



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

NEW ENERGY AND DIVERSIFIED BUSINESS

FIRST QUARTERLY REPORT **2019**

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

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. He Xuechu (*Chairman*)

Mr. Liu Jian (*Vice Chairman and
Co-Chief Executive Officer*)

Mr. Liu Wei, William (*Co-Chief Executive Officer*)

Non-Executive Directors

Mr. Yan Weimin

Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Directors

Mr. Chan Chun Wai, Tony

Mr. Ma Gang

Mr. Ha Chun

Compliance Officer

Mr. Liu Wei, William

Company Secretary

Mr. Yeung Ho Ming, CPA (HK)

Authorised Representatives

Mr. Liu Wei, William

Mr. Yeung Ho Ming

Audit Committee

Mr. Chan Chun Wai, Tony (*Committee Chairman*)

Mr. Ma Gang

Mr. Ha Chun

Remuneration Committee

Mr. Ha Chun (*Committee Chairman*)

Mr. Ma Gang

Mr. Chan Chun Wai, Tony

Mr. He Xuechu

Mr. Liu Wei, William

Nomination Committee

Mr. Chan Chun Wai, Tony (*Committee Chairman*)

Mr. Liu Wei, William

Mr. Ang Siu Lun, Lawrence

Mr. Ma Gang

Mr. Ha Chun

Auditor

BDO Limited

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited

Nanyang Commercial Bank, Limited

Registered Office

P.O. Box 31119 Grand Pavilion

Hibiscus Way, 802 West Bay Road

Grand Cayman

KY1-1205 Cayman Islands

Head Office and Principal Place of Business

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Central Plaza

18 Harbour Road

Wanchai

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Share Registrar and Transfer Office

Union Registrars Limited

Suites 3301-04, 33/F.

Two Chinachem Exchange Square

338 King's Road

North Point

Hong Kong

Stock Code

8137

Company Website

www.8137.hk

UNAUDITED CONSOLIDATED QUARTERLY RESULTS

The board of directors (the “Board”) of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2019, together with the comparative unaudited figures for the corresponding period in 2018, as follows:

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

	Notes	Three months ended 31 March	
		2019 HK\$'000	2018 HK\$'000
Revenue	2	98,528	4,035
Cost of sales		(102,466)	(4,391)
Gross loss		(3,938)	(356)
Other operating income	3	14,833	10,520
Selling and distribution costs		(788)	(724)
Administrative expenses		(30,669)	(34,174)
Operating losses		(20,562)	(24,734)
Finance costs	4	(2,651)	(1,889)
Loss before tax		(23,213)	(26,623)
Income tax credit	5	—	—
Loss for the period		(23,213)	(26,623)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange (loss) gain on translation of financial statements of foreign operations		(25,217)	29,412
Items that may not be reclassified subsequently to profit or loss:			
Equity investments at fair value through other comprehensive income		11,281	—
Other comprehensive income, net of tax		(13,936)	29,412
Total comprehensive income for the period		(37,149)	2,789
Loss for the period attributable to:			
Owners of the Company		(10,348)	(14,487)
Non-controlling interests		(12,865)	(12,136)
		(23,213)	(26,623)
Total comprehensive income attributable to:			
Owners of the Company		(26,503)	10,841
Non-controlling interests		(10,646)	(8,052)
		(37,149)	2,789
Loss per share attributable to the owners of the Company during the period			
	7		
— Basic		HK(0.11) cent	HK(0.15) cent
— Diluted		N/A	N/A

Notes:

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements for the three months ended 31 March 2019 have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

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

These financial statements should be read, where relevant, in conjunction with the 2018 annual report.

The accounting policies adopted in the 2018 annual financial statements have been consistently applied to these financial statements except that in the current period, the Group has applied for the first time certain new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2019. The adoption of the new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

2. TURNOVER

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

	For the three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Sale of lithium batteries	98,528	4,035

3. OTHER OPERATING INCOME

	For the three months ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Bank interest income	1,434	1,087
Interest income from loan receivable	7,969	4,050
Government grant	1,162	883
Rental income	186	186
Sundry income	1,040	496
(Loss)/Gain on financial assets at fair value through profit or loss	(230)	546
Imputed interest income of amounts due from non-controlling interests	3,272	3,272
	14,833	10,520

4. FINANCE COSTS

	For the three months ended 31 March	
	2019 HK\$'000	2018 HK\$'000
Interest charges on bank and other borrowings wholly repayable within five years	2,651	1,889
	2,651	1,889

5. INCOME TAX CREDIT

	For the three months ended 31 March	
	2019 HK\$'000	2018 HK\$'000
Overseas tax		
Current period	-	-
Deferred tax	-	-
Income tax credit	-	-

During the period ended 31 March 2018 and 2019, no provision for Hong Kong profits tax has been provided by the Group as the Group had no estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

The PRC corporate income tax rate of 25% is applicable to the Group's PRC subsidiaries during the period.

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

6. DIVIDEND

The Board has resolved not to declare the payment of a dividend for the three months ended 31 March 2019 (three months ended 31 March 2018: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2019 is based on the loss attributable to the owners of the Company of approximately HK\$10,348,000 (loss for the three months ended 31 March 2018: HK\$14,487,000) and on 9,737,433,606 (31 March 2018: 9,737,433,606) weighted average number of shares (after adjusting the effect of treasury shares held by the Company).

