedures for formulating policies on the remuneration of the Directors and senior management. As at 31 December 2015, the Remuneration Committee comprised Dr Yeung Yung (an executive Director and the Chairman of the Board) and two independent non-executive Directors, namely, Mr Wong Lee Hing and Mr Cheng Tat Wa. Mr Wong Lee Hing was the Chairman of the Remuneration Committee.

During the Year, the Remuneration Committee determined the policy for the remuneration of executive Directors, assessed the performance of the executive Directors and approved the terms of their service contracts. The Remuneration Committee had also made recommendations to the Board regarding the Company's remuneration policy and the formulation and review of the remuneration package of all Directors and senior management of the Company for determination by the Board and considered and dealt with matters relating to appointment, retirement and re-election of Directors.

No Director is involved in deciding his own remuneration.

Corporate Governance Report

Details of the remuneration paid to members of the senior management of the Group (including the Directors) by band for the Year are set out below:

Remuneration band	Number of senior management
Below HK\$1,000,000	8
HK\$1,000,001 to HK\$1,500,000	1
HK\$2,000,001 to HK\$2,500,000	1
HK\$3,000,001 to HK\$3,500,000	1
HK\$3,500,001 to HK\$4,000,000	3
HK\$4,000,001 to HK\$4,500,000	3

The terms of reference of the Remuneration Committee are available on both the websites of the Stock Exchange and the Company.

Name of Member	Number of meetings attended
Dr Yeung Yung	1/1
Mr Wong Lee Hing	1/1
Mr Cheng Tat Wa	1/1

Nomination Committee

The Company has a Nomination Committee to ensure that there are fair and transparent procedures for the appointment, re-election and removal of directors to the Board. As at 31 December 2015, the Nomination Committee comprised Mr Wong Lee Hing and Mr Cheng Tat Wa, both being independent non-executive Directors, and Dr Yeung Yung, being the Chairman of the Board and an executive Director, was the Chairman of the Nomination Committee.

Name of Member	Number of meetings attended
Dr Yeung Yung	1/1
Mr Wong Lee Hing	1/1
Mr Cheng Tat Wa	1/1

During the Year, the Nomination Committee carried out the process of selecting and recommending to the Board candidates for directorship with reference to diversity policy of the Company, including the candidate's professional knowledge, industry experience, personal ethics, integrity and skills, evaluated the Board's composition, assess the independence of independent non-executive Directors and recommended the re-appointment of retiring Directors for shareholders' approval at the forthcoming 2016 Annual General Meeting.

The terms of reference of the Nomination Committee are available on both the websites of the Stock Exchange and the Company.

Corporate Governance Report

Attendance Records of Board/General Meetings

Details of the attendance of individual Director at general meetings (including annual general meeting) and Board meetings during the Year are set out below:

Name of Member	Number of general meetings attended	Number of Board meetings attended
<i>Executive Directors</i>		
Dr Yeung Yung	2/3	8/11
Mr Xu Jianguo	1/3	7/11
Mr Hui Wing Sang, Wilson	1/3	8/11
Dr Huang Chunhua	3/3	6/11
Dr Wang Chuantao	1/3	9/11
Mr Liu Stephen Quan	2/3	8/11
Dr Zhu Shengliang	0/3	8/11
Mr Li Zhengshan	2/3	8/11
Mr Ting Kwok Kit, Johnny	3/3	11/11
Mr Chen Xiao	2/3	7/11
<i>Non-executive Director</i>		
Dr Xia Tingkan, Tim	1/3	6/11
<i>Independent Non-Executive Directors</i>		
Mr Wong Lee Hing	2/3	9/11
Dr Song Jian	3/3	6/11
Dr Zhu Guobin	2/3	9/11
Mr Cheng Tat Wa	3/3	10/11
Dr Li Jianyong	3/3	6/11
Mr Chan Sin Hang	2/3	10/11

Continuous Professional Development

During the Year, all Directors were provided by the Company with materials (including but not limited to updates on Listing Rules and guidelines on Directors' Duties) to ensure that their contribution to the Board remains informed and relevant. The Company also encouraged all Directors to participate from time to time courses which they consider relevant at the expense of the Company so as to develop and refresh their knowledge and skills for better fulfillment of their duties as directors of a listed issuer.

SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding securities transactions by Directors. All Directors, after specific enquiries by the Company, confirmed to the Company their compliance with the required standard set out in the Model Code throughout the Year.

CHANGES IN CONSTITUTIONAL DOCUMENTS

During the Year, there were no changes in the Company's constitutional documents.

SHAREHOLDERS' RIGHTS AND COMMUNICATION

The Company is committed to (i) protecting the rights of Shareholders and ensuring that each Shareholder is treated equally and fairly; and (ii) reinforcing the trust placed in the Company by the Shareholders by remaining open and transparent, which objective the Company believes is the hallmark of a high quality company.

The Company attaches great importance to communication with the Shareholders. A number of means are used to promote greater understanding and dialogue with the Shareholders and the investing public.

The means of access includes without limitation the despatch to Shareholders and/or release by the Company of the various corporate communication of the Company (such as interim and annual reports, circulars, notices, financial reports, press releases and other business information) via the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://hk1188.etnet.com.hk>).

Shareholders are encouraged by the Company to attend general meetings of the Company where the Chairman of the Company and other members of the Board and (if appropriate) the auditors of the Company, are available to answer questions.

The following procedures are in place by which Shareholders may (a) convene a special general meeting (the "SGM"); (b) make proposals at Shareholders' meeting; and (c) send enquiries to the Board to achieve the above purposes.

(a) Procedures by which Shareholders can convene a SGM

Pursuant to section 74 of the Companies Act 1981 of Bermuda (the "Companies Act"), a Shareholder or Shareholders holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company may requisition the Directors to forthwith proceed duly to convene a SGM by depositing a written requisition at the registered office of the Company. Bye-law 58 of the Company's Bye-laws provide for this right as well.

The written requisition must state the purposes of the meeting (including the resolutions to be considered at the meeting), signed by the requisitionists, deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and may consist of several documents in like form each signed by one or more requisitionists.

If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a SGM, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any SGM so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

A SGM so convened by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

(b) Procedures for making proposals at Shareholders' meetings

Sections 79 and 80 of the Companies Act allow certain Shareholder(s) to requisition the Company to move a resolution at an annual general meeting (the "AGM") of the Company or circulate a statement at any general meeting of the Company. Under section 79 of the Companies Act, at the expense of the requisitionists unless the Company otherwise resolves, it shall be the duty of the Company on the requisition in writing by such number of Shareholders:

- (i) to give to the Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;
- (ii) to circulate to the Shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting;
- (iii) the number of Shareholders necessary to make the above-mentioned requisitions to the Company shall be:
 - either any number of Shareholders representing not less than one-twentieth of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or
 - not less than one hundred Shareholders.

Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meeting of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

Corporate Governance Report

Section 80 of the Companies Act sets out the conditions to be met before the Company is bound to give any notice of resolution or to circulate any statement. Pursuant to section 80 of the Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned above unless:

- (i) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company:
 - in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and
 - in the case of any other requisition, not less than one week before the meeting;
- (ii) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures regarding the giving of notice of resolution and/or circulation of statement),

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the above-mentioned time shall be deemed to have been properly deposited for the purposes thereof.

(c) Procedures for sending enquiries to the Board

Shareholders are encouraged to communicate with the Company for any enquiries in relation to the affairs of the Group. Shareholders may contact the Company in writing or by telephone or facsimile:

Address : Principal office of the Company in Hong Kong –
Suites 1407-8, 14/F., Great Eagle Centre, 23 Harbour Road,
Wanchai, Hong Kong

Telephone : +(852) 2530 9218

Facsimile : +(852) 2525 2002

Attention : Board of Directors/Company Secretary

Independent Auditor's Report



Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話 : +852 2218 8288
傳真 : +852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

To the members of Hybrid Kinetic Group Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hybrid Kinetic Group Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 44 to 129, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited

Certified Public Accountants

Lui Chi Kin

Practising Certificate Number P06162

Hong Kong

31 March 2016

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Continuing operations			
Revenue	7	38,004	–
Cost of sales		(36,534)	–
Gross profit			
Other income	8	28,222	4,446
Distribution costs		(225)	–
General operating expenses		(388,927)	(413,876)
Change in fair value of other financial asset	45	–	14,000
Share of result of an associate		11,519	–
Loss before income tax			
	10	(347,941)	(395,430)
Income tax expense	11	(1,098)	(6)
Loss for the year from continuing operations			
		(349,039)	(395,436)
Discontinued operations			
Loss for the year from discontinued operations	12.1	(7,288)	(25,406)
Loss for the year			
		(356,327)	(420,842)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:	13		
– Exchange differences on translation of foreign operations		(25,007)	3,326
– Release of translation reserve to profit or loss upon disposal of a subsidiary		(3,938)	–
Other comprehensive income for the year			
		(28,945)	3,326
Total comprehensive income for the year			
		(385,272)	(417,516)

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Loss for the year attributable to:			
Owners of the Company		(350,517)	(415,156)
Non-controlling interests		(5,810)	(5,686)
		(356,327)	(420,842)
Total comprehensive income for the year attributable to:			
Owners of the Company		(376,067)	(412,842)
Non-controlling interests		(9,205)	(4,674)
		(385,272)	(417,516)
Loss per share attributable to owners of the Company	15		
From continuing and discontinued operations			
Loss per share – basic		HK(1.98) cents	HK(3.53) cents
Loss per share – diluted		N/A	N/A
From continuing operations			
Loss per share – basic		HK(1.94) cents	HK(3.31) cents
Loss per share – diluted		N/A	N/A
From discontinued operations			
Loss per share – basic		HK(0.04) cent	HK(0.22) cent
Loss per share – diluted		N/A	N/A

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	79,372	23,062
Interest in an associate	20	20,354	–
Available-for-sale financial asset	21	10,982	–
Goodwill	23	–	–
Prepayments	25	36,656	94,454
Finance lease receivables	27	13,584	–
Other investment	22	–	11,479
		160,948	128,995
Current assets			
Inventories	26	4,087	–
Finance lease receivables	27	8,776	–
Prepayments, deposits and other receivables	28	639,797	131,857
Amount due from a non-controlling shareholder of a subsidiary	35	2,483	2,624
Other financial asset	45	–	–
Derivative financial asset	22	–	4,326
Short-term investments	29	84,001	11,346
Structured bank deposits	30	420,182	100,856
Pledged bank deposits	31	1,607	807
Cash and cash equivalents	31	999,820	202,071
		2,160,753	453,887
Assets of a disposal company classified as held for sale	12.2	–	136,433
		2,160,753	590,320
Current liabilities			
Trade payables	32	2,988	134
Accruals and other payables	33	37,571	42,876
Borrowings	36	196	207
Tax payable		920	4
		41,675	43,221
Liabilities of a disposal company classified as held for sale	12.2	–	63,681
		41,675	106,902
Net current assets		2,119,078	483,418
Total assets less current liabilities		2,280,026	612,413
Net assets		2,280,026	612,413

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	38	2,032,587	1,418,714
Reserves	40	210,984	(841,574)
		2,243,571	577,140
Non-controlling interests		36,455	35,273
Total equity		2,280,026	612,413

The consolidated financial statements on pages 44 to 129 were approved and authorised for issue by the board of directors on 31 March 2016 and are signed on its behalf by:

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Equity attributable to owners of the Company						Non-controlling interests	Total equity	
	Share capital	Share premium	Translation reserve	Equity	Other reserves	Accumulated losses			Total
				compensation reserve					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2014	1,041,116	620,418	7,554	172,358	-	(1,495,405)	346,041	295,246	641,287
Transaction with owners									
Subscription of new shares	375,998	106,814	-	-	-	-	482,812	-	482,812
Share issuance expenses	-	(892)	-	-	-	-	(892)	-	(892)
Recognition of equity settled share-based compensation (note 39)	-	-	-	195,756	-	-	195,756	-	195,756
Proceeds from shares issued under share option schemes	1,600	1,555	-	(1,399)	-	-	1,756	-	1,756
Additional interests in a subsidiary acquired by the Group	-	-	-	-	2,509	-	2,509	(2,509)	-
Capital reduction from non-controlling interests	-	-	-	-	-	-	-	(252,790)	(252,790)
Settlement of contingent share consideration receivable (note 45)	-	-	-	-	(38,000)	-	(38,000)	-	(38,000)
Total transactions with owners	377,598	107,477	-	194,357	(35,491)	-	643,941	(255,299)	388,642
Loss for the year	-	-	-	-	-	(415,156)	(415,156)	(5,686)	(420,842)
Other comprehensive income									
Exchange differences on translation of foreign operations	-	-	2,314	-	-	-	2,314	1,012	3,326
Total comprehensive income	-	-	2,314	-	-	(415,156)	(412,842)	(4,674)	(417,516)
At 31 December 2014	1,418,714	727,895	9,868	366,715	(35,491)	(1,910,561)	577,140	35,273	612,413