For the three months ended 31 March 2018 and 2019, diluted losses per share attributable to owners of the Company were not presented because the impact of the exercise of share options was anti-dilutive.

8. MOVEMENT OF RESERVES

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

Changes in Equity

	Share capital HK\$'000	Share premium HK\$'000	Treasury shares reserve HK\$'000	Share based payment reserve HK\$'000	Translation reserve HK\$'000	Fair value reserve HK\$'000	Retained earnings HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2019	9,855	3,563,686	(142,864)	12,170	(4,910,983)	-	5,983,566	180,329	4,695,759
Acquisition of interests in a subsidiary	-	-	-	-	145	-	(7,396)	(3,320)	(10,571)
Transactions with owners	-	-	-	-	145	-	(7,396)	(3,320)	(10,571)
Loss for the period	-	-	-	-	-	-	(10,348)	(12,865)	(23,213)
Other comprehensive income									
Currency translation	-	-	-	-	(27,436)	-	-	2,219	(25,217)
Equity investments at fair value through other comprehensive income	-	-	-	-	-	11,281	-	-	11,281
Total comprehensive income	-	-	-	-	(27,436)	11,281	(10,348)	(10,646)	(37,149)
At 31 March 2019	9,855	3,563,686	(142,864)	12,170	(4,938,274)	11,281	5,965,822	166,363	4,648,039

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

MANAGEMENT DISCUSSION AND ANALYSIS

New Energy Vehicles-Related Business

Following the procurement arrangement with Volvo Car, a famous brand in the world and also with the vehicle models including Lynk & Co under Zhejiang Geely Holding Group Company Limited (“Zhejiang Geely”), the Group is also promoting the product matching with Volvo XC40 Plug-in Hybrid Electric Vehicle (PHEV), Volvo Polestar PHEV, London Electric Vehicle Company, 山東豐沃, 西安中力科技 and 珠海億華 and also exploring new customers including major automobile enterprises and new energy vehicle enterprises. The Group has been constantly negotiating and conducting products matching with major and new automobile manufacturers and potential new customers in the energy storage field.

The car models installed with battery packs of the Group listed in the Announcement of Road Power-Driven Vehicle Manufacturing Enterprises and Products 《道路機動車輛生產企業及產品公告》 and the Catalogue of Recommended Models for the Popularization and Application of New Energy Automobiles 《新能源汽車推廣應用推薦車型目錄》 of Ministry of Industry and Information Technology of the PRC include the PHEV model “XC60” and “S90” of Volvo and “Lynk 01 PHEV”, “Lynk 02 PHEV” and “Lynk 03 PHEV” model of Lynk & Co, Geely K12, Geely Vision X1, Kandi K10, Kandi K11, Guangtong Bus EV and Tongjiafu Van. Other than the customers mentioned above, the Group also has customers such as Shangong Telangsi (山東特朗斯) and Suzhou Pulaier (蘇州普萊爾).

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

Zhejiang Forever New Energy, a non-wholly owned subsidiary of the Group, is a modern lithium-ion battery enterprise in Jinhua New Energy Automobile Industrial Park which includes functions such as research and development, production, testing and inspection, demonstration and service, sales of lithium-ion battery and battery system. Zhejiang Forever New Energy occupies an area of approximately 130,000 square meters and the plant is designed to possess a maximum production capacity of approximately 2,000,000 kWh ternary lithium-ion battery annually. The first 500,000 kWh production line has commenced mass production since the second quarter of 2018. The fully automatic production line adopts a state-of-the-art design and technologies for producing pouch type cells. The time for installation of the new production line will be decided based on the market demand and development strategy.

On 29 March 2019, the Group entered into an agreement with Jiaying Jiale Investment Partnership Corporation (limited partnership), an independent third party, to acquire 3% interests of Zhejiang Forever New Energy for a consideration of approximately RMB9.0 million (equivalent to approximately HK\$10.6 million). After the transaction, the Group controlled 52% equity interests of Zhejiang Forever New Energy.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review

For the period ended 31 March 2019, the Group recorded a revenue of HK\$98.5 million, representing a significant 2,300% increase when compared to revenue of HK\$4.0 million recognised in the last corresponding period. The loss for the period ended 31 March 2019 attributable to owners of the Company was approximately HK\$10.3 million (31 March 2018: HK\$14.5 million).

The revenue of the Group increased explosively because the mass production of our new factory plant in Zhejiang commenced in the second quarter of 2018. The customers of our Zhejiang factory are Volvo Car and the Lynk & Co brand under Zhejiang Geely Holding Group Company Limited (“Zhejiang Geely Group”). On 23 October 2017 Zhejiang Forever New Energy entered into a three years sales agreement with Volvo Car Corporation (“Volvo Car”) in relation to the sales of ternary lithium-ion powered battery packs for the hybrid models of Volvo Car planning to be manufactured in the PRC. Another three years sales agreement with Zhejiang Geely Automobile Parts & Components Stock Co., Ltd. 浙江吉利汽車零部件採購有限公司 was secured on 25 October 2017, in relation to the sales of ternary lithium-ion powered battery packs for vehicle models including Lynk & Co and other models under Zhejiang Geely Group. The total annual caps (excluding VAT) in respect of the above two sales agreements for year 2019 and 2020 are RMB1,017 million and RMB1,202 million respectively. The two sales agreements offer a strong foundation for our factory plant in Zhejiang. The total revenue recognised under the two agreements was approximately HK\$95.7 million during the period.