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Equity attributable to owners of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Translation reserve	Equity compensation reserve	Other reserves	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
At 1 January 2015	1,418,714	727,895	9,868	366,715	(35,491)	(1,910,561)	577,140	35,273	612,413
Transaction with owners									
Subscription of new shares	516,922	1,259,588	-	-	-	-	1,776,510	-	1,776,510
Share issuance expenses	-	(6,812)	-	-	-	-	(6,812)	-	(6,812)
Recognition of equity settled share-based compensation (note 39)	-	-	-	127,400	-	-	127,400	-	127,400
Proceeds from shares issued under share option schemes	96,951	139,404	-	(102,545)	-	-	133,810	-	133,810
Arising from deemed acquisition of non-controlling interests of a subsidiary	-	-	-	-	(10,387)	-	(10,387)	10,387	-
Disposal of retained shares (note 45)	-	-	-	-	30,212	-	30,212	-	30,212
Consideration shares received in respect of disposal of a subsidiary (note 44)	-	-	-	-	(52,494)	-	(52,494)	-	(52,494)
Disposal of subject shares (note 44)	-	-	-	-	44,259	-	44,259	-	44,259
Total transactions with owners	613,873	1,392,180	-	24,855	11,590	-	2,042,498	10,387	2,052,885
Loss for the year	-	-	-	-	-	(350,517)	(350,517)	(5,810)	(356,327)
Other comprehensive income									
Exchange differences on translation of foreign operations	-	-	(21,612)	-	-	-	(21,612)	(3,395)	(25,007)
Release of translation reserve to profit or loss upon disposal of a subsidiary (note 44)	-	-	(3,938)	-	-	-	(3,938)	-	(3,938)
Total comprehensive income	-	-	(25,550)	-	-	(350,517)	(376,067)	(9,205)	(385,272)
At 31 December 2015	2,032,587	2,120,075	(15,682)	391,570	(23,901)	(2,261,078)	2,243,571	36,455	2,280,026

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Cash flows from operating activities of continuing and discontinued operations			
Loss before income tax			
Continuing operations		(347,941)	(395,430)
Discontinued operations		(7,340)	(11,998)
Total		(355,281)	(407,428)
Adjustments for:			
Loss on disposal of a subsidiary	44	6,890	–
Share of result of associate		(11,519)	–
Share-based compensation		127,400	195,756
Interest income		(11,137)	(478)
Imputed interest income on long-term non-interest bearing deposits		–	(1,680)
Interest expense		108	1,239
Depreciation of property, plant and equipment		12,413	10,882
Amortisation of intangible assets		–	4,480
Impairment of other investments		11,479	–
Fair value loss on derivative financial asset		4,326	8,934
Impairment of goodwill		–	1,271
Impairment of property, plant and equipment		3,704	–
Impairment of available-for-sale financial asset		4,971	–
Impairment of trade receivables		–	885
Impairment of other receivables		461	18,449
Recovery of impairment of other receivables		(93)	–
Loss/(gain) on disposal of property, plant and equipment		308	(727)
Change in fair value of other financial asset	45	–	(14,000)
Operating loss before working capital changes		(205,970)	(182,417)
(Increase)/decrease in inventories		(4,003)	9,585
Increase in trade receivables		–	(10,821)
(Increase)/decrease in bills receivable		(555)	761
(Increase)/decrease in other receivables, prepayments and deposits		(514,097)	188,081
Increase in finance lease receivables		(22,360)	–
Increase in trade payables		3,946	1,725
Decrease in accruals and other payables		(2,809)	(664)
Decrease in bills payable		–	(8,898)
Cash used in operations		(745,848)	(2,648)
Interest paid		(108)	(1,239)
Income tax paid		(134)	(446)
Net cash used in operating activities		(746,090)	(4,333)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Cash flows from investing activities of continuing and discontinued operations			
Net cash inflow from disposal of a subsidiary	44	43,574	–
Net proceeds from disposal of retained shares	45	30,212	–
Purchase of available-for-sale financial assets		(15,757)	–
Purchase of property, plant and equipment		(66,129)	(26,808)
Increase in short-term investments		(76,271)	(2,470)
Settlement from a non-controlling shareholder of a subsidiary		–	28,343
Interest received		8,576	478
Prepayment for purchase of property, plant and equipment		(845)	(35,047)
Proceeds from disposal of property, plant and equipment		968	3,307
Prepayment for investment in a subsidiary		–	(46,800)
Completion of capital injection to a subsidiary		46,800	–
Increase in structured bank deposits		(324,686)	(100,856)
Increase in pledged bank deposits		(804)	(1,891)
<i>Net cash used in investing activities</i>		(354,362)	(181,744)
Cash flows from financing activities of continuing and discontinued operations			
Proceeds from issuance of share capital		1,776,510	482,812
Share issue expenses		(6,812)	(892)
Proceeds from shares issued under share options scheme		133,810	1,756
Capital reduction from non-controlling interests		–	(252,790)
Proceeds from borrowings		5,586	15,461
Repayment of borrowings		–	(7,815)
<i>Net cash generated from financing activities</i>		1,909,094	238,532
Net increase in cash and cash equivalents		808,642	52,455
Cash and cash equivalents at 1 January		203,995	147,996
Effect of exchange rate fluctuation		(12,817)	3,544
Cash and cash equivalents at 31 December		999,820	203,995
Analysis of balances of cash and cash equivalents			
Cash and bank balances		999,820	202,071
Cash and bank balances classified as assets of a disposal company classified as held for sale (note 12.2)		–	1,924
		999,820	203,995

Notes to the Financial Statements

For the year ended 31 December 2015

1. GENERAL INFORMATION

Hybrid Kinetic Group Limited is an exempted company with limited liability incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal office is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company and its subsidiaries (together referred to as the "Group") were development of advanced batteries materials and development of high-tech electric motor vehicles.

In August 2014, the Group has entered into a share transfer agreement in respect of the disposal of its 75% equity interest in Zhejiang GBS Energy Co., Ltd. ("GBS"), which principally engaged in development and manufacturing of lithium-ion power battery. It was resolved in the special general meeting held on 5 January 2015 that the disposal of 75% equity interest in GBS had already obtained the approval from the Company's independent shareholders by way of poll. The disposal of 75% equity interest in GBS is completed in January 2015 and the Group ceased to have control in GBS thereafter. Development and manufacturing of lithium-ion power battery represent separate major lines of the Group's businesses, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. Therefore, the Group has reclassified the assets and liabilities of GBS as at 31 December 2014 as assets/liabilities of a disposal company classified as held for sale in the Group's consolidated statement of financial position and presented the income and expenses of GBS as discontinued operations in the Group's consolidated statement of comprehensive income for the years ended 31 December 2015 and 2014 in accordance with Hong Kong Financial Reporting Standard ("HKFRS") 5. Further details regarding the discontinued operations and assets and liabilities of a disposal company classified as held for sale are set out in notes 12.1 and 12.2.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

2.1 In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2015:

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle

The adoption of these amendments has no material impact on the Group's financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group’s financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 1	Disclosure Initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
Amendments to HKAS 27 HKFRS 9 (2014) HKFRS 15	Equity Method in Separate Financial Statements ¹ Financial Instruments ² Revenue from Contracts with Customers ²
HKFRSs (Amendments) Amendments to HKFRS 10 and HKAS 28	Annual Improvements 2012-2014 Cycle ¹ Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ No effective date yet determined but is available for adoption

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

An entity’s share of other comprehensive income from equity accounted interests in associates and joint ventures will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

Amendments to HKAS 27 – Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 (2014) retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

Notes to the Financial Statements

For the year ended 31 December 2015

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 15 – Revenue from Contracts with Customers(Continued)

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group’s accounting policy for the first period beginning after the effective date of the pronouncement. The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors anticipate that more disclosures would be made but are not yet in a position to state whether these new/revised HKFRSs would have material impact on the Group’s financial statements.

2.3 New Hong Kong Companies Ordinance, Cap. 622

The requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance, Cap. 622 came into operation during the year. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”). These consolidated financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

3.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for financial instruments at fair value through profit or loss are stated at fair values. The measurement bases are fully described in the accounting policies as set out in note 4 below.

3.3 Functional and presentation currency

The financial statements are presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (“HK\$’000”) unless otherwise stated.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

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

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

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

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.1 Business combination and basis of consolidation *(Continued)*

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

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

Subsequent to acquisition, the carrying amount of non-controlling interest that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

4.2 Subsidiaries

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

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

4.3 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint arrangement. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.3 Associates *(Continued)*

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4.4 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree over the fair value of identifiable assets and liabilities acquired.

Where the fair value of identifiable assets and liabilities exceed the aggregate of the fair value of consideration paid, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, by comparing its carrying amount with its recoverable amount (see note 4.17), and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. However, the loss allocated to each asset will not reduce the individual asset's carrying amount to below its fair value less cost of disposal (if measurable) or its value in use (if determinable), whichever is the higher. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group’s presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the reporting date. Income and expenses have been converted into Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress ("CIP"), are stated at cost less accumulated depreciation and accumulated impairment losses.

Buildings held under leasing agreements are depreciated over their expected useful lives of 15 to 40 years or over the term of lease, whichever is shorter.

Depreciation on other assets is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements, fixture and fittings	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Furniture and equipment	20%
Machineries	10% to 20%
Motor vehicles	10% to 25%

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following estimated useful lives are applied:

Patents	5 to 10 years
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Intangible assets with indefinite useful lives are carried at cost less any subsequent impairment losses.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described in note 4.17.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

Financial assets are classified into the following categories:

- Loans and receivables
- Financial assets at fair value through profit or loss
- Available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

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

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(iii) Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.8 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(ii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

For financial assets other than loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of loans and receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

4.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

4.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the statement of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.11 Financial liabilities

The Group's financial liabilities include trade payables, accruals and other payables, and borrowings. They are included in line items in the statement of financial position as trade payables, accruals and other payables and borrowings.

Financial liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 4.20).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the profit or loss.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

4.12 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.13 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Where the Group is lessor

Finance lease

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

(iii) Where the Group is the lessee

Operating lease

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

4.14 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.14 Provisions, contingent liabilities and contingent assets *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

Probable inflow of economic benefit to the Group that do not yet meet the recognition criteria of an asset are considered as contingent assets.

4.15 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

4.16 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

Services fees are recognised in the accounting period in which the services are rendered.

Subsidy income is recognised when the right to receive payment is established.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.17 Impairment of non-financial assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, interest in an associate, interests in subsidiaries and intangible assets are subject to impairment testing.

Goodwill and intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit ("CGU") (see note 4.4), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.18 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligation under these plans is limited to the fixed percentage contributions payable.

Short-term employee benefits

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

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

4.19 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and exchange for services acquired from the service providers.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the equity instruments awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

For share options granted to service providers in exchange for services acquired, they are measured at the fair value of the services received. Their fair values of the services are recognised as expense immediately, unless the services qualify for recognition as assets. Corresponding adjustments have been made to equity.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.19 Share-based employee compensation *(Continued)*

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the share options granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in equity compensation reserve in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in equity compensation reserve will be transferred to share premium. After the vesting date, when the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in equity compensation reserve will continue to be held in equity compensation reserve.

4.20 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expenses when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

4.21 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Accounting for income taxes *(Continued)*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.21 Accounting for income taxes *(Continued)*

Current tax assets and current tax liabilities are presented in net if, and only if,

- a. the Group has the legally enforceable right to set off the recognised amounts; and
- b. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- a. the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- b. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - i. the same taxable entity; or
 - ii. different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.22 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major products and service lines.

The Group has identified the following reportable segments:

- (i) development of advanced batteries materials; and
- (ii) development of high-tech electric motor vehicles.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.22 Segment reporting *(Continued)*

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in the financial statements prepared under HKFRSs, except that;

- expenses related to share-based payments;
- income tax;
- corporate income and expenses which are not directly attributable to the business activities of any operating segment;

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to the segment. These include borrowings, tax payable and deferred tax liabilities.

No asymmetrical allocations have been applied to reportable segments.

4.23 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.23 Non-current assets held for sale and disposal groups *(Continued)*

Non-current assets and disposal groups classified as held for sale are measured at the lower of:

- their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy; and
- fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

4.24 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of comprehensive income, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal groups constituting the discontinued operation.

4.25 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Financial Statements

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

4.26 Related parties

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the Company's parent.
- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

Notes to the Financial Statements

For the year ended 31 December 2015

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises the intangible assets (other than goodwill) in accordance with the accounting policies stated in notes 4.6 to 4.7. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of these assets.

Impairment of loans and receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the ageing of the receivable balances, debtors' credit-worthiness, and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than those estimated.

Provision for warranty

Provision for product warranty granted by the Group to certain products are recognised based on sales volume and at the directors' best estimate of the expenditure required settle the Group's obligation. Any increase or decrease in the provision would affect profit or loss in future years.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Share-based compensation

The fair value of share options granted is calculated using binomial option valuation model and based on the Group's management's significant inputs into calculation, including estimated lives of share option granted, exercise restriction and behavioural consideration, the volatility of share price and weighted average share price of the share options granted. Furthermore, the calculation assumes no future dividends.