The Group recorded a gross loss of approximately HK\$3.9 million (gross profit ratio: -4.0%) for the period ended 31 March 2019 as compared with the gross loss of approximately HK\$0.4 million (gross profit ratio: -8.8%) in the last corresponding period. Gross loss was recorded because of the high average raw material costs and the low capacity utilisation rate of the new battery plant in Zhejiang. Zhejiang Forever New Energy is designed to have a maximum annual production capacity of 2,000,000 kWh but currently only the first 500,000 kWh production line was installed and in production. In addition, the factory plant only commenced mass production in the second quarter and require time for initial ramp up. The Group will continue to control and improve the costs structure of lithium-ion battery products by negotiating with key suppliers to obtain more beneficial terms, increasing the energy density and decreasing the failure rate of our products, strengthening the management skill and promoting effective use of materials, etc.

Other operating income of approximately HK\$14.8 million (31 March 2018: HK\$10.5 million) was recognised during the current period. It consists of interest income from loan receivable of HK\$8.0 million (31 March 2018: HK\$4.1 million), imputed interest income of amounts due from non-controlling interests of HK\$3.3 million (31 March 2018: 3.3 million) and bank interest income of HK\$1.4 million (31 March 2018: \$1.1 million). The increase in other operating income was mainly due to the increase in interest income from loan receivable because the loan was charged with a default interest rate of 6% per annum since the second quarter of 2018.

The administrative expenses for the period ended 31 March 2019 mainly consists of research and development expenses of approximately HK\$8.6 million (31 March 2018: HK\$4.7 million) and staff costs of approximately HK\$8.3 million (31 March 2018: HK\$13.9 million).

The finance costs of HK\$2.6 million recognised during the period ended 31 March 2019 were mainly interest expense related to the loans of RMB200 million from Zhejiang Geely.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Business Review — Continued

For the period ended 31 March 2019, the loss attributable to the owners of the Company was HK\$10.3 million (31 March 2018: HK\$14.5 million). The decrease in loss was mainly due to the increase in other operating income and decrease in administrative expenses during the current period.

On 16 January 2019, the Company entered into an security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2 million ordinary shares of LKCO shares with a total consideration of USD12 million. On 21 January 2019, the Company has settled USD6 million and Luokung Technology Corp. has issued 1 million ordinary shares to the Company. Luokung Technology Corp. is one of the world's leading companies in spatial-temporal big data technology, a leading interactive location-based data services ("LBS") company in China, and a pioneer of the railway Wi-Fi market in China. The Company may co-operate with Luokung Technology Corp. in the area of autonomous driving, smart commuting, etc., mutually help each other to build up their eco-system and service.

As at 31 March 2019, the cash and cash equivalent balance of the Group was approximately HK\$444.0 million with a net current assets of HK\$197.1 million. The current ratio of the Group which is measured by current assets to current liabilities was 1.25 (31 December 2018: 1.19).

During the period ended 31 March 2019, the operation of the Group was mainly financed by the proceeds received from the Placing and Share Subscription completed in June 2015.

Progress of SAM

As of the date of this report, the Group has provided funding with principal amount of approximately US\$72.2 million to the iron ore project in Brazil ("Block 8 Project" or "SAM Project"), through shareholders' loans and increase of registered capital in Sul Americana de Metais S.A. ("SAM"), an indirect wholly owned subsidiary of the Company in Brazil.

SAM is devoted to develop Block 8 Project as phase I operation with an annual production capacity of 27.5 million tons with an average grading of 66.2% Fe in the first 18 years' operation. The project will have an integrated system comprised an open-pit mine, a beneficiation plant, tailings disposal facilities, a power transmission line, water supply pipelines, and a Vacaria water dam.

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

On 21 December 2018, Brandt finished the EIA (Environmental Impact Study) and RIMA (Environmental Impact Report) of the Block 8 Project. This EIA/RIMA contains 13 volumes, 2953 pages, drafted by a multidisciplinary team of 39 professionals in 12 months. The core contents include characteristic of the project, study area definition, physical environment diagnosis, biotic environment diagnosis, socio-economic environment diagnosis, environmental quality, environmental impact assessment, mitigation measures propositions, following and monitoring programs of environmental impact, influence area, environmental prognosis etc.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

On 7 January 2019, SAM submitted the EIA/RIMA of Block 8 Project to SUPPRI.

On 8 January 2019, SUPPRI issued a new FOB (Basic Guidance Form) for Block 8 Project. The new FOB updated the documents necessary for the formalization of the environmental licensing process.

On 9 January 2019, according to the legal requirement, SAM published the information about the request of LP on two newspapers of great circulation, in which SAM informs that the EIA/RIMA have been presented and the RIMA is available in SUPPRI to those interested, and also informs that those interested in the Public Hearing shall formalize their request within 45 days.

On 10 January 2019, SUPPRI issued a receipt of SAM's delivery of documents and formalized the licensing process.

On 11 January 2019, SUPPRI published in the Official Gazette of the State about SAM's request of LP and the legal deadline (within 45 days from the date of this publication) for requesting the public hearing.

Despite of the good progress of the SAM project in 2018, unfortunately, on 25 January 2019, one inactive upstream tailings dam belonging to mining company Vale in Brumadinho collapsed. As this dam-break happened again only 3 years after Samarco dam-break disaster in November 2015, it caused a strong reaction of Brazilian society and concerns about the safety of tailings dams, especially about those tailings dams with upstream construction method.