Notes to the Financial Statements

For the year ended 31 December 2015

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

Research and development costs

In accordance with the accounting policy as set out in note 4.7, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as intangible assets provided they meet all the requirements as set out in note 4.7. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement and assumptions regarding the expected progress and outcome of the research and development activities, the future expected cash generation of the assets, discount rates to be applied, and also the expected period of probable future economic benefits. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the projects. Hence research costs are generally recognised as expenses in the period in which they are incurred.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations required the use of estimates. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Notes to the Financial Statements

For the year ended 31 December 2015

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Fair value measurement

A number of assets included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1 valuations: Quoted prices in active markets for identical items (unadjusted);
- Level 2 valuations: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3 valuations: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the following at fair value:

- Derivative financial asset (note 22)

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

Available-for-sale financial asset

HKAS 39 precludes the Group from measuring equity instruments at fair value, if the fair value of investment in equity instruments that do not have a quoted market price in an active market is not reliably measureable. In making this judgment, the Group considers the following information:

- the variability in the range of reasonable fair value estimates is significant for that instrument; or
- the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION

The chief operating decision maker, being the Company's executive directors, has identified the Group's product and service lines as operating segments as follows:

For the year ended 31 December 2015

- (i) development of advanced batteries materials; and
- (ii) development of high-tech electric motor vehicles.

For the year ended 31 December 2014

- (i) natural resources business;
- (ii) development of hybrid vehicles;
- (iii) development of advanced batteries materials; and
- (iv) development of high-tech electric motor vehicles.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

As mentioned in note 1, the Group has discontinued its operations of development and manufacturing of lithium-ion power battery and these operations had been presented as discontinued operations in the financial statements and not presented in the segment information. Further details regarding the results of these discontinued operations are set out in note 12.1 to the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2015

	High-tech electric motor vehicles HK\$'000	Advanced batteries materials HK\$'000	Total HK\$'000
Revenue			
Sales to external customers	38,004	–	38,004
Segment results	(34,344)	(27,109)	(61,453)
Unallocated corporate income and expense, net			(159,088)
Share-based compensation			(127,400)
			(347,941)
Income tax expense			(1,098)
Loss for the year from continuing operations			(349,039)
Loss for the year from discontinued operations (note 12.1)			(7,288)
Loss for the year			(356,327)
Segment assets	965,624	21,260	986,884
Available-for-sale financial asset			10,982
Amount due from a non-controlling shareholder of a subsidiary			2,483
Structured bank deposits			420,182
Cash and cash equivalents held by the Group's headquarter			656,486
Unallocated corporate assets			244,684
Total assets			2,321,701
Segment liabilities	18,072	268	18,340
Borrowings			196
Tax payable			920
Unallocated corporate liabilities			22,219
Total liabilities			41,675
Other segment information			
Interest income	1,344	1	1,345
Depreciation	(1,507)	(3,608)	(5,115)
Impairment of property, plant and equipment	(2,732)	(972)	(3,704)
Impairment of other investment	–	(11,479)	(11,479)
Change in fair value of derivative financial asset	–	(4,326)	(4,326)
Research and development expenses	(36,895)	(1,670)	(38,565)
Additions to non-current assets (excluding financial instruments)	29,240	1,605	30,845

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

For the year ended 31 December 2014

	High-tech electric motor vehicles HK\$'000	Advanced batteries materials HK\$'000	Natural resources HK\$'000	Hybrid vehicles HK\$'000	Total HK\$'000
Revenue					
Sales to external customers	-	-	-	-	-
Segment results	(99,560)	(12,844)	(20,411)	(1,271)	(134,086)
Unallocated corporate income and expense, net					(65,588)
Share-based compensation					(195,756)
Loss before income tax					(395,430)
Income tax expense					(6)
Loss for the year from continuing operations					(395,436)
Loss for the year from discontinued operations (note 12.1)					(25,406)
Loss for the year					(420,842)
Segment assets	111,133	41,311	8,233	1,010	161,687
Amount due from a non-controlling shareholder of a subsidiary					2,624
Short-term investments					11,346
Structured bank deposits					100,856
Cash and cash equivalents held by the Group's headquarter					173,410
Assets of a disposal company classified as held for sale (note 12.2)					136,433
Unallocated corporate assets					132,959
Total assets					719,315
Segment liabilities	4,548	254	9,084	7,894	21,780
Liabilities of a disposal company classified as held for sale (note 12.2)					63,681
Borrowings					207
Tax payable					4
Unallocated corporate liabilities					21,230
Total liabilities					106,902
<u>Other segment information</u>					
Interest income	70	24	50	-	144
Depreciation	(817)	(77)	-	-	(894)
Impairment of goodwill	-	(1,271)	-	-	(1,271)
Impairment of other receivables	(8)	(21)	(10,792)	-	(10,821)
Research and development expenses	(96,391)	-	-	-	(96,391)
Change in fair value of derivative financial asset	-	(8,934)	-	-	(8,934)
Additions to non-current assets (excluding financial instruments)	53,774	99	-	-	53,873

Notes to the Financial Statements

For the year ended 31 December 2015

6. SEGMENT INFORMATION (Continued)

The Group's revenue from external customers (including the revenue from operations which has been classified as discontinued operations as set out in note 12.1) and its non-current assets (other than financial instruments) are divided into the following geographical areas:

	Revenue from external customers (including continuing and discontinued operations)		Non-current assets (other than financial assets)	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
– Hong Kong (place of domicile)	–	–	17,399	1,807
– the PRC	39,235	26,582	102,526	102,379
– United States ("US")	2,267	7,861	16,457	13,330
– Germany	1,462	7,212	–	–
– Korea	1,940	20,965	–	–
– Italy	–	5,491	–	–
– Other locations	41	4,059	–	–
Total	44,945	72,170	136,382	117,516

The geographical location of customers is based on the location of customers. The geographical location of other non-current assets (other than financial instruments) is based on the physical location of the assets.

For the year ended 31 December 2015, revenue from transactions with three customers from the high-tech electric motor vehicles business (2014: two customers from the discontinued operations of lithium-ion power batteries) which amounted to 10% or more of the Group's revenue (including the revenue from operations which has been classified as discontinued operations as set out in note 12.1) are as follows:

	2015 HK\$'000	2014 HK\$'000
Customer A (note 1)	17,803	–
Customer B (note 1)	6,140	–
Customer C (note 1)	14,061	–
Customer D (note 2)	–	20,951
Customer E (note 2)	–	10,349

Notes:

- No revenue was generated from these three customers for the year ended 31 December 2014.
- Revenue from these two customers was less than 10% of the Group's revenue (including the revenue from operations which has been classified as discontinued operations as set out in note 12.1) for the year ended 31 December 2015, and therefore the revenue from these two customers for the year ended 31 December 2015 was not presented.

The management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office.

Notes to the Financial Statements

For the year ended 31 December 2015

7. REVENUE

Revenue from the Group's principal activities, which is also the Group's turnover, represents total invoiced value of goods supplied. Revenue recognised during the year is as follows:

	Continuing operations		Discontinued operations		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Sales of high-tech electric motor vehicles	38,004	-	-	-	38,004	-
Sales of lithium-ion power batteries	-	-	6,941	72,170	6,941	72,170
	38,004	-	6,941	72,170	44,945	72,170

8. OTHER INCOME

	Continuing operations		Discontinued operations		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Bank interest income	8,576	215	-	263	8,576	478
Other receivables interest income	2,561	-	-	-	2,561	-
Exchange gain	16,435	1,344	41	496	16,476	1,840
Gain on disposal of property, plant and equipment	-	585	-	142	-	727
Imputed Interest income on long-term non-interest bearing deposits	-	1,680	-	-	-	1,680
Recovery of impairment of other receivables	93	-	-	-	93	-
Subsidy income (note)	-	-	-	16	-	16
Other service income	-	466	-	-	-	466
Miscellaneous	557	156	1	43	558	199
	28,222	4,446	42	960	28,264	5,406

Note: Subsidy income mainly comprised unconditional grants for subsidising the Group's research and development expenses.

9. FINANCE COSTS

	Continuing operations		Discontinued operations		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Interest on borrowings repayable within five years:						
Bank loans	-	-	108	908	108	908
Other loans	-	-	-	331	-	331
	-	-	108	1,239	108	1,239

Notes to the Financial Statements

For the year ended 31 December 2015

10. LOSS BEFORE INCOME TAX

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

	Continuing operations		Discontinued operations		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Auditor's remuneration	2,066	1,565	-	-	2,066	1,565
Share-based compensation (note 39)	127,400	195,756	-	-	127,400	195,756
Depreciation of property, plant and equipment	12,413	5,275	-	5,607	12,413	10,882
Amortisation of intangible assets	-	-	-	4,480	-	4,480
Impairment of property, plant and equipment	3,704	-	-	-	3,704	-
Impairment of goodwill (note 23 (b))	-	1,271	-	-	-	1,271
Impairment of available-for-sale financial asset	4,971	-	-	-	4,971	-
Impairment of other investment	11,479	-	-	-	11,479	-
Change in fair value of other financial asset	-	(14,000)	-	-	-	(14,000)
Change in fair value of derivative financial asset	4,326	8,934	-	-	4,326	8,934
Impairment of trade receivables	-	-	-	885	-	885
Impairment of other receivables	461	15,001	-	3,448	461	18,449
Research and development expenses	38,565	96,391	672	7,357	39,237	103,748
Loss on disposal of a subsidiary (note 44)	-	-	6,890	-	6,890	-
Loss/(gain) on disposal of property, plant and equipment	308	(585)	-	(142)	308	(727)
Cost of inventories recognised as expenses	36,534	-	5,657	57,848	42,191	57,848
Operating lease charges in respect of land and buildings	14,338	8,078	25	139	14,363	8,217

11. INCOME TAX EXPENSE/(CREDIT)

For the years ended 31 December 2015 and 2014, no provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the year in Hong Kong. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for those years at the rates of taxation prevailing in the countries in which the Group operates. Income tax expense/(credit) for the year was as follows:

	Continuing operations		Discontinued operations		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Current tax – the PRC – Tax for the year	1,098	6	-	-	1,098	6
Deferred tax (note 37)	-	-	(52)	(668)	(52)	(668)
Income tax expense/(credit)	1,098	6	(52)	(668)	1,046	(662)

Notes to the Financial Statements

For the year ended 31 December 2015

11. INCOME TAX EXPENSE/(CREDIT) (Continued)

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

	2015 HK\$'000	2014 HK\$'000
Loss before income tax		
Continuing operations	(347,941)	(395,430)
Discontinued operations	(7,340)	(11,998)
	(355,281)	(407,428)
Tax on loss before income tax, calculated at the rates applicable to profit/loss in the tax jurisdictions concerned	(78,665)	(86,902)
Tax effect of non-deductible expenses	83,195	89,246
Tax effect of non-taxable income	(4,618)	(1,682)
Tax effect of tax loss not recognised	1,134	–
Income tax expense/(credit)	1,046	(662)

12. DISCONTINUED OPERATIONS/ASSETS OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE/LIABILITIES OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE

As mentioned in note 1, the Group's management committed to dispose of its 75% equity interest in GBS as at 31 December 2014.

In accordance with HKFRS 5, the Group has reclassified the assets and liabilities of GBS as at 31 December 2014 as assets/liabilities classified as held for sale in the Group's consolidated statement of financial position. In addition, the discontinued operations of development and manufacturing of lithium-ion power battery represent separate major lines of business, and the operations and cash flows of which can be clearly distinguished from the rest of the Group. The disposal of GBS was completed on 10 January 2015 and GBS ceased to be subsidiary of the Group with effect from that date. For the year ended 31 December 2015, the loss on these discontinued operations (included the loss on disposal of the 75% equity interests in GBS of HK\$6,890,000) amounted to HK\$7,288,000. Details of the results of the discontinued operations of development and manufacturing of lithium-ion power battery for the years ended 31 December 2015 and 2014 are set out in note 12.1 and details of the assets/liabilities of a disposal company classified as held for sale as at 31 December 2014 are set out in note 12.2.

Notes to the Financial Statements

For the year ended 31 December 2015

12. DISCONTINUED OPERATIONS/ASSETS OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE/LIABILITIES OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE (Continued)

12.1 An analysis of the results and cash flows of the discontinued operations for the years ended 31 December 2015 and 2014 is as follows:

	2015 HK\$'000	2014 HK\$'000
Revenue	6,941	72,170
Cost of sales	(5,657)	(57,848)
Gross profit	1,284	14,322
Other income	42	960
Distribution costs	(312)	(3,403)
General operating expenses	(1,356)	(22,638)
Finance costs	(108)	(1,239)
Loss before income tax	(450)	(11,998)
Loss on disposal of a subsidiary (note 44)	(6,890)	–
Income tax credit	52	668
Loss after income tax	(7,288)	(11,330)
Loss recognised on the re-measurement to fair value less costs to sell of a disposal company classified as held for sale (note)	–	(14,076)
Loss for the year from discontinued operations (attributable to owners of the Company)	(7,288)	(25,406)
Cash flows used in operating activities	(7,277)	(2,690)
Cash flows used in investing activities	(7)	(4,192)
Cash flows from financing activities	5,557	7,027
Net cash (outflows)/inflows	(1,727)	145

Note: As at 31 December 2014, as mentioned in note 1, the management reclassified the assets and liabilities of GBS as assets/liabilities of a disposal company classified as held for sale. The management re-measured the fair value less costs to sell of a disposal company classified as held for sale. A loss on re-measurement of HK\$14,076,000 was recognised in the profit or loss and included in the loss for the year from discontinued operations for the year ended 31 December 2014. The re-measurement loss of HK\$10,629,000 was allocated to reduce the goodwill (note 23 (a)) first and the remaining re-measurement loss of HK\$1,999,000 (note 18) and HK\$1,448,000 (note 24) was allocated to the property, plant and equipment and intangible assets respectively for the year ended 31 December 2014.