On 29 January 2019, the Presidency of the Republic/Civil House published a resolution (RESOLUÇÃO Nº 2, DE 28 DE JANEIRO DE 2019) to establish a legislative subcommittee to elaborate a draft of update and revision of the National Policy on Dams Security which was established by Law No. 12,334, of 20 September, 2010.

On 30 January 2019, SAM suspended its licensing process of Block 8 Project for at least 3 months in order to wait for the aforementioned update and revision of the National Policy on Dams Security.

On 22 February 2019, the Legislative Assembly of Minas Gerais approved a Bill which deals with environmental licensing and supervision of dams in the State. On 25 February 2019, the Minas Gerais State Governor signed it and thus became a State law (law No.23.291, of 25 February 2019), which was published on 26 February 2019. One of the most important articles is that upstream method for dam construction is forbidden.

SAM studied the abovementioned new State law and concluded that it won't affect its environmental licensing process since SAM adopted center line method for tailings dams' construction and very strict technical and environmental criterions for the project, which make the project is in conformity with the new law. From technical point of view, SAM is quite confident in the safety of its tailings dams.

After Vale's dam-break disaster, some regulations, resolutions, bills regarding tailings dams are coming out for public opinion. SAM has been following them closely and making suggestions through the channel of some government institutions. Once those new regulations, resolutions, laws come into force, SAM will assess the impacts on Block 8 project and see if any further complementary work is necessary.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Progress of SAM — Continued

SAM has been communicating and having meetings with government institutions, environmental organs, State and Federal deputies, municipals to present SAM's new tailings disposal technology. SAM expects to resume the licensing process after the middle of 2019 if there are no major impacts from the new regulations, resolutions and laws of tailings dams.

The Company has been considering the introduction of strategic investors to develop the SAM Project. On 16 October 2018, SAM and an independent third party, Lotus Fortune Holdings Limited ("Lotus Fortune"), established a company called Lotus Brasil comércio e Logística Ltda ("Lotus Brasil") in Brazil which is 95% owned by Lotus Fortune and 5% by SAM. On 9 November 2018, SAM reach a preliminary contract with Lotus Brasil. Based on the preliminary contract, Lotus Brasil will license, construct and operate the logistic system of the SAM Project. The logistic system consists of an underground pipeline of approximately 480km (involves 9 municipalities in the state of Minas Gerais and 12 municipalities in Bahia), a dewatering station and an ore storage yard located in Porto Sul (the "Port") in Ilhéus of Bahia State.

Pursuant to the preliminary contract, Lotus Brasil is committed to start licensing the abovementioned logistic system in IBAMA within 30 days after the signing the preliminary contract. On 7 December 2018, Lotus Brasil submitted the FCA to IBAMA and thus initiated the process. In the future, Lotus Brasil will provide SAM with services of logistics, dewatering, trading and contracting for the use of Porto Sul. SAM will pay Lotus Brasil for such services. The Group believes that the cooperation with Lotus Brasil will promote the exploitation of Block 8 Project and will be mutually beneficial. In this way, SAM could focus more on the development of the mine, beneficiation plant and other facilities.

As disclosed previously, SAM will export its mineral products through Porto Sul (the "Port") in Bahia State which has been granted all environmental licenses for construction. On 1 September 2017, a Chinese Consortium led by China Railway Group Limited (中國中鐵股份有限公司) and including China Communications Construction Company Ltd. (中國交通建設股份有限公司), Dalian Huarui Heavy Industry Group Co., Ltd (大連華銳重工集團股份有限公司) signed a MOU with Bahia State government and intends to lead and participate in an investment group to finance the development of Porto Sul, including equity investment and procurement of debt financing. SAM will be a pure user of the Port and will coordinate with Lotus Brasil to monitor the progress and development of the Port.

Loan Agreement Entered Into With Cloudrider Limited

Pursuant to the Loan Agreement entered into with Cloudrider Limited (the "Borrower") on 11 April 2016, an aggregate principal amount of HK\$540,000,000 was drawn down in two tranches on two respective dates (Tranche A: HK\$251,100,000 (the "Tranche A Loan") on 22 April 2016 and Tranche B: HK\$288,900,000 (the "Tranche B Loan") on 12 May 2016). The initial maturity date for each of the Tranche A Loan and the Tranche B Loan was 21 April 2017 and 11 May 2017, respectively, which was further extended by the Borrower to 21 April 2018 and 11 May 2018, respectively.

On 20 April 2018, the Company received a notice from the Borrower that the Tranche A Loan, the Tranche B Loan and the outstanding accrued interests could not be repaid on time (the "Default") because of difficulties encountered in the transfer of fund across borders in a short time. Default interests at a rate of 6% per annum have been accrued on the unpaid sum in accordance with the Loan Agreement. On 20 April 2018, the Company sent a letter to the Borrower demanding for repayment of the Loan and asserted the rights of the Company under the Loan Agreement. During the period from 30 April 2018 to 20 June 2018, the Borrower repaid an aggregate amount of HK\$15,278,000 to the Company (the "Repaid Amount").

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Loan Agreement Entered Into With Cloudrider Limited — Continued

Despite the Repaid Amount, having considered the latest financial position of the Borrower and the possibility of realizing the Loan Receivables and the Interest Receivables from the Borrower, the Company has taken a prudent approach to make impairment provisions for the Loan Receivables and the Interest Receivables for the six months ended 30 June 2018.

On 6 November 2018, the Borrower repaid HK\$26,000,000 to the Company, covered all the outstanding interests at that time and part of the principal. Since then, no repayment was received from the Borrower.

As at 31 March 2019, the Borrower has defaulted in repaying the Tranche A Loan and the Tranche B Loan in the outstanding principal amounts in a sum of approximately HK\$523.8 million (the “Loan Receivables”) and the outstanding accrued interests in the sum of approximately HK\$12.8 million (the “Interest Receivables”).

The Tranche A Loan and the Tranche B Loan share the same security package (the “Security”) comprising (i) a share charge granted by Bronze Pony Investments Limited relating to its shares in the Borrower; (ii) a share charge granted by Capital Melody Limited relating to its shares in the Borrower; and (iii) a debenture consisting of a fixed and floating charge over all of the assets of the Borrower, mainly comprising an equity interest in approximately 24.98% of Yuxing Infotech Investment Holdings Ltd (“Yuxing Infotech”), a company listed on the GEM (Stock code: 8005) with a net asset value of approximately HK\$1,988 million as at 31 December 2018. If Tranche A Loan and the Tranche B Loan could not be recovered in full eventually, the Company intends to enforce the Security.

The Company will continue to demand repayment from the Borrower and update the Shareholders on any material development as and when appropriate.

Prospects

The Group is determined to invest into the battery sharing business in 2019.

The Ministry of Industry and Information Technology of China released the compulsory “Technical Specifications for Safety of Electric Bicycles” 《電動自行車安全技術規範》 national standard in May 2018 (the “New National Standard”) which was effective from 15 April 2019, regulates electric bicycles’ safety performance, speed limit, production quality and pedal riding performance, etc., these policies will accelerate the transition of lead-acid battery in electric bicycles to lithium battery. The number of electric bicycles in mainland China is about 250 million at present and the production and sales number in 2017 was 31.13 million, which approximately 30% were for express delivery and food delivery. According to the New National Standard, one single set of electric bicycle battery is not enough to support the daily commercial range requirement, this has created a huge market demand for battery swapping.

Besides that, because of the technical advancement of batteries, the useful life of batteries are much longer than the useful life of electric bicycles. In addition, some electric car manufacturers are developing models which can swap battery directly for long-distance driving, this kind of car battery separation model will lead to a huge market for battery swapping service and battery sharing in the future.

The Group has established a holding company to lead the battery sharing business (the “New Business Activities”). The initial investment of the New Business Activities is expected to be RMB60 million, further investment will be injected or the business will be self-sustainable depends on the business development, other investors may also be introduced. More details will be disclosed when the battery sharing business launch in the coming months.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — Continued

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

In April 2017 the government of China released a Medium and Long Term Development plan of the Automobile Industry 《汽車產業中長期發展規劃》, one of the key plans mentioned is the promotion and development of new energy vehicles and its related industries. In September 2017, the Ministry of Industry and Information Technology officially released the dual-credit system “Parallel Administrative Measures for Passenger Vehicle Corporate Average Fuel Consumption (CAFC) and New Energy Vehicle (NEV) Credits” 《乘用車企業平均燃料消耗量與新能源汽車積分並行管理辦法》 and the system became effective starting from 1 April 2018. The combination of credits and disincentives in this system are designed to improve the fuel efficiency of vehicles on the road, as well as to promote the usage of NEVs in China. For vehicle enterprises, their required NEV output ratio in 2019 is equivalent to 10% of the vehicles they produce in China while the ratio increased to 12% in 2020. Under the dual-credit system, traditional vehicle enterprises will be more motivated to develop and produce NEVs. In December 2017, the government of China announced that it will continue to waive purchase taxes on NEVs for the next three years. Last but not least, government of several European countries have announced that laws will be enacted to establish a schedule to ban the sales of petrol-only vehicles. Ministry of Industry and Information Technology and certain cities in the PRC have also stated that it has been exploring a schedule to ban the sales of petrol-only vehicles. For example, Hainan Province has recently announced a plan to ban the sales of petrol-only vehicles in 2030. Therefore the market size of NEVs and related industries is expected to expand substantially in the coming years. Lithium-ion battery is deemed as the most critical component in NEVs so this sector will continue to be the focal point in this industry. Although there are a lot of lithium-ion battery supply in the market, there is a lack of high quality lithium-ion battery available.

In 2018, the battery packs produced in the new plant were provided to Volvo Car and Zhejiang Geely Components and assembled in premium car models such as Volvo XC60 PHEV, S90 PHEV and Lynk & Co Lynk 01, 02, 03 PHEV. The strategy of Zhejiang Forever New Energy is getting an advantage from the relations and cooperation with the world-famous enterprise Zhejiang Geely, aiming to become the main powered battery supplier of different vehicle brands under Zhejiang Geely, and in the right moment, get orders from the other world’s mainstream automobile manufacturers. To achieve the aim, the Group has been prudently investigating the possibility and appropriate time of massive expansion in other cities in China.