Notes to the Financial Statements

For the year ended 31 December 2015

12. DISCONTINUED OPERATIONS/ASSETS OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE/LIABILITIES OF A DISPOSAL COMPANY CLASSIFIED AS HELD FOR SALE (Continued)

12.2 An analysis of the assets and liabilities of a disposal company classified as held for sale as at 31 December 2014 is as follows:

	2014 HK\$'000
Assets of a disposal company classified as held for sale:	
Property, plant and equipment (note 18)	28,859
Intangible assets (note 24)	20,908
Inventories	34,579
Trade receivables	38,328
Bills receivable	228
Prepayment, deposits and other receivables	9,716
Pledged bank deposits	1,891
Cash and cash equivalents	1,924
	136,433
Liabilities of a disposal company classified as held for sale:	
Trade payables	33,940
Accruals and other payables	6,071
Borrowings	15,254
Bills payable	3,782
Tax payable	1,297
Deferred tax liabilities (note 37)	3,337
	63,681

Notes to the Financial Statements

For the year ended 31 December 2015

13. OTHER COMPREHENSIVE INCOME

The amount of component of other comprehensive income can be summarised as follows:

	2015 HK\$'000	2014 HK\$'000
Translation reserve:		
Exchange differences on translation of foreign operations	(25,007)	3,326
Release of translation reserve to profit or loss upon disposal of a subsidiary	(3,938)	–
	(28,945)	3,326

14. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2015 (2014: Nil) and the Company did not declare any interim dividend during the year (2014: Nil).

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2015 HK\$'000	2014 HK\$'000
Loss attributable to the owners of the Company for the purpose of basic loss per share		
Continuing operations	(343,229)	(389,750)
Discontinued operations	(7,288)	(25,406)
Total loss from continuing and discontinued operations	(350,517)	(415,156)

	2015 Number of shares '000	2014 Number of shares '000
Weighted average number of shares for the purpose of basic loss per share	17,726,331	11,770,258

Diluted loss per share amount for both years' continuing and discontinued operations were not presented because the impact of the exercise of the share options was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would increase loss per share from continuing operations attributable to owners of the Company.

Notes to the Financial Statements

For the year ended 31 December 2015

16. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Continuing operations		Discontinued operations		Total	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Wages and salaries	70,202	42,050	68	8,158	70,270	50,208
Pension costs – defined contribution plans	1,640	787	–	658	1,640	1,445
Other benefits	2,481	929	39	669	2,520	1,598
Share-based compensation	–	125,779	–	–	–	125,779
	74,323	169,545	107	9,485	74,430	179,030

17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

For the year ended 31 December 2015

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Contribution to defined contribution plan HK\$'000	Total HK\$'000
Executive directors				
Dr. Yeung Yung	78	3,647	–	3,725
Mr. Liu Stephen Quan	80	39	–	119
Mr. Hui Wing Sang, Wilson	80	3,989	18	4,087
Dr. Zhu Shengliang	80	1,074	19	1,173
Dr. Wang Chuantao	78	2,108	–	2,186
Dr. Huang Chunhua	78	4,184	–	4,262
Mr. Xu Jianguo	78	3,903	–	3,981
Mr. Li Zhengshan	78	3,911	18	4,007
Mr. Ting Kwok Kit, Johnny	80	3,193	18	3,291
Mr. Chen Xiao	80	3,911	–	3,991
Non-executive director				
Dr. Xia Tingkang, Tim	155	–	–	155
Independent non-executive directors				
Mr. Wong Lee Hing	80	–	–	80
Dr. Song Jian	186	–	–	186
Mr. Cheng Tat Wa	80	–	–	80
Dr. Zhu Guobin	155	–	–	155
Dr. Li Jianyong	233	–	–	233
Mr. Chan Sin Hang	78	–	–	78
	1,757	29,959	73	31,789

Notes to the Financial Statements

For the year ended 31 December 2015

17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS (Continued)

For the year ended 31 December 2014

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Contribution to defined contribution plan HK\$'000	Equity-settled share-based payment expenses HK\$'000	Total HK\$'000
Executive directors					
Dr. Yeung Yung	78	3,491	–	1,577	5,146
Mr. Liu Stephen Quan	80	–	–	1,577	1,657
Mr. Hui Wing Sang, Wilson	80	2,338	17	7,885	10,320
Dr. Zhu Shengliang	80	1,065	39	3,154	4,338
Dr. Wang Chuantao	78	1,416	–	4,731	6,225
Dr. Huang Chunhua	78	2,329	–	7,885	10,292
Mr. Xu Jianguo	78	1,967	–	7,885	9,930
Mr. Li Zhengshan	78	2,130	17	7,885	10,110
Mr. Ting Kwok Kit, Johnny (appointed with effect from 3 November 2014) *	13	934	17	3,943	4,907
Mr. Chen Xiao (appointed with effect from 3 November 2014) *	13	1,038	–	7,885	8,936
Dr. Jang Bor Zeng Bohr (resigned with effect from 31 October 2014)	–	–	–	2,152	2,152
Dr. Zhamu Aruna (resigned with effect from 31 October 2014)	–	–	–	1,108	1,108
Non-executive director					
Dr. Xia Tingkang, Tim	155	–	–	1,577	1,732
Independent non-executive directors					
Mr. Wong Lee Hing	80	–	–	1,186	1,266
Dr. Song Jian	189	–	–	1,577	1,766
Mr. Cheng Tat Wa	80	–	–	1,224	1,304
Dr. Zhu Guobin	156	–	–	1,577	1,733
Dr. Li Jianyong	78	–	–	3,154	3,232
Mr. Chan Sin Hang	78	–	–	1,224	1,302
	1,472	16,708	90	69,186	87,456

* Mr. Ting Kwok Kit, Johnny and Mr. Chen Xiao were appointed as executive directors of the Company with effect from 3 November 2014. Both of them were employee of the Group before appointment as executive directors. The remunerations as disclosed in the table included all remunerations to Mr. Ting Kwok Kit, Johnny and Mr. Chen Xiao for the whole year ended 31 December 2014.

Five highest paid individuals

For both the years ended 31 December 2015 and 2014, the five highest paid individuals in the Group were all directors whose emoluments are reflected in the analysis presented above.

No emoluments were paid by the Group to any directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2014: Nil).

During the year ended 31 December 2015, there was no arrangement under which the directors waived or agreed to waive their remuneration (2014: Nil).

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For the year ended 31 December 2015

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Leasehold improvements, fixture and fittings HK\$'000	Furniture and equipment HK\$'000	Machineries HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1 January 2014						
Cost	2,845	5,625	5,371	47,977	41,223	103,041
Accumulated depreciation and impairment	(379)	(4,346)	(3,790)	(18,114)	(35,631)	(62,260)
Net book amount	2,466	1,279	1,581	29,863	5,592	40,781
Year ended 31 December 2014						
Opening net book amount	2,466	1,279	1,581	29,863	5,592	40,781
Additions	-	71	264	3,453	23,020	26,808
Disposals	-	-	-	(534)	(2,046)	(2,580)
Depreciation	(189)	(676)	(466)	(4,563)	(4,988)	(10,882)
Re-measurement to assets of a disposal company classified as held for sale (note ii)	-	-	-	(1,999)	-	(1,999)
Exchange realignment	(13)	(10)	(6)	(172)	(6)	(207)
Reclassify to assets of a disposal company classified as held for sale (note 12.2)	(2,264)	(664)	(192)	(25,621)	(118)	(28,859)
Closing net book amount	-	-	1,181	427	21,454	23,062
At 31 December 2014						
Cost	-	609	4,595	452	58,414	64,070
Accumulated depreciation and impairment	-	(609)	(3,414)	(25)	(36,960)	(41,008)
Net book amount	-	-	1,181	427	21,454	23,062
Year ended 31 December 2015						
Opening net book amount	-	-	1,181	427	21,454	23,062
Additions	-	12,356	19,837	11,654	31,832	75,679
Disposals	-	-	-	-	(1,276)	(1,276)
Depreciation	-	(3,210)	(602)	(108)	(8,493)	(12,413)
Impairment (note i)	-	-	(550)	(422)	(2,732)	(3,704)
Exchange realignment	-	(169)	(708)	(462)	(637)	(1,976)
Closing net book amount	-	8,977	19,158	11,089	40,148	79,372
At 31 December 2015						
Cost	-	12,140	22,716	11,216	59,549	105,621
Accumulated depreciation and impairment	-	(3,163)	(3,558)	(127)	(19,401)	(26,249)
Net book amount	-	8,977	19,158	11,089	40,148	79,372

Notes:

- (i) As at 31 December 2015, the management considered the recoverable amounts of certain property, plant and equipment under the high-tech electric vehicles business and advanced batteries materials business were negligible and it is appropriate to provide impairment loss of HK\$2,732,000 (2014: Nil) and HK\$972,000 (2014: Nil) respectively.
- (ii) As at 31 December 2014, the management reclassified the assets and liabilities of GBS as assets/liabilities of a disposal company classified as held for sale. As mentioned in note 12.1, the management re-measured the fair value less costs to sell of a disposal company classified as held for sale. The re-measurement loss of HK\$1,999,000 was allocated to the property, plant and equipment for the year ended 31 December 2014.

Notes to the Financial Statements

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19. INTERESTS IN SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2015 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital/registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
American Compass Inc.	US, limited liability company	Ordinary US\$17,000,000	100*	Investment holding, US
Billion Energy Holdings Limited	Hong Kong, limited liability company	HK\$1	100	Investment holding, Hong Kong
Hybrid Kinetic Motors Corporation	US, limited liability company	US\$1,000	100	Development of high-tech electric motor vehicles, US
HK Battery Technology Inc.	US, limited liability company	Ordinary US\$109,532 (2014: US\$42,763)	99.9 (2014: 70.15)	Development of high-tech electric motor vehicles, US
連雲港正道新能源有限公司 (Lianyungang Hybrid Kinetic New Energy Co., Limited)	The PRC, Sino-foreign equity joint venture enterprise	Registered capital of US\$27,000,000 (note a)	60.21	Development of advanced battery materials, the PRC
連雲港正強新能源汽車銷售有限公司	The PRC, limited liability company	Registered capital of RMB5,000,000	100	Sales of high-tech electric motor vehicles and components and provision of after-sale services, the PRC
上海正道融資租賃有限公司	The PRC, limited liability company	Registered capital of US\$30,000,000	100	Provision of finance lease services, the PRC

* Shares held directly by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results of the year or formed a substantial portion of the assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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For the year ended 31 December 2015

19. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- a. Lianyungang Hybrid Kinetic New Energy Co., Limited (“Lianyungang”) was established as a Sino-foreign equity joint venture enterprise in the PRC on 29 March 2013 with a total registered capital of US\$60,000,000, of which 35% was agreed to be contributed by the Group and the remaining 65% was agreed to be contributed by the remaining shareholders of Lianyungang. Lianyungang is accounted for as subsidiary of the Group because the directors are of the opinion that the Group has the power to cast the majority of votes at meeting of the board of directors in respect of financial and operating policies of Lianyungang.

On 27 January 2014, the Group was informed by Lianyungang that 2 shareholders (the “Outgoing Shareholders”) of Lianyungang, which held a total 55% of the registered capital and represented a total registered capital of US\$33,000,000 in Lianyungang, had withdrawn from the investment in Lianyungang. On 20 June 2014, the Group announced that the withdrawal of Outgoing Shareholders had been completed. Following the withdrawal, the total registered capital of Lianyungang was US\$27,000,000 and the capital to be contributed by the Group was US\$21,000,000, representing approximately 77.78% of total registered capital. As at 31 December 2015 and 2014, total paid up capital of Lianyungang was US\$15,080,000 and the Group contributed US\$9,080,000 as paid up capital in Lianyungang, which is equivalent to approximately 60.21% of the total paid up capital of Lianyungang.

None of the subsidiaries had any debt securities at 31 December 2015 and 2014 or at any time during the year.

The following table lists out the information relating to Lianyungang, the subsidiary of the Group which has material non-controlling interests (“NCI”). The summarised financial information presented below represents the amounts before any inter-company eliminations.

	2015 HK\$'000	2014 HK\$'000
As at 31 December		
NCI percentage	39.79%	39.79%
Current assets	88,191	96,742
Non-current assets	14,663	18,668
Current liabilities	(12,051)	(4,793)
Non-current liabilities	–	–
Net assets	90,803	110,617
Carrying amount of NCI	36,131	44,015
For the year ended 31 December		
Revenue	–	–
Loss for the year	(14,510)	(4,274)
Total comprehensive income	(19,837)	(6,797)
Loss for the year attributable to NCI	(5,774)	(1,701)
For the year ended 31 December		
Cash flows (used in)/generated from operating activities	(6,530)	175,526
Cash flows used in investing activities	(1,455)	(29,159)
Cash flows generated from (used in) financing activities	7,486	(248,595)
Net cash outflows	(499)	(102,228)

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20. INTEREST IN AN ASSOCIATE

	2015 HK\$'000	2014 HK\$'000
Share of net assets, at 31 December	20,354	–

Particulars of the associate as at 31 December 2015 are as follow:

Name	Place of establishment and kind of legal entity	Percentage of ownership interest held/ profit sharing/votive right	Principal activities and place of operations
Zhejiang GBS Energy Co., Limited	The PRC, limited liability company	25%	Manufacturing and sales of lithium-ion power batteries, the PRC

As mentioned in note 1, the Group entered into an agreement to dispose of the Group's 75% equity interest in GBS. After completion of the disposal, GBS became an associate of the Group with 25% effective interests held by the Group.

The above associate is accounted for using the equity method in the consolidated financial statements.

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For the year ended 31 December 2015

20. INTEREST IN AN ASSOCIATE (Continued)

Set as below are the summarised financial information of the associate which is accounted for using equity method.

	2015 HK\$'000
As at 31 December	
Current assets	147,198
Non-current assets	36,157
Current liabilities	(101,940)
Non-current liabilities	–
Net assets	81,415
For the year ended 31 December	
Revenue	157,603
Profit for the year	26,964
Other comprehensive income	(1,199)
Total comprehensive income	25,765
Dividends received from the associate	–
Reconciled to the group's interest in the associate	
Gross amount of net assets of the associate	81,415
Group's effective interest	25%
Group's share of net assets to the associate	20,354
Carrying amount in the consolidated financial statements	20,354

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For the year ended 31 December 2015

21. AVAILABLE-FOR-SALE FINANCIAL ASSET

	2015 HK\$'000	2014 HK\$'000
Unlisted equity investment, at cost less impairment:		
At 1 January	–	–
Addition during the year	15,757	–
Impairment	(4,971)	–
Exchange realignment	196	
At 31 December	10,982	–

During the year ended 31 December 2015, the Group entered into an agreement with an independent third party to acquire the equity interest in 上海仁通檔案管理諮詢服務有限公司 (“上海仁通”) at a consideration of RMB13,200,000. 上海仁通 is incorporated in the PRC and is an unlisted Sino-foreign venture under the PRC Law, which does not have quoted market price in an active market. The Group intend to hold the investment for long-term capital appreciation and had no intention to dispose of the investment in the near future. As at 31 December 2015, the Group hold 8.9% equity interest in 上海仁通. Mr. Zhu Shengliang and Mr. Li Zhengshan, the executive directors of the Company, hold 17.4% and 0.9% equity interest of 上海仁通 as at 31 December 2015 respectively.

The unlisted equity investment is measured at cost less impairment at each reporting date. The fair value information of this available-for-sale financial asset has not been disclosed as the range of reasonable fair value estimates is so significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used when measuring fair value. Accordingly, the directors of the Company are of the opinion that the fair value cannot be reliably measured. During the year ended 31 December 2015, impairment loss of HK\$4,971,000 was provided.

22. OTHER INVESTMENT/DERIVATIVE FINANCIAL ASSET

	2015 HK\$'000	2014 HK\$'000
Derivative financial asset		
Conversion option, at fair value	–	4,326
	2015 HK\$'000	2014 HK\$'000
Other investment		
Unlisted debt instrument, at amortised cost	–	11,479

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For the year ended 31 December 2015

22. OTHER INVESTMENT/DERIVATIVE FINANCIAL ASSET *(Continued)*

In September 2013, the Group entered into a purchase agreement ("Agreement") with Nanotune Technologies Corp. ("Nanotune") to subscribe 2,000,000 shares of Series B Preferred Stock in Nanotune at US\$1.5 per share for a cash consideration of US\$3,000,000 (equivalent to HK\$23,310,000).

Nanotune is an unlisted limited liability company incorporated in the US and its shares were not traded in an active market. The Group intends to hold the investment in Nanotune for long-term capital appreciation.

Pursuant to the Agreement, the Series B Preferred Stock can be redeemed at any time after the seventh anniversary of the original issue date. The unlisted debt instrument was carried at amortised cost less any identified impairment loss.

Each share of Series B Preferred Stock shall be convertible, at the option of the Group, at any time after the date of issuance of such share, into that number of fully-paid, nonassessable shares of common stock of Nanotune at the conversion price of US\$1.5 per share. The conversion option constitutes an embedded derivative, which can be separated from the Group's investment in the debt instrument in Nanotune and accounted for as derivative financial asset. The fair value of the conversion option was separately recognised and measured.

As the conversion option is a financial asset not quoted in an active market, the directors used their judgement in selecting an appropriate valuation technique to assess its fair value. Details of the valuation techniques and significant inputs that have been applied to measure the fair value of the conversion option are set out in note 46(e).

During the year ended 31 December 2015, Nanotune has encountered financial difficulties and its business is suspended. The directors considered Nanotune had no expected future economic benefits to the Group and the recoverable amount from other investment are to be negligible, and therefore, it is appropriate to provide impairment of HK\$11,479,000 for other investment.

For the year ended 31 December 2015, the fair value of the conversion option was determined to be negligible, resulting in fair value loss on the conversion option of HK\$4,326,000, which has been recognised in the profit or loss for the year.

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For the year ended 31 December 2015

23. GOODWILL

	Lithium-ion power batteries business HK\$'000 (note a)	Advanced batteries materials business HK\$'000 (note b)	Natural resources business HK\$'000	Total HK\$'000
At 1 January 2014				
Gross carrying amount	93,654	1,271	4,434	99,359
Accumulated impairment	(83,025)	–	(4,434)	(87,459)
Net carrying amount	10,629	1,271	–	11,900
For the year ended 31 December 2014 and 2015				
Net carrying amount 1 January 2014	10,629	1,271	–	11,900
Impairment losses recognised in the year	–	(1,271)	–	(1,271)
Re-measurement to assets of a disposal company classified as held for sale	(10,629)	–	–	(10,629)
Net carrying amount	–	–	–	–
As at 1 January 2015 and 31 December 2015				
At 31 December 2014 and 2015				
Gross carrying amount	–	1,271	4,434	5,705
Accumulated impairment	–	(1,271)	(4,434)	(5,705)
Net carrying amount	–	–	–	–
As at 1 January 2015 and 31 December 2015				

Notes:

- (a) Goodwill of HK\$93,654,000 arose in 2010 relates to the acquisition of GBS and is allocated to the cash generating unit for manufacturing and distribution of lithium-ion power battery.

For the year ended 31 December 2014

As at 31 December 2014, as mentioned in note 1, the management reclassified the assets and liabilities of GBS as assets/liabilities of a disposal company classified as held for sale. As mentioned in note 12.1, the management re-measured the fair value less costs to sell of a disposal company classified as held for sale. The re-measurement loss of HK\$10,629,000 was allocated to reduce the goodwill for the year ended 31 December 2014.

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23. GOODWILL (Continued)

Notes: (Continued)

- (b) Goodwill of HK\$1,271,000 arose during the year ended 31 December 2013 relates to the acquisition of HK Graphene Technology Corporation ("HK Graphene") (Formerly known as Angstrom Holding Corporation) and is allocated to the cash generating unit for development of advanced batteries materials business.

The recoverable amounts for the CGU were determined based on value-in-use estimation of the CGU by the directors of the Company. The key assumptions for the Group have been determined by the Group's management based on past performance and its expectations for the industry development.

The directors have reviewed the impairment for the goodwill generated from the acquisition of HK Graphene. The recoverable amount of that CGU is determined based on value-in-use calculations. This calculation used cash flow projection based on financial budget approved by management covering a five-year period. Cash flow beyond the five-year period is extrapolated using an estimated weighted average growth rate of 3% which does not exceed the long-term growth rate for the business in which HK Graphene operates. The cash flow is discounted using a discount rate of 19.00%. The discount rate used is pre-tax and reflect specific risks relating to the CGU. The directors are not currently aware of any other probable changes that would necessitate changes in its key estimates.

For the year ended 31 December 2014, with reference to the value-in-use calculations and the actual performance of the advanced batteries materials business during the year, the directors considered there was no reasonable ground to believe that future economic benefit could be generated from the development on advanced batteries materials market. Accordingly, the directors considered the goodwill arising from acquisition of HK Graphene was fully impaired, and an impairment loss of HK\$1,271,000 was recognised in profit or loss for the year ended 31 December 2014.

The directors considered that the inputs in fair value less costs to sell calculation are similar to the value-in-use calculations and considered that the recoverable amount from either method had no significant difference.

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24. INTANGIBLE ASSETS

	Technical know-how HK\$'000	Patents HK\$'000	Total HK\$'000
At 1 January 2014			
Cost	14,057	49,436	63,493
Accumulated amortisation and impairment	(14,057)	(22,599)	(36,656)
Net carrying amount	–	26,837	26,837
Year ended 31 December 2014 and 2015			
Opening net carrying amount at 1 January 2014	–	26,837	26,837
Amortisation	–	(4,480)	(4,480)
Re-measurement to assets of a disposal company classified as held for sale (note)	–	(1,448)	(1,448)
Exchange realignment	–	(1)	(1)
Reclassify to assets of a disposal company classified as held for sale (note 12.2)	–	(20,908)	(20,908)
Closing net carrying amount			
As at 1 January 2015 and 31 December 2015	–	–	–
At 31 December 2014 and 2015			
Cost	14,057	–	14,057
Accumulated amortisation and impairment	(14,057)	–	(14,057)
Net carrying amount			
As at 1 January 2015 and 31 December 2015	–	–	–

Note: The Group assesses whether there are any indicators of impairment for intangible assets at each reporting date.

As mentioned in note 12.1, the management re-measured the fair value less costs to sell of a disposal company classified as held for sale. The re-measurement loss of HK\$1,448,000 was allocated to the intangible assets for the year ended 31 December 2014.

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25. PREPAYMENTS

	2015 HK\$'000	2014 HK\$'000
Prepayment for investment in a subsidiary (note)	–	46,800
Prepayment for purchase of property, plant and equipment	36,656	47,654
	36,656	94,454

Note: For the year ended 31 December 2014, the Group paid HK\$46,800,000 for the capital injection of 連雲港正道新能源汽車系統集成有限公司, a wholly-owned subsidiary to be incorporated in the PRC. The capital injection to 連雲港正道新能源汽車系統集成有限公司 was completed in January 2015 and the prepayment for investment in subsidiary was recognised as investment cost of 連雲港正道新能源汽車系統集成有限公司 in January 2015.

26. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Consumables	4,087	–

27. FINANCE LEASE RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Finance lease receivables		
– Current portion, receivable within one year	8,776	–
– Non-current portion, receivable later than one year but no later than five years	13,584	–
	22,360	–

The directors of the Company are of the view that the credit risk inherent in the Group's outstanding finance lease receivables balances due from the customers is low. The Group has not encountered any delay or default in the collection of the scheduled payments of finance lease receivables. No impairment allowance was made for the finance lease receivables as at 31 December 2015.

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27. FINANCE LEASE RECEIVABLES (Continued)

Reconciliation between the gross amount under finance leases at the end of each reporting period and the present value of minimum lease payments receivable under such leases at the end of each reporting period is set out below:

	2015 HK\$'000	2014 HK\$'000
Minimum lease payments receivable:		
– Not later than one year	9,965	–
– Later than one year and not later than five years	14,621	–
	24,586	–
Less: unearned finance income	(2,226)	–
Present value of minimum lease payment receivables	22,360	–

As at 31 December 2015, the carrying amounts of the Group's finance lease receivables are principally denominated in RMB. Effective interest rates ranged from approximately 5.7% to 7.0% per annum.

The finance lease receivables are secured by the leased motor vehicles and guarantees provided by independent third parties. The Group is not permitted to sell or re-pledge the collaterals in absence of default by the lessees. The lessees are required to pay the Group through twelve quarterly lease payments.

The fair value of receivable under finance lease arrangement approximates to its carrying amount.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Prepayments to suppliers	350,845	8
Other receivables (note a and b)	121,795	62,306
Other deposits and prepayments	72,242	43,431
Prepayment for research and development projects	93,089	23,272
Amounts due from directors (note c)	1,826	2,840
	639,797	131,857

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes:

- (a) (i) As at 31 December 2015, within the balances of other receivables, a balance of HK\$17,905,000 (2014: nil) carries interest rate at 6% per annum, repayable within one year and is secured by equity interest of the debtor, being an unlisted limited liability company, and a guarantee provided by a related party of the debtor.
- (ii) As at 31 December 2015, within the balances of other receivables, a balance of HK\$47,748,000 (2014: nil) carries interest rate at 6% per annum, repayable within one year and is secured by equity interest of the debtor, being an unlisted limited liability company, and guarantees provided by the related parties of the debtor.

Save as disclosed above, all the other receivables balances are interest-free, unsecured and repayable within one year.

(b) Impairment of other receivables

	2015 HK\$'000	2014 HK\$'000
Other receivables	136,352	77,307
Less: Provision for impairment	(14,557)	(15,001)
Other receivables, net	121,795	62,306

Impairment losses in respect of other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against other receivables directly.

	2015 HK\$'000	2014 HK\$'000
At January	15,001	–
Impairment loss recognised	461	18,449
Recovery of impairment loss previously recognised	(93)	–
Reclassify to assets of a disposal company classified as held for sale	–	(3,448)
Exchange realignment	(812)	–
At 31 December	14,557	15,001

At 31 December 2015, other receivables of HK\$14,557,000 (2014: HK\$15,001,000) were individually determined to be impaired. The individually impaired other receivables related to debtors that has defaulted on the principal payments. The Group did not hold any collateral over these balances.