On 16 January 2019, the Company entered into an security purchase agreement with Luokung Technology Corp. (Nasdaq: LKCO) and agreed to subscribe 2 million ordinary shares of LKCO shares with a total consideration of USD12 million. On 21 January 2019, the Company has settled USD6 million and Luokung Technology Corp. has issued 1 million ordinary shares to the Company. Luokung Technology Corp. is one of the world’s leading companies in spatial-temporal big data technology, a leading interactive location-based data services (“LBS”) company in China, and a pioneer of the railway Wi-Fi market in China.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — Continued

Luokung Technology Corp. 100% owns the SuperEngine brand, its processing and transmitting capability of spatial-temporal data is a thousand times more efficient than other companies in the industry, relying on its spatial-temporal big data internet of things (“IoT”) neural network, which was established by SuperEngine through its world first spatial-temporal cloud indexing technology, and also relying on its world leading vector data processing and algorithm technology in querying, retrieving, transmitting and rendering graphical information from massive data of high definition map (“HD map”) and three-dimensional map (“3D Map”), allowing TB sized data to be released in seconds. SuperEngine’s world first non-slicing, full-vector and full-function mobile internet map, established a platform for location interactive services, and continuous self-optimisation through artificial intelligence (“AI”) and machine learning.

Those technologies are important foundation and basic facility for smart cars, smart transportation, intelligent city, IoTs, AI, edge computing and other related fields. The global market potential is estimated to be over US\$40 billion for LBS only. SuperEngine is also providing services on satellite remote sensing graphics processing, Bei Dou navigation system (北斗導航系統) application, real-time monitoring of land and resources, etc.

All of SuperEngine’s products and technologies are based on self-owned intellectual property rights, and it has several patents registered in countries and regions in China, America, Japan and Europe. Luokung Technology Corp. is also one of the leading mobile service and technology providers of long distance travel data and a pioneer of the railway Wi-Fi market in China. It owns a mobile app named Luokung, an app for location-based interaction services, and also, it provides software development kit (“SDK”) embedded services to third party mobile application providers based on its full-vector and non-slicing mobile internet map. The exclusive High-speed train Wi-Fi operator in China, China Railway Gecent Technology Co., Ltd, has embedded Luokung Technology Corp.’s SDK in its mobile app named Handheld High-speed Train (掌上高鐵), to provide LBS for its users, Handheld High-speed Train app is estimated to cover more than 1.5 billion passenger times each year in the coming two to three years.

On 16 April 2019, Honbridge Technology Limited (“Honbridge Tech”), a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement for the formation of the Joint Venture with two other parties, namely 杭州優行科技有限公司 (Hangzhou UGO Tech Co., Ltd.) (“Hangzhou UGO”) and 杭州禾曦嬌科技有限公司 (Hangzhou Hexijiao Technology Co., Ltd.) (“Hangzhou Hexijiao”).

The Joint Venture will be initially engaged in online car-hailing services in Paris, France and related services and will gradually extend its online car-hailing services to other cities in Europe depending on its business development progress.

The joint venture will have a registered capital of RMB80 million, Honbridge will contribute RMB16 million and control 20% interests of the joint venture while Hangzhou UGO and Hangzhou Hexijiao will each contribute RMB32 million and control 40% interests of the joint venture.

The Company may co-operate with Luokung Technology Corp. and the online car-hailing joint venture in the area of autonomous driving, smart commuting, etc., mutually help each other to build up their eco-system and service.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

Prospects — Continued

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

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

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

Subsequent event

The Joint Venture Agreement

On 16 April 2019, Honbridge Technology Limited (“Honbridge Tech”), a wholly-owned subsidiary of the Company, entered into the Joint Venture Agreement for the formation of the Joint Venture with two other parties, namely 杭州優行科技有限公司 (Hangzhou UGO Tech Co., Ltd.) (“Hangzhou UGO”) and 杭州禾曦嬌科技有限公司 (Hangzhou Hexijiao Technology Co., Ltd.) (“Hangzhou Hexijiao”).

The Joint Venture will be initially engaged in online car-hailing services in Paris, France and related services and will gradually extend its online car-hailing services to other cities in Europe depending on its business development progress.

The joint venture will have a registered capital of RMB80 million, Honbridge will contribute RMB16 million and control 20% interests of the joint venture while Hangzhou UGO and Hangzhou Hexijiao will each contribute RMB32 million and control 40% interests of the joint venture.

The board of directors of the Joint Venture will comprise of five members, two of whom will be nominated by Hangzhou UGO, two of whom will be nominated by Hangzhou Hexijiao, and one of whom will be nominated by Honbridge Tech.

The Group is always seeking opportunities to invest and collaborate in areas such as autonomous driving and shared mobility, of which online car-hailing is a form. The Joint Venture presents itself as a unique opportunity for the Group to diversify its income stream by entering the business of shared mobility. Through the Joint Venture, the Group will be entering the online car-hailing business in partnership with Hangzhou UGO, which successfully executed this business in the PRC under the brand “Cao Cao” (「曹操」), giving the Joint Venture a head-start from using the technology of Hangzhou UGO, which in itself should come at considerable savings, both financially and in terms of time otherwise required for testing. The Group will also benefit from the experience and expertise of Hangzhou UGO in this area. If autonomous driving technology reaches L4 and L5 level, shared mobility will become a disruptive trend. Such an investment could provide the Group with valuable experience for enabling its participation in the future in the business of large-scale vehicles sharing and mobility.