The other classes within prepayments, deposits and other receivables do not contain impaired assets.

Notes to the Financial Statements

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

Notes: (Continued)

(c) Amounts due from directors of the Group is disclosed as follows:

	2015 HK\$'000	2014 HK\$'000
Balance as at 31 December		
Dr. Yeung Yung	–	949
Dr. Zhu Shengliang	1,826	1,891
	1,826	2,840
Maximum balance outstanding during the year		
Dr. Yeung Yung	949	949
Dr. Zhu Shengliang	1,891	1,891

The above amounts due from directors are unsecured, interest-free and repayable on demand.

29. SHORT-TERM INVESTMENTS

During the years ended 31 December 2015 and 2014, the Group purchased short-term investments from major banks in the PRC.

As at 31 December 2015, the balance of HK\$84,001,000 (2014: HK\$11,346,000) was not subject to maturity. The Group is entitled to redeem the investments with the banks at anytime with immediate effect. The estimated return from the short-term investments is 3.15% (2014: ranged from 2.7% to 4.0%) per annum. The accrued and unpaid interest will be received upon redemption of the investment from the banks. The directors of the Company consider that the carrying amount of short-term investments approximate their fair value at end of the reporting period.

30. STRUCTURED BANK DEPOSITS

The structured bank deposits were interest-bearing and not quoted in an active market. The principal and interest earned are linked to the investments associated with treasury bills and bonds of certain banks in the PRC. As at 31 December 2015, structured bank deposits of HK\$181,442,000 can be redeemed with the bank at anytime with immediate effect and amount of HK\$238,740,000 was subject to maturity of one month (2014: HK\$37,821,000 can be redeemed with the bank at anytime with immediate effect and amount of and HK\$63,035,000 was subject to maturity ranged from 30 to 90 days).

Notes to the Financial Statements

For the year ended 31 December 2015

31. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2015, the Group has pledged bank deposits and cash and cash equivalents of denominated in Renminbi ("RMB") and deposited with banks in the PRC amounted to HK\$36,866,000 (2014: HK\$17,629,000). RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

32. TRADE PAYABLES

The ageing analysis of the trade payables of the Group as at 31 December 2015, based on the invoice date, is as follows:

	2015 HK\$'000	2014 HK\$'000
0 – 180 days	2,920	–
Over 180 days	68	134
	2,988	134

33. ACCRUALS AND OTHER PAYABLES

	2015 HK\$'000	2014 HK\$'000
Deposits received from customers	–	4,539
Prepayment for warranty service	2,519	–
Accrued staff costs	1,967	5,730
Other payables	25,983	30,353
Other accrued expenses	7,102	2,254
	37,571	42,876

34. PENSION AND OTHER POST RETIREMENT OBLIGATIONS

Included in other payables were current obligations to various retirement benefits schemes (defined contribution plans) for Hong Kong and PRC employees.

	2015 HK\$'000	2014 HK\$'000
Current obligations on:		
– pension – defined contribution plans	40	39

There were no forfeited contributions during the year (2014: Nil).

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For the year ended 31 December 2015

34. PENSION AND OTHER POST RETIREMENT OBLIGATIONS (Continued)

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective provinces to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' relevant income with the maximum contribution by each of the Group and the employees limited to HK\$1,500 per month with effect from 1 June 2014.

The retirement benefit scheme cost charged to the profit or loss represents contributions incurred by the Group. During the year ended 31 December 2015, the Group's contributions were approximately HK\$1,640,000 (2014: HK\$1,445,000). There was no (2014: Nil) forfeited contribution used to offset the Group's contribution during the year and there was no material forfeited contribution available as at the reporting date to reduce the Group's contribution payable in future periods.

35. AMOUNT DUE FROM A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The balance was unsecured, interest-free and has no fixed repayment terms.

36. BORROWINGS

	2015 HK\$'000	2014 HK\$'000
Other loans repayable within one year	196	207

As at 31 December 2015 and 2014, other loans are unsecured and repayable on demand.

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For the year ended 31 December 2015

37. DEFERRED TAX

	Revaluation of intangible assets HK'000
At 1 January 2014	4,005
Credited to profit or loss (note 11)	(668)
Reclassify to liabilities of a disposal company classified as held for sale (note 12.2)	(3,337)
At 31 December 2014, 1 January 2015 and 31 December 2015	–

Deferred taxation is calculated on temporary differences under the liability method using the taxation rates prevailing in the jurisdictions in which the Group operates.

As at 31 December 2015, the Group had estimated unused tax losses of HK\$12,502,000 (2014: HK\$5,775,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. These estimated tax losses have no expiry date.

Deferred taxation has not been provided for in the financial statements in respect of temporary differences attributable to accumulated profits of PRC subsidiaries amounting to HK\$3,825,000 (2014: HK\$8,536,000) as the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

38. SHARE CAPITAL – GROUP AND COMPANY

	2015		2014	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each	800,000,000,000	80,000,000	800,000,000,000	80,000,000
Issued and fully paid:				
At 1 January	14,187,144,756	1,418,714	10,411,159,756	1,041,116
Shares issued from the share option schemes (note i)	969,513,000	96,951	16,000,000	1,600
Subscription of new shares during the year (note ii)	5,169,214,991	516,922	3,759,985,000	375,998
At 31 December	20,325,872,747	2,032,587	14,187,144,756	1,418,714

Notes:

- (i) During the years ended 31 December 2015 and 2014, the issued share capital of the Company was increased due to the exercise of share options by directors, employees and other eligible persons (2014: a director and other eligible persons) of the Group. Details of the share options exercised during the years are summarised in note 39. The shares issued during the years in relation to share options exercised have the same rights as other ordinary shares of the Company in issue.

Notes to the Financial Statements

For the year ended 31 December 2015

38. SHARE CAPITAL (Continued)

Notes: (Continued)

(ii) For the year ended 31 December 2015

On 23 January 2015, the Company entered into subscription agreements with 23 subscribers pursuant to which the Company has conditionally agreed to allot and issue, and the subscribers have conditionally agreed to subscribe an aggregate of 697,946,951 new shares at the subscription price of HK\$0.175 per share. The subscription of shares was completed on 3 February 2015 and the gross cash proceeds of HK\$122,141,000 have been received by the Company.

On 22 April 2015, the Company entered into the placing agreement with the placing agent pursuant to which the Company conditionally agreed to place, through the placing agent, on a best effort basis, up to 1,479,714,000 new shares to not less than six independent placees at the placing price of HK\$0.37 per placing share. The placing of shares was completed on 22 June 2015 and the gross cash proceeds of HK\$547,494,000 have been received by the Company.

On 22 April 2015, the Company entered into 27 subscription agreements with various subscribers, all are independent third parties, pursuant to which the subscribers conditionally agree to subscribe for, and the Company conditionally agreed to allot and issue, an aggregate of 2,991,554,040 new shares at the subscription price of HK\$0.37 per subscription share. The subscription of shares was completed on 22 June 2015 and the gross cash proceeds of HK\$1,106,875,000 have been received by the Company.

For the year ended 31 December 2014

On 17 April 2014, the Company entered into agreements with 31 subscribers pursuant to which the subscribers agreed to subscribe for, an aggregate of 2,079,750,000 new shares at the subscription price of HK\$0.10 per subscription share. On 7 May 2014, 2 individual subscribers indicated to the Company of their intention to withdraw their respective subscription agreements, which involved the cancellation of the subscription of an aggregate of 100,000,000 subscription share, by entering into a cancellation agreement with each of the outgoing subscribers. On 8 May 2014, 29 subscribers completed the subscription of aggregate of 1,979,750,000 shares and the gross cash proceeds of HK\$197,975,000 have been received by the Company.

On 2 December 2014, the Company entered into agreements with 21 subscribers pursuant to which the subscribers agreed to subscribe for, an aggregate of 1,780,235,000 new shares at the subscription price of HK\$0.16 per subscription share. The subscription of shares was completed on 16 December 2014 and the gross cash proceeds of HK\$284,837,000 have been received by the Company.

39. SHARE-BASED COMPENSATION

On 13 June 2013, the share option scheme adopted by the Company started and the share option scheme ("the Scheme") was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The Scheme became effective on 13 June 2013 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the Scheme. The offer of a grant may be accepted upon payment of HK\$1 per acceptance. The exercisable period of the share options granted is determinable by the board of directors, which commences and ends on a period specified at the date of grant of the share options. The share options are vested at the date of grant and exercisable within the specified exercisable period. The exercise price will be determined by the board of directors, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company's shares. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settled the options in cash.

Notes to the Financial Statements

For the year ended 31 December 2015

39. SHARE-BASED COMPENSATION (Continued)

The movements of the share option schemes of the Company during the year are as follows:

For the year ended 31 December 2015

	Share option type	Number of share options				At 31 December 2015
		At 1 January 2015	Granted during the year	Exercised during the year	Expired/Cancelled during the year	
Directors						
Dr. Yeung Yung	2005	11,140,000	-	(11,140,000)	-	-
	2008	27,000,000	-	(27,000,000)	-	-
	2013	10,000,000	-	(10,000,000)	-	-
	2014 (b)	10,000,000	-	(10,000,000)	-	-
Mr. Liu Stephen Quan	2013	10,000,000	-	-	-	10,000,000
	2014 (b)	10,000,000	-	(10,000,000)	-	-
Mr. Hui Wing Sang, Wilson	2008	27,000,000	-	-	-	27,000,000
	2013	60,000,000	-	-	-	60,000,000
	2014 (b)	50,000,000	-	-	-	50,000,000
Dr. Zhu Shengliang	2005	16,710,000	-	(16,710,000)	-	-
	2013	20,000,000	-	-	-	20,000,000
	2014 (b)	20,000,000	-	-	-	20,000,000
Dr. Wang Chuantao	2013	30,000,000	-	(30,000,000)	-	-
	2014 (b)	30,000,000	-	-	-	30,000,000
Mr. Xu Jianguo	2013	30,000,000	-	(30,000,000)	-	-
	2014 (b)	50,000,000	-	-	-	50,000,000
Mr. Li Zhengshan	2005	5,570,000	-	(5,570,000)	-	-
	2008	5,000,000	-	(5,000,000)	-	-
	2013	25,000,000	-	(5,000,000)	-	20,000,000
	2014 (b)	50,000,000	-	-	-	50,000,000
Dr. Huang Chunhua	2013	65,000,000	-	(65,000,000)	-	-
	2014 (b)	50,000,000	-	-	-	50,000,000
Dr. Xia Tingkang, Tim	2013	10,000,000	-	-	-	10,000,000
	2014 (b)	10,000,000	-	-	-	10,000,000
Dr. Zhu Guobin	2013	10,000,000	-	-	-	10,000,000
	2014 (b)	10,000,000	-	-	-	10,000,000
Dr. Song Jian	2013	10,000,000	-	-	-	10,000,000
	2014 (b)	10,000,000	-	-	-	10,000,000
Dr. Li Jianyong	2013	10,000,000	-	-	-	10,000,000
	2014 (b)	20,000,000	-	-	-	20,000,000
Mr. Chan Sin Hang	2014 (b)	5,000,000	-	(500,000)	-	4,500,000
Mr. Cheng Tat Wa	2014 (a)	5,000,000	-	(5,000,000)	-	-
	2014 (b)	5,000,000	-	-	-	5,000,000
Mr. Ting Kwok Kit, Johnny	2013	35,000,000	-	(3,000,000)	-	32,000,000
	2014 (b)	25,000,000	-	-	-	25,000,000
		777,420,000	-	(233,920,000)	-	543,500,000

Notes to the Financial Statements

For the year ended 31 December 2015

39. SHARE-BASED COMPENSATION (Continued)

For the year ended 31 December 2015 (Continued)

	Share option type	Number of share options				At 31 December 2015
		At 1 January 2015	Granted during the year	Exercised during the year	Expired/Cancelled during the year	
Directors (Continued)						
Mr. Wong Lee Hing	2014 (a)	10,000,000	-	(3,000,000)	-	7,000,000
	2014 (b)	2,000,000	-	-	-	2,000,000
Mr. Chen Xiao	2013	25,000,000	-	(25,000,000)	-	-
	2014 (b)	50,000,000	-	-	-	50,000,000
		87,000,000	-	(28,000,000)	-	59,000,000
Total for directors		864,420,000	-	(261,920,000)	-	602,500,000
Employees						
In aggregate	2005	15,250,000	-	(14,693,000)	(557,000)	-
	2008	31,400,000	-	(14,400,000)	-	17,000,000
	2013	265,000,000	-	(154,500,000)	-	110,500,000
	2014 (a)	7,000,000	-	(7,000,000)	-	-
	2014 (b)	355,000,000	-	(69,000,000)	(2,000,000)	284,000,000
		673,650,000	-	(259,593,000)	(2,557,000)	411,500,000
Other eligible persons						
In aggregate	2008	15,000,000	-	(10,000,000)	-	5,000,000
	2013	412,000,000	-	(216,000,000)	-	196,000,000
	2014 (a)	14,000,000	-	-	-	14,000,000
	2014 (b)	436,000,000	-	(222,000,000)	-	214,000,000
	2015	-	400,000,000	-	-	400,000,000
		877,000,000	400,000,000	(448,000,000)	-	829,000,000
TOTAL		2,415,070,000	400,000,000	(969,513,000)	(2,557,000)	1,843,000,000

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For the year ended 31 December 2015

39. SHARE-BASED COMPENSATION (Continued)

For the year ended 31 December 2014

	Share option type	Number of share options					At 31 December 2014
		At 1 January 2014	Granted during the year	Exercised during the year	Cancelled during the year	Reclassification	
Directors							
Dr. Yeung Yung	2005	11,140,000	-	-	-	-	11,140,000
	2008	27,000,000	-	-	-	-	27,000,000
	2013	10,000,000	-	-	-	-	10,000,000
	2014(b)	-	10,000,000	-	-	-	10,000,000
Mr. Liu Stephen Quan	2013	10,000,000	-	-	-	-	10,000,000
	2014 (b)	-	10,000,000	-	-	-	10,000,000
Mr. Hui Wing Sang, Wilson	2008	27,000,000	-	-	-	-	27,000,000
	2013	60,000,000	-	-	-	-	60,000,000
	2014(b)	-	50,000,000	-	-	-	50,000,000
Dr. Zhu Shengliang	2005	16,710,000	-	-	-	-	16,710,000
	2013	20,000,000	-	-	-	-	20,000,000
	2014 (b)	-	20,000,000	-	-	-	20,000,000
Dr. Wang Chuantao	2013	30,000,000	-	-	-	-	30,000,000
	2014 (b)	-	30,000,000	-	-	-	30,000,000
Mr. Xu Jianguo	2013	30,000,000	-	-	-	-	30,000,000
	2014 (b)	-	50,000,000	-	-	-	50,000,000
Mr. Li Zhengshan	2005	5,570,000	-	-	-	-	5,570,000
	2008	5,000,000	-	-	-	-	5,000,000
	2013	25,000,000	-	-	-	-	25,000,000
	2014 (b)	-	50,000,000	-	-	-	50,000,000
Dr. Huang Chunhua	2013	65,000,000	-	-	-	-	65,000,000
	2014 (b)	-	50,000,000	-	-	-	50,000,000
Dr. Xia Tingkang, Tim	2013	10,000,000	-	-	-	-	10,000,000
	2014 (b)	-	10,000,000	-	-	-	10,000,000
Dr. Zhu Guobin	2013	10,000,000	-	-	-	-	10,000,000
	2014 (b)	-	10,000,000	-	-	-	10,000,000
Dr. Jang Bor Zeng Bohr	2012 (b)	66,000,000	-	-	(66,000,000)	-	-
Dr. Zhamn Aruna	2012 (b)	34,000,000	-	-	(34,000,000)	-	-
Dr. Song Jian	2013	10,000,000	-	-	-	-	10,000,000
	2014 (b)	-	10,000,000	-	-	-	10,000,000
Dr. Li Jianyong	2013	10,000,000	-	-	-	-	10,000,000
	2014 (b)	-	20,000,000	-	-	-	20,000,000
Mr. Chan Sin Hang	2014 (a)	-	5,000,000	(5,000,000)	-	-	-
	2014 (b)	-	5,000,000	-	-	-	5,000,000
Mr. Cheng Tat Wa	2014 (a)	-	5,000,000	-	-	-	5,000,000
	2014 (b)	-	5,000,000	-	-	-	5,000,000
Mr. Ting Kwok Kit, Johnny	2013	-	-	-	-	35,000,000	35,000,000
	2014 (b)	-	25,000,000	-	-	-	25,000,000
		482,420,000	365,000,000	(5,000,000)	(100,000,000)	35,000,000	777,420,000

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39. SHARE-BASED COMPENSATION (Continued)

For the year ended 31 December 2014 (Continued)

Share option type	Number of share options					At 31 December 2014
	At 1 January 2014	Granted during the year	Exercised during the year	Cancelled during the year	Reclassification	
Directors (Continued)						
Mr. Wong Lee Hing	2014 (a)	-	10,000,000	-	-	10,000,000
	2014 (b)	-	2,000,000	-	-	2,000,000
Mr. Chen Xiao	2013	-	-	-	-	25,000,000
	2014 (b)	-	50,000,000	-	-	50,000,000
		-	62,000,000	-	-	87,000,000
Total for directors		482,420,000	427,000,000	(5,000,000)	(100,000,000)	60,000,000
Employees						
In aggregate	2005	15,250,000	-	-	-	15,250,000
	2008	31,400,000	-	-	-	31,400,000
	2013	325,000,000	-	-	-	(60,000,000)
	2014 (a)	-	7,000,000	-	-	7,000,000
	2014 (b)	-	355,000,000	-	-	355,000,000
		371,650,000	362,000,000	-	-	(60,000,000)
Total for employees		371,650,000	362,000,000	-	-	(60,000,000)
Other eligible persons						
In aggregate	2008	15,000,000	-	-	-	15,000,000
	2013	423,000,000	-	(11,000,000)	-	412,000,000
	2014 (a)	-	14,000,000	-	-	14,000,000
	2014 (b)	-	436,000,000	-	-	436,000,000
		438,000,000	450,000,000	(11,000,000)	-	-
Total for other eligible persons		438,000,000	450,000,000	(11,000,000)	-	-
TOTAL		1,292,070,000	1,239,000,000	(16,000,000)	(100,000,000)	-

Details of the share options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
2005	9 August 2005	29 August 2005 to 8 August 2015	HK\$0.102*
2008	6 February 2008	6 February 2008 to 5 February 2018	HK\$0.114
2012 (b)	4 December 2012	1 January 2015 to 3 December 2022	HK\$0.120
2013	6 September 2013	6 September 2013 to 5 September 2023	HK\$0.108
2014 (a)	29 July 2014	29 July 2014 to 28 July 2024	HK\$0.1136
2014 (b)	20 November 2014	20 November 2014 to 19 November 2024	HK\$0.2010
2015	14 July 2015	14 July 2015 to 13 July 2025	HK\$0.395

* Following the issue of right shares on 1 February 2008, the exercise prices of share options were adjusted from HK\$0.114 to HK\$0.102. The number of share options was also adjusted as a result of the issue of right shares.

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For the year ended 31 December 2015

39. SHARE-BASED COMPENSATION (Continued)

Share-based compensation expense of HK\$127,400,000 (2014: HK\$195,756,000) has been included in the profit or loss for the year ended 31 December 2015. It gave rise to an equity compensation reserve. No liabilities were recognised due to equity-settled share-based payment transactions.

The fair values of the share options granted during the years ended 31 December 2015 and 2014 were determined using binomial option valuation model. Significant inputs into the model were as follows:

Share option type	2015	2014 (a)	2014 (b)
Share price	HK\$0.395	HK\$0.1120	HK\$0.2010
Exercise price	HK\$0.395	HK\$0.1136	HK\$0.2010
Expected volatility	78.88%	73.77%	74.94%
Expected option life (year)	10	10	10
Weighted average annual risk free interest rate	1.888%	1.96%	1.86%
Expected dividend yield	0%	0%	0%

The expected volatility represents the historical volatility of the share price of the ordinary shares of the Company.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2015		2014	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 January	2,415,070,000	0.161	1,292,070,000	0.109
Granted	400,000,000	0.395	1,239,000,000	0.198
Exercised	(969,513,000)	0.138	(16,000,000)	0.110
Expired/cancelled	(2,557,000)	0.179	(100,000,000)	0.120
Outstanding at 31 December	1,843,000,000	0.223	2,415,070,000	0.161

During the year ended 31 December 2015, the share options exercised during the year resulted in an equal number of ordinary shares (see note 38) issued. The weighted average share price of these shares at the date of exercise was HK\$0.480 (2014: HK\$0.208).

The share options outstanding at 31 December 2015 had exercise price of HK\$0.102 to HK\$0.395 (2014: HK\$0.102 to HK\$0.201) and a weighted average remaining contractual life of 8.5 years (2014: 8.9 years).

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For the year ended 31 December 2015

40. RESERVES

Group

	Share premium HK\$'000	Translation reserve HK\$'000	Equity compensation reserve HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31 December 2015	2,120,075	(15,682)	391,570	(23,901)	(2,261,078)	210,984
At 31 December 2014	727,895	9,868	366,715	(35,491)	(1,910,561)	(841,574)

Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Equity compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2014	620,418	94,601	172,358	(1,648,681)	(761,304)
Loss and total comprehensive income for the year	-	-	-	(348,636)	(348,636)
Subscription of new shares	106,814	-	-	-	106,814
Recognition of equity settled share-based compensation	-	-	195,756	-	195,756
Share issuance expenses	(892)	-	-	-	(892)
Proceeds from shares issued under share option schemes	1,555	-	(1,399)	-	156
At 31 December 2014 and 1 January 2015	727,895	94,601	366,715	(1,997,317)	(808,106)
Loss and total comprehensive income for the year	-	-	-	(536,738)	(536,738)
Subscription of new shares	1,259,588	-	-	-	1,259,588
Recognition of equity settled share-based compensation	-	-	127,400	-	127,400
Share issuance expenses	(6,812)	-	-	-	(6,812)
Proceeds from shares issued under share option schemes	139,404	-	(102,545)	-	36,859
At 31 December 2015	2,120,075	94,601	391,570	(2,534,055)	72,191

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Notes to the Financial Statements

For the year ended 31 December 2015

40. RESERVES (Continued)

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31 December 2015 (2014: Nil).

The equity compensation reserve was made in accordance to the adoption of HKFRS 2.

41. RELATED PARTY TRANSACTIONS

The directors represent the key management of the Group. During the year, the key management personnel compensations amounted to HK\$31,789,000 (2014: HK\$87,456,000). Further details of the remunerations to the directors of the Company are included in note 17 to the financial statements.

Save as disclosed above and elsewhere in the financial statements, the Group had no other significant related party transactions during the year (2014: Nil).

42. COMMITMENTS

42.1 Capital commitments

	2015 HK\$'000	2014 HK\$'000
Contracted but not provided for		
Establishment of a subsidiary	5,969	6,304
Purchase of property, plant and equipment	13,566	14,750
	19,535	21,054

42.2 Other commitments

	2015 HK\$'000	2014 HK\$'000
Contracted but not provided for		
Research and development projects	27,927	17,450

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42. COMMITMENTS (Continued)

42.3 Lease commitments

As at 31 December 2015 and 2014, the Group leased certain offices and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years (2014: one to three years). None of the leases include contingent rentals. The total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	2015 HK\$'000	2014 HK\$'000
Within one year (note)	33,109	8,028
After one year but within five years	46,918	4,907
	80,027	12,935

Note:

As at 31 December 2014, lease commitments of HK\$1,531,000 was related to GBS, the disposal company classified as held for sale.

43. BANKING FACILITIES

No banking facilities granted to the Group as at 31 December 2015.

For the year ended 31 December 2014

The banking facilities are related to the borrowings which was reclassified to as liabilities of a disposal company classified as held for sale as at 31 December 2014:

- pledge of GBS's bank deposit of HK\$1,891,000;
- personal guarantee of an officer of GBS of RMB9,900,000;
- pledge of a property of an officer of GBS with maximum limit to RMB3,500,000; and
- pledge of GBS's machineries with carrying amount of HK\$23,627,000.

Notes to the Financial Statements

For the year ended 31 December 2015

44. DISPOSAL OF A SUBSIDIARY

The Group had no disposal of subsidiary for the year ended 31 December 2014.

For the year ended 31 December 2015

As mentioned in note 1, the Group entered into an agreement to dispose of the Group's 75% equity interest in GBS. The consideration is satisfied by an aggregate of 257,324,692 shares of the Company held by the purchasers (the "Subject Shares"). The disposal of GBS was completed on 10 January 2015 and the fair value of the consideration at the date of completion amounted to HK\$52,494,000. The net assets of GBS at the date of disposal were as follows:

	Carrying amounts HK\$'000
Net assets disposed of:	
Property, plant and equipment	28,440
Intangible assets	20,535
Inventories	34,495
Trade receivables	40,365
Bills receivables	783
Prepayments, deposits and other receivables	18,066
Pledged bank deposits	1,895
Cash and cash equivalents	685
Trade payables	(35,032)
Bills payable	(3,789)
Accruals and other payables	(8,567)
Borrowings	(20,840)
Amount due to remaining group	(14,646)
Tax payables	(1,299)
Deferred tax liabilities	(3,281)
	57,810
Release of translation reserve upon disposal of a subsidiary	(3,938)
Written off of amounts due to remaining group	14,646
Fair value of retained interest which become interest in an associate	(9,134)
Loss on disposal of a subsidiary	(6,890)
Total consideration	52,494
Satisfied by	
Subject Shares	52,494

Notes to the Financial Statements

For the year ended 31 December 2015

44. DISPOSAL OF A SUBSIDIARY (Continued)

	HK\$'000
Net cash inflow arising from disposal of a subsidiary	
Net cash proceeds from disposal of Subject Shares	44,259
Cash and cash equivalents disposed of	(685)
Net cash inflow from disposal of a subsidiary	43,574

GBS contributed revenue of HK\$6,941,000 and loss before income tax of HK\$450,000 to the Group for the period from 1 January 2015 to 10 January 2015 (being the completion date of disposal). After completion of the disposal, GBS became an associate of the Group with 25% effective interests held by the Group.