MANAGEMENT DISCUSSION AND ANALYSIS — CONTINUED

The Use of Proceeds from Placing and Share Subscription

Upon completion of the placing of 754,000,000 new shares (the “Placing”) and the subscription of 446,000,000 new shares (the “Share Subscription”) of the Company in June 2015, the Company received an aggregate of HK\$1,336 million of net proceeds, HK\$410 million of which was then intended to be applied to increase the Group’s production capacity of lithium-ion battery business and potential investment and acquisition opportunities in the new energy vehicle related field, HK\$200 million of which was intended to be used in the Brazilian iron ore project and HK\$186 million of which was intended to be used for general working capital of the Company. However, the Company had yet to identify suitable investment and acquisition targets in the new energy vehicle-related field in 2016 and the Company decided to improve the Group’s capital efficiency and to better utilise its cash by making short term investment to generate better returns to its Shareholders. In April 2016, the Company has entered into a Loan Agreement with Cloudrider Limited (the “Borrower”) and a loan with principal amount of HK\$540 million has been granted.

As at 31 March 2019, out of the HK\$1,336 million net proceeds that have been raised from the Placing and the Share Subscription, HK\$540.0 million has been lent to the Borrower, HK\$109.1 million has been utilised to repay the loans from the ultimate holding company, approximately HK\$160.2 million has been used for new energy vehicle related business, approximately HK\$40 million has been used for general working capital and approximately HK\$101.5 million has been utilised in the iron ore project in Brazil. For the remaining amount of approximately HK\$385.2 million, HK\$249.7 million will be invested into the new energy vehicle related business, HK\$98.5 million will be used as the preliminary working expenses of the iron ore project in Brazil, and HK\$37.0 million will be used as working capital or/and the supplementary funding to the two investments mentioned above. Once the Loan is repaid by the Borrower, the whole amount will continue to be invested into the new energy vehicle related business or other identified business at that time.

Contingent Consideration and Liabilities

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

After execution of the Settlement Agreement in June 2016 (details set out in the announcement of the Company dated 13 May 2016), the Group shall no longer be liable to pay third, fourth and fifth instalment payment with the total amount of US\$315 million under the SPA. For the details of the Conditional Additional Payment and Conditional Mining Production Payment to Votorantim, please refer to the announcement of the Company dated 13 May 2016 and the 2018 annual report.

As at 31 March 2019, the contingent consideration payable was approximately HK\$156.5 million (equivalent to approximately US\$20.2 million). Saved as disclosed above the Group did not have any significant contingent liabilities.

Corporate Governance

Throughout the three months ended 31 March 2019, the Company has complied with all Code Provisions as set out in Appendix 15 of the GEM Listing Rules.

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

As at 31 March 2019, the interests and short positions of the Directors and the chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, relating to the required standards of dealing by directors of listed issuers, to be notified to the Company and the Stock Exchange were as follows:

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

Name of director	Number of shares in the Company			Total	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interest of controlled corporation		
HE Xuechu	57,939,189	22,460,000	4,065,000,000 (Note 1)	4,145,399,189	42.07
LIU Wei, William	9,002,000	–	–	9,002,000	0.09
YAN Weimin	30,000,000	–	–	30,000,000	0.30
CHAN Chun Wai, Tony	1,000,000	–	–	1,000,000	0.01

Note:

- The 4,065,000,000 shares were held by Hong Bridge Capital Limited ("Hong Bridge"), Mr. HE Xuechu is the controlling shareholder and director holding 51% equity interest of Hong Bridge.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

Long positions in the underlying shares of the Company

Details of options granted

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

Name or category of participant	Number of share options					Outstanding as at 31/03/2019	Date of grant of share options (Note a)	Exercise period of share option	Exercise price per share option HK\$	Price immediately preceding the grant date of share options (Note b) HK\$	Price immediately preceding the exercise date of share options (Note c) HK\$
	Outstanding as at 01/01/2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period						
Employee	5,000,000	-	-	-	-	5,000,000	28/05/2012	28/05/2012 – 27/05/2020	0.95	0.91	N/A
	8,750,000	-	-	-	-	8,750,000	14/05/2015	15/05/2015 – 14/05/2023	2.61	2.55	N/A
Total	13,750,000	-	-	-	-	13,750,000					

Notes:

- Share options granted on 28 May 2012 and 14 May 2015 under the Share Option Scheme are 100% exercisable on the date of grant of the share options and on 15 May 2015 respectively.
- The price of the Shares disclosed as immediately preceding the grant date of the share options is the Exchange closing price on the trading day immediately prior to the date of the grant of the share options.
- The weighted average closing price of the Shares immediately before the date on which the options were exercised.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 31 March 2019, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules.

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

As at 31 March 2019, the following persons, other than the Directors or chief executives of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of Part XV of the SFO:

Name of Shareholder	Number of Shares in the Company			Total number of shares held	Approximate percentage of shareholding (%)
	Beneficial owner	Interest of spouse	Interests of controlled corporation		
Hong Bridge	4,065,000,000 (Note 1)	–	–	4,065,000,000	41.25
HE Xuechu (Note 2)	57,939,189	22,460,000	4,065,000,000 (Note 1)	4,145,399,189	42.07
FOO Yatian (Note 2)	22,460,000	4,122,939,189	–	4,145,399,189	42.07
LI Xing Xing	–	–	4,065,000,000 (Note 3)	4,065,000,000	41.25
Geely International (Hong Kong) Limited	1,850,675,675	–	–	1,850,675,675	18.78
Zhejiang Geely Holding Group Co., Ltd. (Note 4)	–	–	1,850,675,675	1,850,675,675	18.78
LI Shufu (Note 5)	103,064,000	–	1,850,675,675	1,953,739,675	19.83
Shagang International (Hong Kong) Co., Ltd.	446,000,000	–	–	446,000,000	4.53
Jiangsu Shagang Group Co., Ltd. (Note 6)	–	–	446,000,000	446,000,000	4.53
Shen Wenrong (Note 7)	–	–	446,000,000	446,000,000	4.53