At the date of completion of disposal, the fair value of the Subject Shares amounted to HK\$52,494,000 and the Subject Shares were accounted for as an equity instrument under the other reserve account in the consolidated statement of changes in equity. During the year ended 31 December 2015, the Company has appointed and instructed a placing agent to dispose of the Subject Shares. The cash proceeds obtained from the disposal of the Subject Shares was amounted to HK\$44,259,000 and the amount was credited to the other reserve account in the consolidated statement of changes in equity.

45. OTHER FINANCIAL ASSET

In April 2010, the Group entered into an acquisition agreement (as subsequently supplemented by two supplemental agreements) with independent third parties (the "GBS Vendors") to acquire the entire equity interest of GBS. Pursuant to the agreements, the GBS Vendors have given a profit guarantee (the "Profit Guarantee") to the Group as follows:

- (1) for the financial year ending 31 December 2010, the profit before tax of GBS shall not be less than RMB5 million;
- (2) for the financial year ending 31 December 2011, the profit before tax of GBS shall not be less than RMB25 million;
- (3) for the financial year ending 31 December 2012, the profit before tax of GBS shall not be less than RMB30 million; and
- (4) for the financial year ending 31 December 2013, the profit before tax of GBS shall not be less than RMB35 million.

As security for the attainment of the Profit Guarantee, the GBS Vendors have placed 200,000,000 of the Consideration Shares (the "Retained Shares") in a custodian account of the Group.

If the profit before tax of GBS recorded for any of the financial years during the profit guaranteed period is less than the amount of the Profit Guarantee given by the GBS Vendors, the Group shall be at liberty and at such time and in such manner which the directors considered to be in the Group's best interests to instruct the GBS Vendors to dispose of the Retained Shares or any part thereof and compensate the Group the shortfall.

Notes to the Financial Statements

For the year ended 31 December 2015

45. OTHER FINANCIAL ASSET *(Continued)*

The number of Retained Shares to be sold is determined at a share price of the issued ordinary shares of the Company which is (i) HK\$0.358 each (the contract price as stated in the acquisition agreement) or (ii) the same as the closing price on 31 December of the relevant financial year in which the Profit Guarantee is to be achieved, whichever is the higher. Any shortfall in the Profit Guarantee will be compensated on a dollar-for-dollar basis, subject to a cap equivalent to 100% of the net proceeds derived from the disposal of the Retained Shares. The Group is not entitled to claim beyond the capped amount if such capped amount is not sufficient to cover the shortfall in the Profit Guarantee.

During the year ended 31 December 2014, the Company appointed a placing agent and the Company had unconditional right to instruct the placing agent to dispose of the Retained Shares and retain 100% of the net proceeds of disposal of the Retained Shares. As a result, the Group has derecognised the other financial asset of the fair value of HK\$38,000,000 and the Retained Shares were accounted for as an equity instrument and as other reserves in the consolidated statement of changes in equity. Fair value gain on other financial asset up to the date of derecognition of HK\$14,000,000 was recognised in the profit or loss for the year.

During the year ended 31 December 2015, the Company instructed the placing agent to dispose of the Retained Shares. The cash proceeds obtained from the disposal of Retained Shares was amounted to HK\$30,212,000 and the amount was credited to the other reserve account in the consolidated statement of changes in equity.

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The most significant financial risks to which the Group is exposed to are described below.

(a) Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's floating interest rates bank balances and deposits, short-term investments and structured bank deposits. The Group does not actively engage in derivative financial instruments to hedge its interest rate risk.

It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and accumulated losses as below.

	2015	2014
	Loss for the year decreases	Loss for the year decreases
Increase of 50 basis points in interest rate	HK\$5,571,000	HK\$1,575,000
	Loss for the year increases	Loss for the year increases
Decrease of 50 basis points in interest rate	HK\$5,571,000	HK\$1,575,000

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for financial instruments in existence for the whole year. The 50 basis points increase or decrease represents management's assessment of reasonably possible change in interest rates over the period until the next annual reporting date. The same basis of analysis was also performed at 31 December 2014.

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other major financial assets, which comprise short-term investments, structured bank deposits and cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk on short-term investments, structured bank deposits and cash and cash equivalents is mitigated as the balances were deposited in banks of high credit ratings.

Before accepting any new lessee under finance lease arrangement, the Group assesses the credit quality of each potential lessee and defined limits for each lessee. The Group also demands the lessees to provide corporate guarantees from third parties and collateral to the Group at the time the finance lease arrangement is entered into. In addition, the Group has reviewed the repayment history of finance lease payments from each lessee with reference to the repayment schedule.

(c) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong, the US and the PRC with most of the transactions denominated and settled in HK\$, US\$ and RMB.

Except for the following, the Group do not have significant financial assets or financial liabilities denominated in currencies other than their functional currencies at the end of the reporting period.

	ASSETS	
	2015 HK\$'000	2014 HK\$'000
USD	267,879	–

No foreign currency risk has been identified for the US and PRC subsidiaries' financial assets and liabilities denominated in US\$ and RMB, which are the functional currencies of the US and PRC subsidiaries to which these transactions relate. The Group currently does not have a foreign currency hedging policy.

Sensitivity analysis

The functional currency of certain major subsidiaries of the Group is RMB. The Group is mainly exposed to currency risk between RMB and USD.

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Foreign currency risk (Continued)

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in the exchange rate between RMB and USD. The sensitivity analysis includes only outstanding USD denominated monetary items and adjusts their translation at the reporting date for a 5% change in exchange rates. The analysis illustrates the impact for a 5% strengthening of RMB against the USD and a positive number below indicates an increase in post-tax loss while a negative number below indicates a decrease in post-tax loss. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on the post-tax loss.

	2015 HK\$'000	2014 HK\$'000
Increase in loss for the year	10,045	-

(d) Liquidity risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk (Continued)

As at 31 December 2015 and 2014, the Group's financial liabilities have contractual maturities which are summarised below:

	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Repayable on demand HK\$'000	Within one year HK\$'000
At 31 December 2015				
Trade payables	2,988	2,988	–	2,988
Other payables	25,983	25,983	25,983	–
Borrowings	196	196	196	–
	29,167	29,167	26,179	2,988
At 31 December 2014				
Trade payables	134	134	–	134
Other payables	30,353	30,353	30,353	–
Borrowings	207	207	207	–
	30,694	30,694	30,560	134

The Group's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms.

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair value

The directors consider that the fair values of each class of the financial assets and financial liabilities approximate to their carry amounts.

Fair value hierarchy

The following table presents the fair value of the Group's financial assets measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Quoted prices in active markets for identical items (unadjusted);
- Level 2 valuations: Observable direct or indirect inputs other than Level 1 inputs; and
- Level 3 valuations: Unobservable inputs (i.e. not derived from market data).

The directors use their judgement in selecting an appropriate valuation technique to perform valuations for the derivative financial asset (2014: derivative financial asset) which are categorised into Level 3 (2014: Level 3) of the fair value hierarchy respectively.

	Fair value measurement as at 31 December 2015			
	Level 1	Level 2	Level 3	Fair value as at 31 December 2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement				
<i>Financial assets:</i>				
Derivative financial asset	–	–	–	–

	Fair value measurement as at 31 December 2014			
	Level 1	Level 2	Level 3	Fair value as at 31 December 2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurement				
<i>Financial assets:</i>				
Derivative financial asset	–	–	4,326	4,326

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair value (Continued)

Fair value hierarchy (Continued)

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. During the year ended 31 December 2015, the valuation techniques are changed as the market condition changed and the information previously used is no longer available. Therefore, the change results in the measurement that is more representative of fair value in the circumstances.

Information about Level 3 fair value measurements

For the year ended 31 December 2015

As mentioned in note 22 of the financial statements, Nanotune has encountered financial difficulties and its business is suspended during the year ended 31 December 2015. The expected volatility, being the significant input used in the binomial option valuation model for the fair value measurement, is no longer available and applicable due to the suspension of the business of the issuer of the conversion option. Therefore, the fair value of derivative financial asset is determined by making reference to the value of the common stock of Nanotune, and the significant unobservable input used is the net asset value of Nanotune. The net asset value is determined to be negligible as at 31 December 2015, and therefore the fair value of the conversion option is estimated to be negligible.

For the year ended 31 December 2014

The fair value of derivative financial asset is determined using binomial option valuation model and the significant unobservable input used in the fair value measurement is the expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 5% would have decreased/increased the Group's loss by HK\$237,000 and HK\$235,000 respectively.

Significant unobservable inputs were as follow:

	2014
Spot price	US\$0.67 per share
Exercise price	US\$1.5 per share
Risk-free rate	1.770%
Expected option life	5.72 years
Expected volatility	51.410%
Expected dividend yield	0%

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair value (Continued)

Information about Level 3 fair value measurements (Continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2015 HK\$'000	2014 HK\$'000
Derivative financial asset:		
At 1 January	4,326	13,260
Changes in fair value recognised in profit or loss during the period (included in general operating expenses)	(4,326)	(8,934)
At 31 December	–	4,326

(f) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2015 and 2014 may be categorised as follows. See notes 4.8 and 4.11 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) Financial assets

	2015 HK\$'000	2014 HK\$'000
Other financial assets:		
Available-for-sale financial asset	10,982	–
Derivative financial asset	–	4,326
Loans and receivables:		
Finance lease receivables	22,360	–
Other receivables	129,621	65,146
Other investment	–	11,479
Amounts due from a non-controlling shareholder of a subsidiary	2,483	2,624
Short-term investments	84,001	11,346
Structured bank deposits	420,182	100,856
Pledged bank deposits	1,607	807
Cash and cash equivalents	999,820	202,071
	1,660,074	394,329
	1,671,056	398,655

Notes to the Financial Statements

For the year ended 31 December 2015

46. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(f) Summary of financial assets and liabilities by category (Continued)

(ii) Financial liabilities

	2015 HK\$'000	2014 HK\$'000
Financial liabilities at amortised cost:		
Trade payables	2,988	134
Other payables	25,983	30,353
Borrowings	196	207
	29,167	30,694

47. CAPITAL MANAGEMENT

The Group's capital management objectives are:

- (i) to ensure the Group's ability to continue as a going concern; and
- (ii) to provide an adequate return to shareholders.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares to reduce debt level.

The gearing ratio at the reporting date was as follows:

	2015 HK\$'000	2014 HK\$'000
Total liabilities	41,675	106,902
Shareholder's equity	2,243,571	577,140
Gearing ratio	1.86%	18.52%

48. SIGNIFICANT NON-CASH TRANSACTIONS

There was no significant non-cash transactions for the year ended 31 December 2015.

During the year ended 31 December 2014, the Group has the following significant non-cash transactions:

- (i) the Group has transferred other receivables of HK\$12,607,000 as prepayment for acquisition of property, plant and equipment; and
- (ii) the Group has transferred an amount due from a non-controlling shareholder of a subsidiary of HK\$23,272,000 as prepayment for research and development projects.

Notes to the Financial Statements

For the year ended 31 December 2015

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Notes	2015 HK\$'000	2014 HK\$'000
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	6,919	74
Interests in subsidiaries	14,815	8,665
	21,734	8,739
Current assets		
Amounts due from subsidiaries	1,995,246	559,382
Prepayments, deposits and other receivables	2,808	3,896
Cash and cash equivalents	98,947	54,387
	2,097,001	617,665
Current liabilities		
Accruals and other payables	13,957	15,796
	13,957	15,796
Net current assets	2,083,044	601,869
Net assets	2,104,778	610,608
EQUITY		
Share capital	38	2,032,587
Reserves	40	72,191
	2,104,778	1,418,714
	2,104,778	(808,106)
Total equity	2,104,778	610,608

Approved and authorised for issue by the board of directors on 31 March 2016 and are signed on its behalf by:

Yeung Yung
Director

Hui Wing Sang, Wilson
Director

Financial Summary

For the year ended 31 December 2015

	2011 HK\$'000	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Revenue (including continuing and discontinued operations)	70,440	43,068	52,183	72,170	44,945
Loss before taxation (including continuing and discontinued operations)	(193,293)	(109,333)	(186,071)	(407,428)	(355,281)
Income tax (expense)/credit (including continuing and discontinued operations)	(292)	496	(355)	662	(1,046)
Loss for the year (including continuing and discontinued operations)	(193,585)	(108,837)	(186,426)	(420,842)	(356,327)
Loss attribute to owners of the Company	(191,178)	(103,414)	(179,086)	(415,156)	(350,517)
Non-controlling interests	(2,407)	(5,423)	(7,340)	(5,686)	(5,810)
	(193,585)	(108,837)	(186,426)	(420,842)	(356,327)
Assets and liabilities					
Total assets	352,823	365,068	749,494	719,315	2,321,701
Total liabilities	98,658	100,899	108,207	106,902	41,675
	254,165	264,169	641,287	612,413	2,280,026
Equity attribute to owners of the Company	224,494	265,960	346,041	577,140	2,243,571
Non-controlling interests	29,671	(1,791)	295,246	35,273	36,455
	254,165	264,169	641,287	612,413	2,280,026