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

Notes:

1. The 4,065,000,000 shares were held by Hong Bridge. Mr. HE Xuechu is the controlling shareholder and director holding 51% equity interest of Hong Bridge.
2. Ms. FOO Yatyan is the spouse of Mr. HE Xuechu.
3. Mr. LI Xing Xing holds 30.8% equity interest of Hong Bridge.
4. Zhejiang Geely Holding Group Co., Ltd. holds 100% equity interest of Geely International (Hong Kong) Limited.
5. Mr. LI Shufu is the controlling shareholder holding 90% equity interest of Zhejiang Geely Holding Group Co., Ltd.
6. Jiangsu Shagang Group Co., Ltd. holds 100% equity interest of Shagang International (Hong Kong) Co., Ltd.
7. Mr. Shen Wenrong is the controlling shareholder holding 46.99% equity interest of Jiangsu Shagang Group Co., Ltd.

Save as disclosed above, as at 31 March 2019, the Company had not been notified by any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONNECTED TRANSACTIONS

On 20 November 2017, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely Holding Group Co., Ltd. ("Zhejiang Geely"), one of the substantial shareholders of the Company, provided a loan with the principal amount of RMB100 million (approximately HK\$114 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 6 months after the drawdown date and has a fixed interest rate of 4.35% per annum. The loan agreement was extended on 16 November 2018 with a repayment date on 20 May 2019.

On 16 March 2018, for the working capital requirement of Zhejiang Forever New Energy, Zhejiang Geely, a substantial shareholder of the Company, provided a loan with the principal amount of RMB100 million (approximately HK\$114 million) to Zhejiang Forever New Energy. The loan is not secured by the assets of the Company, repayable 12 months after the drawdown date and has a fixed interest rate of 4.75% per annum. The loan agreement was extended on 20 February 2019 with a repayment date on 14 March 2020.

During the period ended 31 March 2019, a finance costs of HK\$2.6 million was recognised by the Company in relation to the two short term loans. The Board considers the above two loan arrangements were conducted on normal commercial terms or better.

For the period ended 31 March 2019, the Group has sold approximately HK\$40.97 million and HK\$54.76 million lithium-ion batteries to Volvo Car and Zhejiang Geely Components respectively.

CONTINUING CONNECTED TRANSACTIONS

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

Volvo Car Sales Agreement

Parties	: Zhejiang Forever New Energy (as the vendor) Volvo Car (as the purchaser)
Date	: 23 October 2017
Term	: From 23 October 2017 to 22 October 2020
Nature of transaction	: Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	: The price of goods under the Volvo Car Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	: All transactions contemplated in the under the Volvo Car Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2019 annual cap	: RMB278 million
Sales for the period ended 31 March 2019	: RMB35.25 million (HK\$40.97 million)

CONTINUING CONNECTED TRANSACTIONS — CONTINUED Zhejiang Geely Components Sales Agreement

Parties	: Zhejiang Forever New Energy (as the vendor) Zhejiang Geely Components (as the purchaser)
Date	: 25 October 2017
Term	: From 25 October 2017 to 24 October 2020
Nature of transaction	: Sale and purchase of high performance ternary lithium-ion battery packs
Pricing basis	: The price of goods under the Zhejiang Geely Components Sales Agreement will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms or on terms no less favourable to the Company than those provided to independent third parties and will be specified in individual purchase orders.
Payment term	: All transactions contemplated in the under the Zhejiang Geely Components Sales Agreement are satisfied in cash. A credit period of 75 days are given after delivery of product. Such credit period was determined on normal commercial terms and in the ordinary course of business of the Company.
2019 annual cap	: RMB739 million
Sales for the period ended 31 March 2019	: RMB47.11 million (HK\$54.76 million)

CONTINUING CONNECTED TRANSACTIONS — CONTINUED

Zhejiang Geely Components Sales Agreement — Continued

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

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

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

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

INTERESTS IN COMPETING BUSINESS

None of the Directors or the controlling shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete or had any conflicts of interest with the business of the Group for the three months ended 31 March 2019.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to which the Company, its holding company or subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period under review.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the three months ended 31 March 2019.

AUDIT COMMITTEE

The Group's unaudited results for the three months ended 31 March 2019 were reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

During the three months ended 31 March 2019, neither the Company, its ultimate holding company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Director:

Mr. He Xuechu (*Chairman*)

Mr. Liu Jian (*Vice Chairman and Co-Chief Executive Officer*)

Mr. Liu Wei, William (*Co-Chief Executive Officer*)

Non-Executive Director:

Mr. Yan Weimin

Mr. Ang Siu Lun, Lawrence

Independent Non-Executive Director:

Mr. Chan Chun Wai, Tony

Mr. Ma Gang

Mr. Ha Chun

On behalf of the Board

LIU Wei, William

Director and Co-Chief Executive Officer

Hong Kong, 10 May 2019